



**CALIFORNIA STATE UNIVERSITY**

Financial Statements

June 30, 2004

(With Independent Auditors' Report Thereon)



# CALIFORNIA STATE UNIVERSITY

## Table of Contents

|  | <b>Page</b> |
|--|-------------|
| Independent Auditors' Report                               | 1           |
| Management's Discussion and Analysis (Unaudited)           | 3           |
| Financial Statements:                                      |             |
| Statement of Net Assets                                    | 14          |
| Statement of Revenues, Expenses, and Changes in Net Assets | 15          |
| Statement of Cash Flows                                    | 16          |
| Notes to Financial Statements                              | 18          |



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## **Independent Auditors' Report**

The Board of Trustees  
California State University:

We have audited the accompanying financial statements of the California State University (the University) (a department of the State of California) and its aggregate discretely presented auxiliary organizations as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 73 of the 86 aggregate discretely presented auxiliary organizations, which statements reflect total assets constituting 75% and total revenues constituting 68% of the discretely presented totals. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 73 discretely presented auxiliary organizations, is based solely on the reports of the other auditors.

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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its aggregate discretely presented auxiliary organizations as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004 on our consideration of the University'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Orange County, California  
December 16, 2004

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis (Unaudited)

June 30, 2004

The following discussion and analysis provides an overview of the financial position and activities of the California State University (the University) for the year ended June 30, 2004 in its entirety, including 23 campuses, the Chancellor's Office, and 86 recognized auxiliary organizations. The discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the individual campuses.

The financial statements of the University for the years ended June 30, 2004 and 2003 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. For reporting purposes, the University is considered a special purpose government engaged only in business-type activities.

### FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the University's financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA), and the Statement of Cash Flows. The financial statements are designed to provide readers with a broad overview of the University's finances from all sources of revenue, in a manner similar to the private sector. The University's recognized auxiliary organizations are presented in a separate column to enable the reader to distinguish between the University and these separate but related not-for-profit organizations.

The **Statement of Net Assets** is the University's balance sheet. It presents information on all of the University's assets and liabilities, with the difference between the two reported as net assets (equity). Assets and liabilities are classified between current and noncurrent. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the University.

The University's net assets are classified into three categories:

- Invested in capital assets, net of related debt
- Restricted
- Unrestricted

Changes from one year to the next in total net assets as presented on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets.

The **Statement of Revenues, Expenses, and Changes in Net Assets** is the University's income statement. Revenues earned and expenses incurred during the year are classified as either "operating" or "nonoperating". This distinction results in operating deficits, because the GASB Statement No. 35 reporting model classifies state appropriations, a significant revenue stream to fund current operations, as nonoperating revenue.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis (Unaudited)

June 30, 2004

The **Statement of Cash Flows** presents the changes in the University's cash and cash equivalents during the most recent fiscal year. The Statement of Cash Flows for the discretely presented auxiliary organizations is not included in the University's financial statements. This statement is prepared using the direct method of cash flows. The statement breaks out the sources and uses of the University's cash and cash equivalents into four categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

The University's routine activities appear in the operating and noncapital financing categories. Capital and related financing sources include debt proceeds, state appropriations, gifts, and grants. Within the capital and related financing activities, uses of funds consist of acquisition of capital assets and debt repayments. Sales and purchases of investments are part of investing activities.

### FINANCIAL HIGHLIGHTS

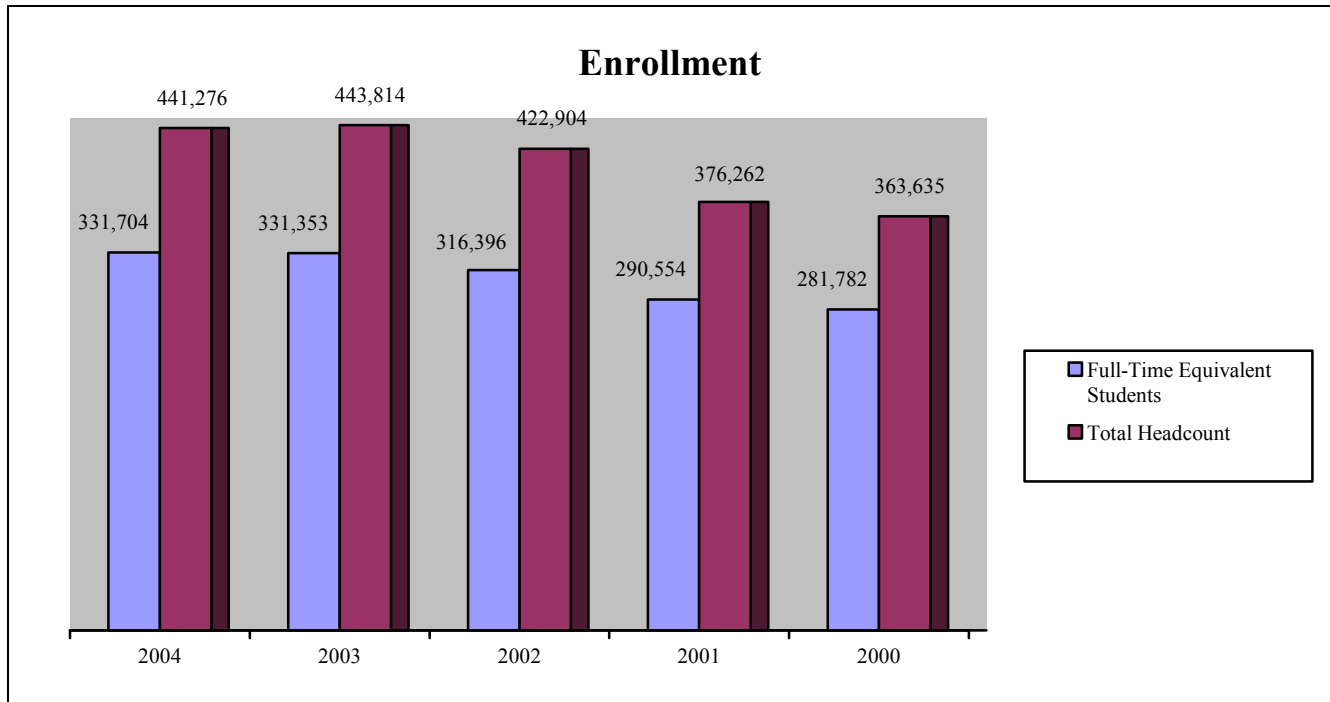
In an effort to find solutions to the effects of the state's budget deficit on the University, the University's general fund budget was reduced by a total of \$452.3 million in unfunded costs and reductions in 2004. These included \$265.4 million in unallocated budget reductions, \$84.5 million in unallocated budget cuts that required a 2.7% reduction in planned enrollment growth, a \$23.8 million midyear budget reduction in December 2003, and \$78.6 million budget reduction in funding the University's requirements to pay mandatory cost increases for the full year compensation of faculty collective bargaining agreements, new space, health benefits, and insurance premiums. These budget reductions were offset by a \$167 million increase in estimated fee revenue, which resulted in a 30% undergraduate and graduate fee increase beginning fall term 2003. The net fiscal impact of these adjustments totaled \$285.3 million in the University budget cost reductions. In April 2004, the University's general fund budget was increased by \$155.1 million to reflect increased employer-paid contributions to the California Public Employees' Retirement System (CalPERS) retirement plan.

The University's 2004 capital appropriation budget decreased from 2003, primarily because the University received approximately 70% of a two-year capital appropriation budget in 2003 as a result of the Governor's Economic Stimulus Package offer.

As the chart on the following page shows, headcount enrollment decreased slightly from 443,814 in fiscal year 2003 to 441,276 in fiscal year 2004. At the same time, Full-Time Equivalent Students increased from 331,353 in 2003 to 331,704 in 2004.

**CALIFORNIA STATE UNIVERSITY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2004

The following graph displays the University's historical enrollment data by fiscal year:



**FINANCIAL ANALYSIS**

The following sections provide additional details on the University's financial position and activities for fiscal year 2004 and 2003 and a look ahead at economic conditions that are expected to affect the University in the future.

- I. Schedule of Net Assets
- II. Schedule of Revenues, Expenses, and Changes in Net Assets

**CALIFORNIA STATE UNIVERSITY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2004

**I. SCHEDULE OF NET ASSETS**

**Schedule of Net Assets**

June 30, 2004 and 2003

(In thousands)

|  | <b>University</b>   |                  | <b>Auxiliary Organizations</b> |                  |
|--|---------------------|------------------|--------------------------------|------------------|
|  | <b>2004</b>         | <b>2003</b>      | <b>2004</b>                    | <b>2003</b>      |
| Current assets                                     | \$ 1,949,603        | 1,467,112        | 796,006                        | 753,270          |
| Capital assets, net                                | 4,262,215           | 4,007,450        | 624,386                        | 560,969          |
| Other noncurrent assets                            | 875,502             | 1,283,805        | 927,596                        | 831,106          |
| Total assets                                       | <u>7,087,320</u>    | <u>6,758,367</u> | <u>2,347,988</u>               | <u>2,145,345</u> |
| Current liabilities                                | 965,249             | 856,699          | 341,089                        | 341,942          |
| Noncurrent liabilities                             | 2,126,345           | 2,037,561        | 651,739                        | 635,914          |
| Total liabilities                                  | <u>3,091,594</u>    | <u>2,894,260</u> | <u>992,828</u>                 | <u>977,856</u>   |
| Net assets:  |                     |                  |                                |                  |
| Invested in capital assets,<br>net of related debt | 2,601,421           | 2,560,332        | 171,796                        | 140,893          |
| Restricted:  |                     |                  |                                |                  |
| Nonexpendable                                      | 22,574              | 25,690           | 468,586                        | 395,947          |
| Expendable   | 693,695             | 655,701          | 398,340                        | 348,158          |
| Unrestricted                                       | <u>678,036</u>      | <u>622,384</u>   | <u>316,438</u>                 | <u>282,491</u>   |
| Total net assets                                   | <u>\$ 3,995,726</u> | <u>3,864,107</u> | <u>1,355,160</u>               | <u>1,167,489</u> |

**Current and Other Noncurrent Assets**

Current and other noncurrent assets are assets that are used to meet the University's current and noncurrent obligations. These assets consist of cash and cash equivalents, restricted cash, investments, accounts receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets totaling \$2.8 billion and \$2.7 billion at June 30, 2004 and 2003, respectively. The net increase of \$74 million in current and other noncurrent assets is attributable to an increase of \$102 million in accounts receivable, a decrease of \$46 million in cash and investments, and an increase of \$18 million in prepaid and other assets.

The increase in accounts receivable consists primarily of additional students receivable resulting from advance enrollment, and an increase in unexpended capital appropriations. The decrease in cash and investments can be attributed to the reduction in the issuance amount of the Systemwide Revenue bond in the current year. Prepaid expenses increased due to advance draws of State University Grant and Educational Opportunity Grant funds.

**CALIFORNIA STATE UNIVERSITY**

Management's Discussion and Analysis (Unaudited)

June 30, 2004

**Capital Assets**

The University's capital assets, net of accumulated depreciation as of June 30, 2004 and 2003 amounted to \$4.3 billion and \$4.0 billion, respectively. Major capital asset additions during 2004 include the following:

- Construction work in progress on the \$215 million budget San Jose Campus Village project
- Construction work in progress on the \$45 million budget Fullerton Auditorium/Fine Arts Complex project
- Construction work in progress on the \$38 million budget Monterey Bay North Quad Student Housing project
- Construction work in progress on the \$34 million budget Long Beach Peterson Hall Addition project
- Construction work in progress on the \$30 million budget Pomona Engineering Labs Replacement project
- Completion of the \$142 million budget San Jose Joint Library project
- Completion of the \$116 million budget Fresno Save Mart Center Complex project
- Completion of the \$48 million budget San Marcos Library Information Center project
- Completion of the \$45 million budget San Luis Obispo Student Housing project
- Completion of the \$36 million budget Sonoma Student Housing project

The University's capital assets, net of accumulated depreciation, as of June 30, 2004 and 2003 are comprised of the following:

**Capital Assets**

June 30, 2004 and 2003

(At historical cost, net of accumulated depreciation)

(In thousands)

|                                       | <u>2004</u>         | <u>2003</u>      |
|---------------------------------------|---------------------|------------------|
| Land and land improvements            | \$ 182,074          | 180,417          |
| Buildings and building improvements   | 2,843,551           | 2,607,948        |
| Infrastructure                        | 298,471             | 267,786          |
| Improvements other than buildings     | 58,094              | 55,338           |
| Equipment                             | 139,305             | 163,995          |
| Library books and materials           | 60,766              | 66,870           |
| Works of art and historical treasures | 18,748              | 17,704           |
| Intangible assets                     | 69,265              | 73,043           |
| Construction work in progress         | <u>591,941</u>      | <u>574,349</u>   |
| Total                                 | <u>\$ 4,262,215</u> | <u>4,007,450</u> |

**Current and Noncurrent Liabilities**

Current liabilities (liabilities due within one year) and noncurrent liabilities (liabilities due in more than one year) include accounts payable, accrued salaries and benefits payable, accrued compensated absences, grants refundable, deferred revenue, capitalized lease obligations, long-term debt obligations, self-insurance claims liabilities, depository accounts, and other liabilities. The University's current and noncurrent liabilities increased \$197.3 million. The major contributing factors to the increase are the issuance of the 2004A Systemwide

**CALIFORNIA STATE UNIVERSITY**

Management’s Discussion and Analysis (Unaudited)

June 30, 2004

Revenue Bonds, offset by the paydown in debt and capital lease obligations. Early enrollment for fall term at some campuses resulted in additional deferred fee revenue in the current year. Furthermore, contribution to the faculty early retirement program of \$29.6 million increased accrued salaries and benefits payable.

**Long-Term Debt**

As of June 30, 2004 and 2003, the University’s outstanding long-term debt obligations totaled \$1.3 billion and \$1.2 billion, respectively, and are summarized as follows (in thousands):

|   | <u>2004</u>         | <u>2003</u>      |
|---|---------------------|------------------|
| Systemwide Revenue Bonds                      | \$ 672,620          | 517,155          |
| Housing System Revenue Bonds                  | 225,663             | 249,647          |
| Student Union Revenue Bonds                   | 128,785             | 175,305          |
| Headquarters Building Authority Revenue Bonds | 27,420              | 28,285           |
| Deferred Maintenance Projects                 | 21,515              | 24,515           |
| Parking Revenue Bonds                         | 25,105              | 25,780           |
| Financing Authority Revenue Bonds             | 96,275              | 96,275           |
| Bond Anticipation Notes                       | 86,660              | 72,161           |
| Other   | 36,420              | 8,009            |
|   | <u>1,320,463</u>    | <u>1,197,132</u> |
| Total long-term debt                          |                     |                  |
|   | 1,320,463           | 1,197,132        |
| Less current portion                          | <u>(112,199)</u>    | <u>(94,315)</u>  |
|   | 1,208,264           | 1,102,817        |
| Long-term debt, net of current portion        | <u>\$ 1,208,264</u> | <u>1,102,817</u> |

The above table does not include the University’s capitalized leased obligations.

In addition, the State General Obligation Bond program has provided capital funding for various projects of the University. The debt related to these projects is not allocated to the University by the State of California and thus is not recorded in the University’s financial statements. Total General Obligation Bond debt carried by the state related to University projects is approximately \$437 million and \$447 million at June 30, 2004 and 2003, respectively.

The University’s total debt (net of repayments) increased more than \$123 million in 2004. The major factor accounting for this increase was the issuance of Systemwide Revenue Bonds, Series 2004A, in the amount of \$158 million in 2004. The proceeds were used to provide funding for the construction, expansion, and renovation of campus housing, parking, and student union projects. The 2004A Systemwide Revenue Bonds also refunded certain senior bonds.

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2004. Repayment of bonds is legally limited to the sources of revenue from operations of the projects including specific mandatory fees pledged to the revenue bond program. However, the improving financial condition of the State of California, which resulted in the upgrade of the State’s general obligation debt rating, combined with the effect of the Higher Education Compact reached with the State to begin restoring base funding and enrollment growth, led to a revision of outlook by Moody’s Investors Service to “positive outlook” in May 2004, and Standard & Poor’s Rating Service to “positive outlook” subsequent to the end of the fiscal year in August 2004. Moody’s Investors Service currently provides an intrinsic rating for the Systemwide Revenue

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis (Unaudited)

June 30, 2004

Bonds and the Housing System at A1, and the Student Unions and Parking Revenue Bonds and the Headquarters Building at A2 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds and the Housing System at A-, and the Student Unions and Parking Revenue Bonds and the Headquarters Building at BBB+ (however, these bonds are insured to AAA).

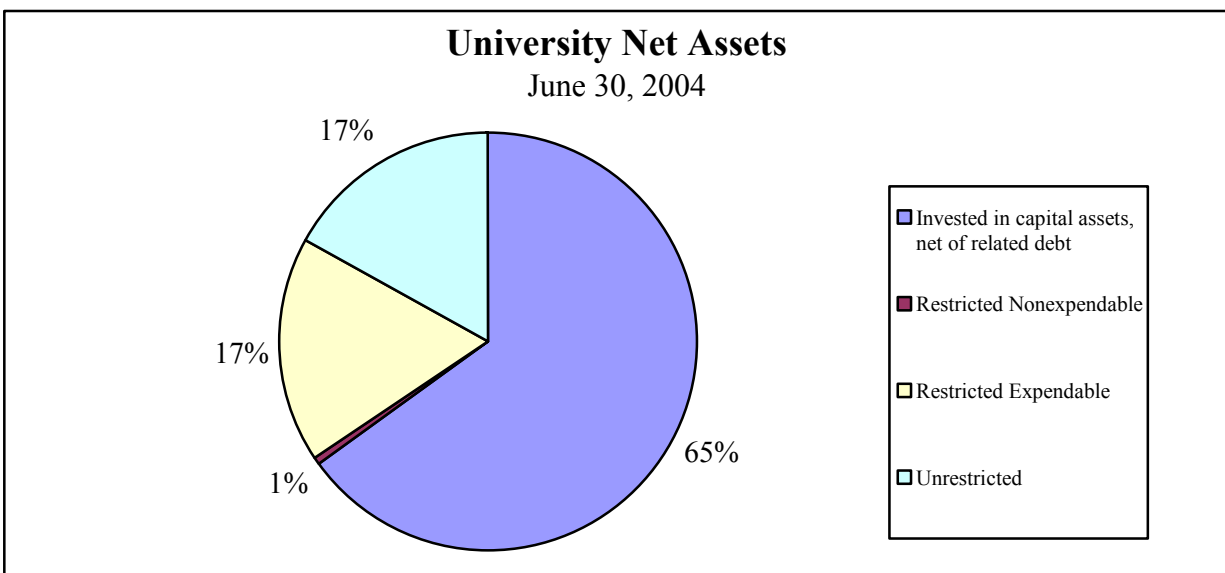
### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the University's financial position. In the case of the University, assets exceeded liabilities by nearly \$4 billion in 2004.

The net asset category "Invested in capital assets, net of related debt" represents the University's capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The University uses these capital assets in its day-to-day operations. This category by far is the largest portion of the University's net assets, as shown in the pie chart below. The University experienced a net increase in this net asset category of \$41.1 million in the current year.

The restricted net asset category consists of two subcategories: "Restricted nonexpendable" and "Restricted expendable". The restricted nonexpendable net assets are made up of the permanent endowment funds. In the current year, the majority of the increase in restricted nonexpendable is derived from the auxiliary organizations. Restricted expendable net assets represent resources that are subject to external restrictions on how they may be used. Such restrictions are primarily related to scholarships, capital projects, loans, and debt services. The University's restricted expendable net assets increased by \$38 million in 2004 and consist primarily of the unspent capital outlay appropriation.

The "Unrestricted" net asset category represents all other net resources available to the University for general and educational obligations.



The University's net assets increased by \$131.6 million in the current fiscal year, as reflected on the following page.

**CALIFORNIA STATE UNIVERSITY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2004

**II. SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

**Schedule of Revenues, Expenses, and Changes in Net Assets**

Years ended June 30, 2004 and 2003

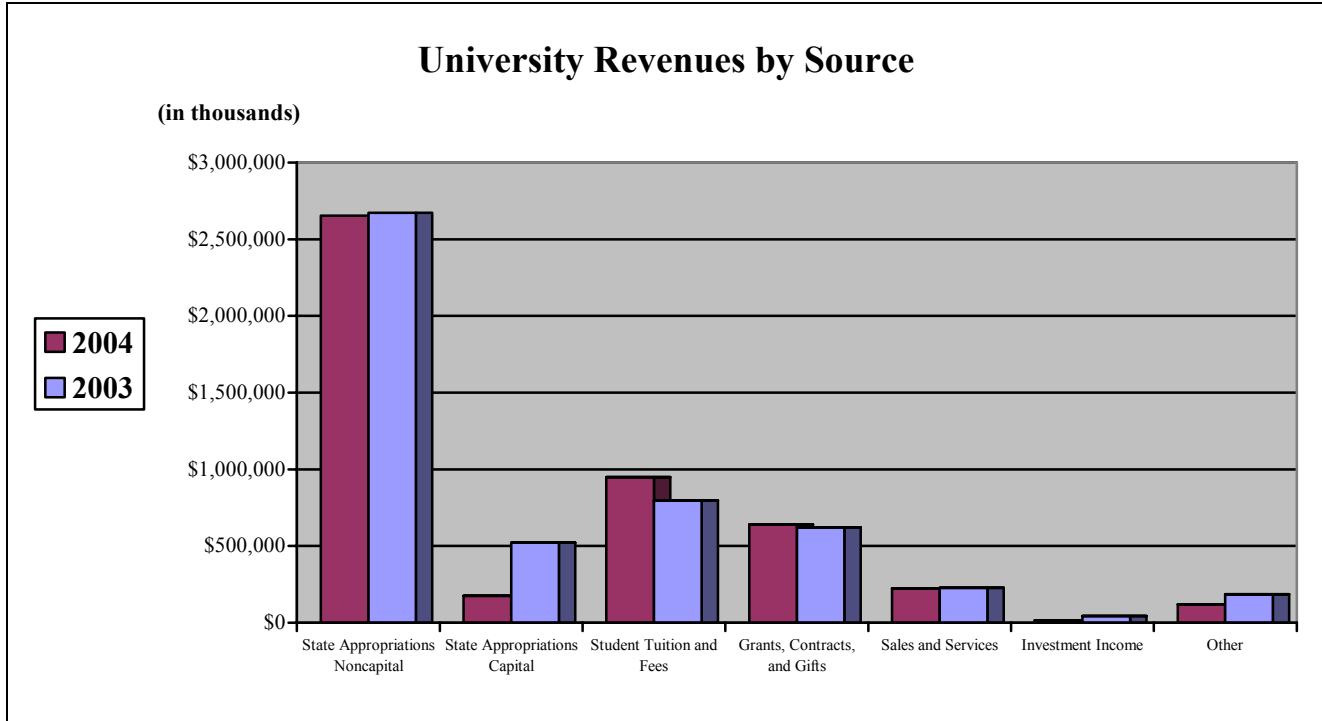
(In thousands)

|  | <u>University</u>   |                    | <u>Auxiliary Organizations</u> |                  |
|--|---------------------|--------------------|--------------------------------|------------------|
|  | <u>2004</u>         | <u>2003</u>        | <u>2004</u>                    | <u>2003</u>      |
| Operating revenues:                                    |                     |                    |                                |                  |
| Student tuition and fees, net                          | \$ 949,494          | 795,557            | 94,073                         | 92,340           |
| Grants and contracts, noncapital                       | 593,694             | 552,307            | 461,441                        | 481,094          |
| Sales and services of educational activities           | 39,920              | 42,603             | 30,664                         | 40,474           |
| Sales and services of auxiliary enterprises, net       | 183,031             | 183,777            | 436,862                        | 420,416          |
| Other operating revenues                               | 35,478              | 112,969            | 83,715                         | 75,184           |
| Total operating revenues                               | <u>1,801,617</u>    | <u>1,687,213</u>   | <u>1,106,755</u>               | <u>1,109,508</u> |
| Operating expenses                                     | <u>4,555,769</u>    | <u>4,399,794</u>   | <u>1,203,808</u>               | <u>1,196,769</u> |
| Operating loss   | <u>(2,754,152)</u>  | <u>(2,712,581)</u> | <u>(97,053)</u>                | <u>(87,261)</u>  |
| Nonoperating revenue, net:                             |                     |                    |                                |                  |
| State appropriations, noncapital                       | 2,654,769           | 2,674,075          | —                              | —                |
| Gifts, noncapital                                      | 19,814              | 24,258             | 163,370                        | 113,647          |
| Investment income, net                                 | 13,679              | 41,796             | 44,121                         | 20,756           |
| Endowment income                                       | 421                 | 1,039              | 51,294                         | 10,067           |
| Interest on capital-related debt                       | (86,679)            | (86,183)           | (17,754)                       | (12,011)         |
| Other nonoperating revenues (expenses)                 | 82,592              | 70,892             | (3,588)                        | (3,799)          |
| Net nonoperating revenues                              | <u>2,684,596</u>    | <u>2,725,877</u>   | <u>237,443</u>                 | <u>128,660</u>   |
| State appropriations, capital                          | 175,423             | 521,668            | —                              | —                |
| Grants and gifts, capital                              | 25,012              | 42,920             | 14,928                         | 11,318           |
| Additions to permanent endowments                      | 740                 | 971                | 20,013                         | 20,409           |
| Increase in net assets                                 | <u>131,619</u>      | <u>578,855</u>     | <u>175,331</u>                 | <u>73,126</u>    |
| Net assets – beginning of year, as previously reported | 3,864,107           | 3,285,252          | 1,167,489                      | 1,098,988        |
| Restatements   | —                   | —                  | 12,340                         | (4,625)          |
| Net assets – beginning of year, as restated            | <u>3,864,107</u>    | <u>3,285,252</u>   | <u>1,179,829</u>               | <u>1,094,363</u> |
| Net assets – end of year                               | <u>\$ 3,995,726</u> | <u>3,864,107</u>   | <u>1,355,160</u>               | <u>1,167,489</u> |

**CALIFORNIA STATE UNIVERSITY**  
Management's Discussion and Analysis (Unaudited)  
June 30, 2004

**Revenues (Operating and Nonoperating)**

The following graph displays the components of the University's revenues for fiscal years 2004 and 2003:



The largest component of revenues continues to be state appropriations, which accounted for over 59% of the University's revenues. State appropriations are received for both operating and capital purposes. The University experienced an 11.4% decrease in these appropriations over the prior year. Most of the decrease was for capital-related projects, which resulted from the Economic Stimulus Package that enabled the University to receive advance capital funding in the prior year. The operating appropriations and enrollment remained fairly level.

Student tuition and fees are up by \$153.9 million, or 19.3%, from fiscal year 2003 due to the increase in the student fee structure.

A significant portion of the University's contracts and grants are managed through its auxiliary organizations. Of the total reporting entity's operating contracts and grants revenue (over \$1 billion), nearly 44% is managed by these related organizations. Operating contracts and grants revenue for the total reporting entity has increased 2.1% in fiscal year 2004.

Total gift income for the University and the auxiliary organizations (which includes operating and capital gifts, as well as additions to permanent endowments) reached \$243.9 million, or 4% of the reporting entity's total revenues in the current year, consistent with \$213.5 million, or 3.4% of the reporting entity's total revenues in fiscal year 2003. Gifts are used to support a variety of projects, including capital improvements, scholarships, and endowments for various academic and research programs.

**CALIFORNIA STATE UNIVERSITY**

Management’s Discussion and Analysis (Unaudited)

June 30, 2004

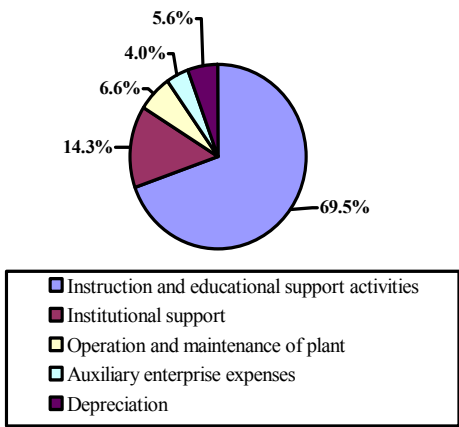
Other revenues consist of operating and net nonoperating activities. The University’s total net other revenues decreased by \$65.8 million from \$183.9 million in 2003 to \$118.1 million in 2004. While there is no significant fluctuation in normal revenues between current year and prior year, the decline in revenues is primarily due to nonrecurring recognition of legal settlement proceeds and one-time revenue in the prior year.

**Operating Expenses**

Nearly 40% of the University’s total operating expenses directly supports the primary function of the University: instruction. These direct expenses only include faculty and instructional support staff salaries, benefits, and their direct expenses. Instructional expenses increased by \$49 million in the current fiscal year primarily due to the accrual of the faculty early retirement program and an increase in the CalPERS retirement contribution. Adding the mission-critical educational support activities of student services, academic support, grants and scholarships, public service, and research to direct classroom instruction accounts for just short of 70% of the total operating expenses of the University as follows:

**Operating Expenses**  
June 30, 2004  
(In thousands)

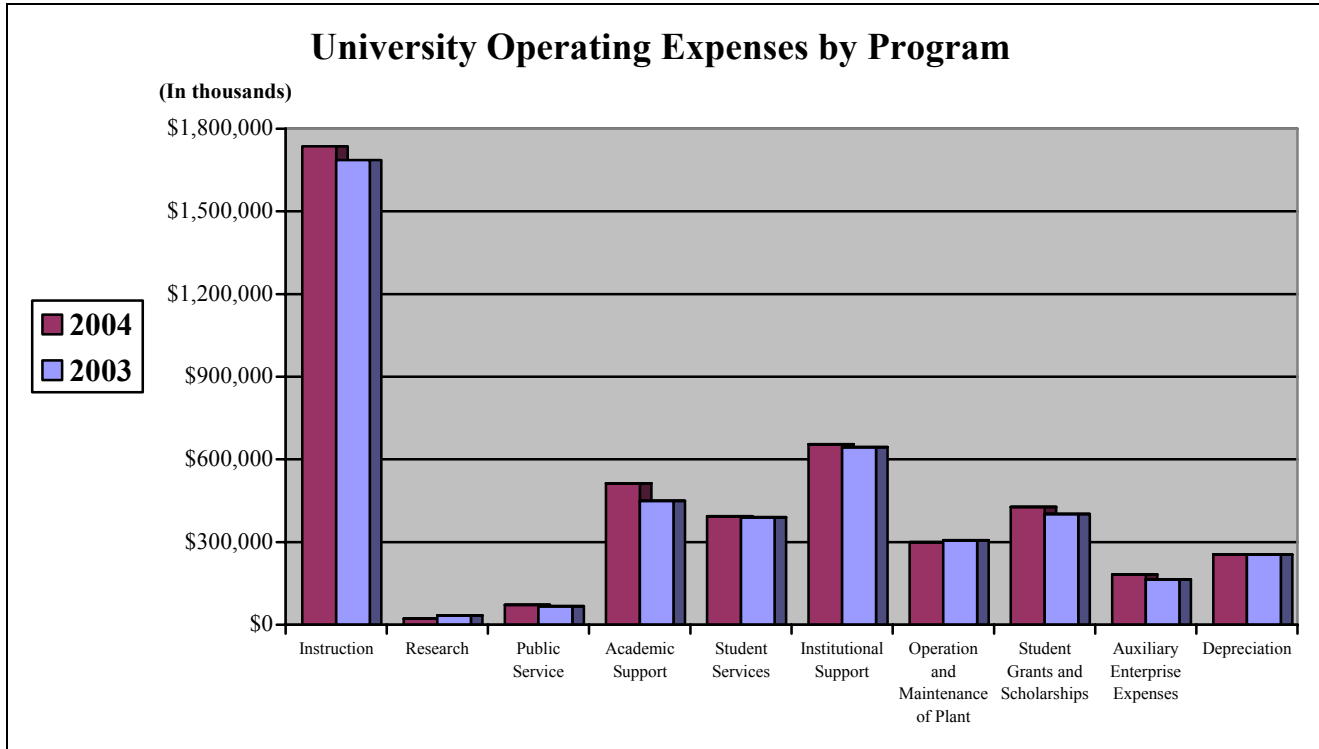
|  |                            |                      |
|--|----------------------------|----------------------|
| Instruction  | \$ 1,735,789               | 38.1%                |
| Research   | 21,905                     | 0.5                  |
| Public service                                       | 71,609                     | 1.6                  |
| Academic support                                     | 512,770                    | 11.3                 |
| Student services                                     | 393,137                    | 8.6                  |
| Student grants and scholarships                      | <u>427,342</u>             | <u>9.4</u>           |
| Total instruction and educational support activities | 3,162,552                  | 69.5                 |
| Institutional support                                | 655,413                    | 14.3                 |
| Operation and maintenance of plant                   | 299,936                    | 6.6                  |
| Auxiliary enterprises expenses                       | 182,635                    | 4.0                  |
| Depreciation   | <u>255,233</u>             | <u>5.6</u>           |
| Total operating expenses                             | \$ <u><u>4,555,769</u></u> | <u><u>100.0%</u></u> |



Academic support increased \$63.1 million, mainly because of a reduction in prior year expenses resulting from a one-time capitalization of expenditures, and increases in computer upgrade expenses and CalPERS retirement contribution in the current year. With the rise in fee revenue in the current year, additional scholarships were granted to students, which contributed to the increase in student grants and scholarships of \$25.8 million. These expenses are reported from all sources of funding, excluding auxiliaries.

**CALIFORNIA STATE UNIVERSITY**  
 Management's Discussion and Analysis (Unaudited)  
 June 30, 2004

The following graph displays the University's operating expenses by program for fiscal years 2004 and 2003:



**Economic Factors**

The University is highly dependent on state appropriations as the primary revenue source. The State of California's continued budget crisis is expected to affect the University's appropriations in 2005. The budget was passed with a net fiscal impact to the University of approximately \$157 million in unfunded costs and general fund reductions. The net impact includes new fee revenue generated by a 14% fee increase for undergraduates, 20% for teacher credential students and 25% for graduate students, and a 1.87% enrollment increase in Spring 2005. The University also anticipates receipt of \$44.4 million for retirement cost increases in April 2005.

On May 11, 2004, The California State University, University of California, and Governor Arnold Schwarzenegger reached an agreement on a six-year "compact". The Higher Education Compact proposes to fund 2.5% annual enrollment growth through fiscal year 2011, ensuring educational opportunities for an additional 8,000 California State University students. The compact, which takes effect in fiscal year 2006, will provide the California State University with a 3% general fund increase in 2006 and 2007. In 2008 through 2011, the State will provide an increase of 4% to the prior year's base budget.

Another factor impacting the University is the passage of the second half of the School Bond Act (Proposition 55), a statewide bond package to repair, upgrade, modernize, and build new facilities and schools. The first half of the School Bond Act (Proposition 47) was passed in November 2002. The second half was passed in March 2004. Proposition 55 authorizes the sale of statewide general obligation bonds in the amount of \$12.3 billion. The \$690 million earmarked for the California State University is expected to fund capital projects in 2005 and 2006.

**CALIFORNIA STATE UNIVERSITY**

Statement of Net Assets

June 30, 2004

| Assets  | <u>University</u>       | <u>Discretely<br/>presented<br/>component units<br/>Auxiliary<br/>organizations</u> | <u>Eliminations</u> | <u>Total</u>         |
|---|-------------------------|---|---------------------|----------------------|
| Current assets:   |                         |   |                     |                      |
| Cash and cash equivalents                               | \$ 245,481,000          | 143,744,000   | (60,000)            | 389,165,000          |
| Short-term investments                                  | 1,210,012,000           | 325,591,000   | (596,000)           | 1,535,007,000        |
| Accounts receivable, net                                | 427,845,000             | 248,808,000   | (2,419,000)         | 674,234,000          |
| Pledges receivable, net                                 | 159,000                 | 35,539,000  | —                   | 35,698,000           |
| Prepaid expenses and other assets                       | 66,106,000              | 42,324,000  | —                   | 108,430,000          |
| Total current assets                                    | <u>1,949,603,000</u>    | <u>796,006,000</u>  | <u>(3,075,000)</u>  | <u>2,742,534,000</u> |
| Noncurrent assets:                                      |                         |   |                     |                      |
| Restricted cash and cash equivalents                    | 20,579,000              | 29,830,000  | —                   | 50,409,000           |
| Accounts receivable, net                                | 713,370,000             | 35,401,000  | —                   | 748,771,000          |
| Student loans receivable, net                           | 111,350,000             | 854,000   | —                   | 112,204,000          |
| Pledges receivable, net                                 | 98,000                  | 75,375,000  | —                   | 75,473,000           |
| Endowment investments                                   | 21,805,000              | 497,011,000   | —                   | 518,816,000          |
| Other long-term investments                             | 1,761,000               | 170,014,000   | —                   | 171,775,000          |
| Capital assets, net                                     | 4,262,215,000           | 624,386,000   | (537,000)           | 4,886,064,000        |
| Other assets  | 6,539,000               | 119,111,000   | —                   | 125,650,000          |
| Total noncurrent assets                                 | <u>5,137,717,000</u>    | <u>1,551,982,000</u>  | <u>(537,000)</u>    | <u>6,689,162,000</u> |
| Total assets  | <u>7,087,320,000</u>    | <u>2,347,988,000</u>  | <u>(3,612,000)</u>  | <u>9,431,696,000</u> |
| <b>Liabilities and Net Assets</b>                       |                         |   |                     |                      |
| Current liabilities:                                    |                         |   |                     |                      |
| Accounts payable  | 212,491,000             | 81,430,000  | (2,627,000)         | 291,294,000          |
| Accrued salaries and benefits payable                   | 226,515,000             | 19,802,000  | —                   | 246,317,000          |
| Deferred revenue  | 195,349,000             | 59,284,000  | (184,000)           | 254,449,000          |
| Accrued compensated absences – current portion          | 85,375,000              | 13,006,000  | —                   | 98,381,000           |
| Capitalized lease obligations – current portion         | 46,273,000              | 671,000   | —                   | 46,944,000           |
| Long-term debt obligations – current portion            | 112,199,000             | 103,449,000   | —                   | 215,648,000          |
| Self-insurance claims liability – current portion       | 33,652,000              | —   | —                   | 33,652,000           |
| Other liabilities                                       | 53,395,000              | 63,447,000  | —                   | 116,842,000          |
| Total current liabilities                               | <u>965,249,000</u>      | <u>341,089,000</u>  | <u>(2,811,000)</u>  | <u>1,303,527,000</u> |
| Noncurrent liabilities:                                 |                         |   |                     |                      |
| Deferred revenue  | 4,041,000               | 17,580,000  | —                   | 21,621,000           |
| Accrued compensated absences, net of current portion    | 68,615,000              | 2,825,000   | —                   | 71,440,000           |
| Grants refundable                                       | 104,771,000             | 3,240,000   | —                   | 108,011,000          |
| Capitalized lease obligations, net of current portion   | 629,787,000             | 9,613,000   | —                   | 639,400,000          |
| Long-term debt obligations, net of current portion      | 1,208,264,000           | 507,588,000   | —                   | 1,715,852,000        |
| Self-insurance claims liability, net of current portion | 85,059,000              | 2,073,000   | —                   | 87,132,000           |
| Depository accounts                                     | 14,076,000              | 45,788,000  | —                   | 59,864,000           |
| Other liabilities                                       | 11,732,000              | 63,032,000  | —                   | 74,764,000           |
| Total noncurrent liabilities                            | <u>2,126,345,000</u>    | <u>651,739,000</u>  | <u>—</u>            | <u>2,778,084,000</u> |
| Total liabilities                                       | <u>3,091,594,000</u>    | <u>992,828,000</u>  | <u>(2,811,000)</u>  | <u>4,081,611,000</u> |
| Net assets:   |                         |   |                     |                      |
| Invested in capital assets, net of related debt         | 2,601,421,000           | 171,796,000   | (1,125,000)         | 2,772,092,000        |
| Restricted for:   |                         |   |                     |                      |
| Nonexpendable – endowments                              | 22,574,000              | 468,586,000   | —                   | 491,160,000          |
| Expendable:   |                         |   |                     |                      |
| Scholarships and fellowships                            | 11,600,000              | 65,156,000  | —                   | 76,756,000           |
| Research  | 2,455,000               | 13,180,000  | —                   | 15,635,000           |
| Loans   | 24,734,000              | 2,556,000   | —                   | 27,290,000           |
| Capital projects  | 623,095,000             | 68,187,000  | —                   | 691,282,000          |
| Debt service  | 28,279,000              | 4,383,000   | —                   | 32,662,000           |
| Other   | 3,532,000               | 244,878,000   | —                   | 248,410,000          |
| Unrestricted  | 678,036,000             | 316,438,000   | 324,000             | 994,798,000          |
| Total net assets  | <u>\$ 3,995,726,000</u> | <u>1,355,160,000</u>  | <u>(801,000)</u>    | <u>5,350,085,000</u> |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2004

|   | <u>University</u>       | <u>Discretely<br/>presented<br/>component units<br/>Auxiliary<br/>organizations</u> | <u>Eliminations</u> | <u>Total</u>           |
|---|-------------------------|---|---------------------|------------------------|
| Revenues:   |                         |   |                     |                        |
| Operating revenues:   |                         |   |                     |                        |
| Student tuition and fees (net of scholarship allowances of \$290,694,000)                   | \$ 949,494,000          | 94,073,000  | —                   | 1,043,567,000          |
| Grants and contracts, noncapital:   |                         |   |                     |                        |
| Federal   | 410,742,000             | 273,705,000   | —                   | 684,447,000            |
| State and local   | 161,931,000             | 117,084,000   | —                   | 279,015,000            |
| Nongovernmental   | 21,021,000              | 70,652,000  | (264,000)           | 91,409,000             |
| Sales and services of educational activities  | 39,920,000              | 30,664,000  | —                   | 70,584,000             |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$16,473,000) | 183,031,000             | 436,862,000   | (6,367,000)         | 613,526,000            |
| Other operating revenues  | 35,478,000              | 83,715,000  | (2,199,000)         | 116,994,000            |
| Total operating revenues  | <u>1,801,617,000</u>    | <u>1,106,755,000</u>  | <u>(8,830,000)</u>  | <u>2,899,542,000</u>   |
| Expenses:   |                         |   |                     |                        |
| Operating expenses:   |                         |   |                     |                        |
| Instruction   | 1,735,789,000           | 120,514,000   | (324,000)           | 1,855,979,000          |
| Research  | 21,905,000              | 195,833,000   | —                   | 217,738,000            |
| Public service  | 71,609,000              | 155,178,000   | (152,000)           | 226,635,000            |
| Academic support  | 512,770,000             | 45,928,000  | (599,000)           | 558,099,000            |
| Student services  | 393,137,000             | 81,865,000  | (6,787,000)         | 468,215,000            |
| Institutional support   | 655,413,000             | 92,303,000  | (3,379,000)         | 744,337,000            |
| Operation and maintenance of plant  | 299,936,000             | 18,951,000  | (27,000)            | 318,860,000            |
| Student grants and scholarships   | 427,342,000             | 28,022,000  | (2,168,000)         | 453,196,000            |
| Auxiliary enterprise expenses   | 182,635,000             | 429,433,000   | (742,000)           | 611,326,000            |
| Depreciation  | 255,233,000             | 35,781,000  | —                   | 291,014,000            |
| Total operating expenses  | <u>4,555,769,000</u>    | <u>1,203,808,000</u>  | <u>(14,178,000)</u> | <u>5,745,399,000</u>   |
| Operating loss  | <u>(2,754,152,000)</u>  | <u>(97,053,000)</u>   | <u>5,348,000</u>    | <u>(2,845,857,000)</u> |
| Nonoperating revenues (expenses):   |                         |   |                     |                        |
| State appropriations, noncapital  | 2,654,769,000           | —   | —                   | 2,654,769,000          |
| Gifts, noncapital   | 19,814,000              | 163,370,000   | (5,047,000)         | 178,137,000            |
| Investment income, net  | 13,679,000              | 44,121,000  | —                   | 57,800,000             |
| Endowment income  | 421,000                 | 51,294,000  | —                   | 51,715,000             |
| Interest on capital-related debt  | (86,679,000)            | (17,754,000)  | —                   | (104,433,000)          |
| Other nonoperating revenues (expenses)  | 82,592,000              | (3,588,000)   | (183,000)           | 78,821,000             |
| Net nonoperating revenues   | <u>2,684,596,000</u>    | <u>237,443,000</u>  | <u>(5,230,000)</u>  | <u>2,916,809,000</u>   |
| Income (loss) before other revenues and expenses  | (69,556,000)            | 140,390,000   | 118,000             | 70,952,000             |
| State appropriations, capital   | 175,423,000             | —   | —                   | 175,423,000            |
| Grants and gifts, capital   | 25,012,000              | 14,928,000  | (919,000)           | 39,021,000             |
| Additions to permanent endowments   | 740,000                 | 20,013,000  | —                   | 20,753,000             |
| Increase in net assets  | <u>131,619,000</u>      | <u>175,331,000</u>  | <u>(801,000)</u>    | <u>306,149,000</u>     |
| Net assets:   |                         |   |                     |                        |
| Net assets at beginning of year, as restated  | <u>3,864,107,000</u>    | <u>1,179,829,000</u>  | <u>—</u>            | <u>5,043,936,000</u>   |
| Net assets at end of year   | <u>\$ 3,995,726,000</u> | <u>1,355,160,000</u>  | <u>(801,000)</u>    | <u>5,350,085,000</u>   |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY**

Statement of Cash Flows

Year ended June 30, 2004

|   | <u>University</u>     |
|---|-----------------------|
| Cash flows from operating activities:                     |                       |
| Student tuition and fees                                  | \$ 959,287,000        |
| Federal grants and contracts                              | 410,241,000           |
| State and local grants and contracts                      | 158,647,000           |
| Nongovernmental grants and contracts                      | 20,819,000            |
| Payments to suppliers                                     | (1,037,286,000)       |
| Payments to employees                                     | (2,832,288,000)       |
| Payments to students                                      | (452,644,000)         |
| Collections of student loans                              | 7,470,000             |
| Sales and services of auxiliary enterprises               | 181,565,000           |
| Sales and services of educational activities              | 44,474,000            |
| Other receipts  | 81,814,000            |
|   | <hr/>                 |
| Net cash used in operating activities                     | (2,457,901,000)       |
|   | <hr/>                 |
| Cash flows from noncapital financing activities:          |                       |
| State appropriations                                      | 2,638,717,000         |
| Gifts and grants received for other than capital purposes | 21,479,000            |
| Federal loan program receipts                             | 667,626,000           |
| Federal loan program disbursements                        | (665,871,000)         |
| Monies received on behalf of others                       | 59,169,000            |
| Monies disbursed on behalf of others                      | (56,745,000)          |
| Other noncapital financing activities                     | 39,154,000            |
|   | <hr/>                 |
| Net cash provided by noncapital financing activities      | 2,703,529,000         |
|   | <hr/>                 |
| Cash flows from capital and related financing activities: |                       |
| Proceeds from capital debt                                | 249,052,000           |
| State appropriations                                      | 151,527,000           |
| Capital grants and gifts                                  | 4,130,000             |
| Proceeds from sale of capital assets                      | 24,000                |
| Acquisition of capital assets                             | (449,447,000)         |
| Principal paid on capital debt and leases                 | (179,205,000)         |
| Interest paid on capital debt and leases                  | (85,246,000)          |
|   | <hr/>                 |
| Net cash used in capital and related financing activities | (309,165,000)         |
|   | <hr/>                 |
| Cash flows from investing activities:                     |                       |
| Proceeds from sales and maturities of investments         | 1,920,847,000         |
| Purchases of investments                                  | (1,839,720,000)       |
| Investment income proceeds                                | 13,109,000            |
|   | <hr/>                 |
| Net cash provided by investing activities                 | 94,236,000            |
|   | <hr/>                 |
| Net increase in cash and cash equivalents                 | 30,699,000            |
| Cash and cash equivalents at beginning of year            | 235,361,000           |
|   | <hr/>                 |
| Cash and cash equivalents at end of year                  | \$ <u>266,060,000</u> |

# CALIFORNIA STATE UNIVERSITY

## Statement of Cash Flows

Year ended June 30, 2004

|   | <u>University</u>         |
|---|---------------------------|
| Reconciliation of operating loss to net cash used in operating activities:          |                           |
| Operating loss  | \$ (2,754,152,000)        |
| Adjustments to reconcile operating loss to net cash used in operating activities:   |                           |
| Depreciation  | 255,233,000               |
| Change in assets and liabilities:   |                           |
| Accounts receivable, net  | 90,193,000                |
| Student loans receivable, net   | (1,464,000)               |
| Prepaid expenses and other assets   | (23,775,000)              |
| Accounts payable  | (128,990,000)             |
| Accrued salaries and benefits   | 23,837,000                |
| Accrued compensated absences  | (56,000)                  |
| Deferred revenue  | 74,738,000                |
| Self-insurance claims liability   | (5,583,000)               |
| Depository accounts   | 682,000                   |
| Other liabilities   | 11,436,000                |
| Net cash used in operating activities   | <u>\$ (2,457,901,000)</u> |
| Supplemental schedule of noncash transactions:                                      |                           |
| Contributed capital   | \$ 20,583,000             |
| Acquisition of capital assets through capital lease                                 | 20,398,000                |
| Acquisition of capital assets through long-term debt obligation                     | 97,000                    |
| Proceeds to be received in the following year for debt financed in the current year | 13,247,000                |
| Accrued capital assets purchases  | 3,793,000                 |
| Gifts in-kind   | 1,131,000                 |
| Donated capital assets  | 776,000                   |
| Other   | 2,830,000                 |

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

### (1) Organization

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California, the University is also included in the State of California's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, and the University Presidents, the chief executive officers of the respective campuses. In addition to the Office of the Chancellor, the following 23 campuses comprise the California State University at June 30, 2004:

- California State University, Bakersfield
- California State University, Channel Islands
- California State University, Chico
- California State University, Dominguez Hills
- California State University, Fresno
- California State University, Fullerton
- California State University, Hayward
- Humboldt State University
- California State University, Long Beach
- California State University, Los Angeles
- California Maritime Academy
- California State University, Monterey Bay
- California State University, Northridge
- California State Polytechnic University, Pomona
- California State University, San Bernardino
- California State University, Sacramento
- San Diego State University
- San Francisco State University
- San Jose State University
- California Polytechnic State University, San Luis Obispo
- California State University, San Marcos
- Sonoma State University
- California State University, Stanislaus

The University provides instruction for baccalaureate, masters', doctorate, and certificate programs, and operates various auxiliary enterprises such as student dormitories and parking facilities. In addition, the University administers a variety of financial aid programs which are funded primarily through state and federal programs.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

**(2) Summary of Significant Accounting Policies**

**(a) Financial Reporting Entity**

In accordance with Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements present the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the 23 campuses and the Office of the Chancellor of the California State University.

In addition, the accompanying financial statements include the accounts of the 86 University-related recognized auxiliary organizations. These organizations are legally separate entities that provide services primarily to the University’s students. Such organizations include foundations, associated students, student unions, food service entities, book stores, and similar organizations. Foundations, whose net assets comprise approximately 77% of the discretely presented totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research, as well as soliciting and accepting donations, gifts, and bequests for University-related use. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the individual campuses.

The discretely presented auxiliary organizations are as follows:

- California State University Bakersfield Foundation
- California State University, Bakersfield Student Union
- Associated Students, Inc. California State University, Bakersfield
- California State University, Bakersfield Foundation for Research
- California State University Institute
- California State University Foundation
- Associated Students, Inc. California State University, Channel Islands
- California State University, Channel Islands Foundation
- University Glen Corporation (Channel Islands)
- The CSU, Chico Research Foundation
- Associated Students of California State University, Chico
- The University Foundation, California State University, Chico
- Associated Students, Inc. California State University, Dominguez Hills
- The Donald P. and Katherine B. Loker University Student Union, Inc., California State University, Dominguez Hills
- California State University, Dominguez Hills Foundation
- California State University, Fresno Athletic Corporation
- The Bulldog Foundation (Fresno)
- California State University, Fresno Foundation
- Fresno State Programs for Children, Inc.
- Associated Students, California State University, Fresno

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Association, Inc.
- California State University, Fullerton, Foundation
- Associated Students, California State University, Fullerton, Inc.
- University Advancement Foundation (Fullerton)
- CSU Fullerton Housing Authority
- California State University, Hayward Foundation, Inc.
- University Union, Inc. of California State University, Hayward
- Associated Students, Inc. of California State University, Hayward
- Cal State Hayward Educational Foundation, Inc.
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Foundation and College Improvement Foundation
- California State University, Long Beach Foundation
- Forty-Niner Shops, Inc. (Long Beach)
- Associated Students Inc., California State University, Long Beach
- Cal State L.A. University Auxiliary Services, Inc.
- The CSLA Foundation
- Associated Students, Inc. California State University Los Angeles
- University – Student Union Board, California State University, Los Angeles
- Associated Students of the California Maritime Academy
- California Maritime Academy Foundation, Inc.
- Foundation of California State University, Monterey Bay
- CSUMB Employee Housing, Inc.
- University Student Union, Inc., California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- Associated Students, California State University, Northridge, Inc.
- The University Corporation (Northridge)
- California State University, Northridge Foundation
- Cal Poly Pomona Foundation, Inc.
- Associated Students, Inc., California State Polytechnic University, Pomona
- Cal Poly Pomona University Educational Trust

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

- California State University, Sacramento Trust Foundation, Inc.
- California State University Sacramento Foundation
- University Union Operation of California State University, Sacramento
- Capital Public Radio, Inc. (Sacramento)
- Associated Students of California State University, Sacramento
- Associated Students, Incorporated, California State University, San Bernardino
- Student Union of California State University, San Bernardino
- The Foundation for California State University, San Bernardino
- Associated Students of San Diego State University
- Aztec Shops, Ltd. (San Diego)
- San Diego State University Foundation
- The Campanile Foundation (San Diego)
- Associated Students of San Francisco State University
- Franciscan Shops (Operating as SFSU Bookstore)
- San Francisco State University Foundation, Inc.
- San Francisco State University Student Center
- San Jose State University Foundation
- Spartan Shops, Inc. (San Jose)
- Associated Students, Inc. San Jose State University
- The Student Union of San Jose State University
- California Polytechnic State University Foundation (San Luis Obispo)
- Associated Students, Inc., California Polytechnic State University (San Luis Obispo)
- Cal Poly Housing Corporation (San Luis Obispo)
- California State University San Marcos Foundation
- Associated Students, Inc. of California State University San Marcos
- San Marcos University Corporation
- Sonoma Student Union Corporation
- Sonoma State University Academic Foundation, Inc.
- Associated Students, Incorporated of Sonoma State University
- Sonoma State Enterprises, Inc.
- Associated Students Incorporated of California State University, Stanislaus
- University Student Union of California State University, Stanislaus
- California State University, Stanislaus Foundation
- California State University, Stanislaus Auxiliary and Business Services

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

The auxiliary organizations are presented in the accompanying basic financial statements as component units of the University due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to their close affiliation to the University. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish between the University and the auxiliary organizations. None of the auxiliary organizations are considered individually significant to the total discretely presented auxiliary organizations.

All significant interentity transactions have been eliminated.

The accompanying financial statements also include the *California State University Risk Management Authority*, *California State University Headquarters Authority*, *CSUCI Financing Authority*, *CSUCI Site Authority*, *Stockton Center Site Authority*, and *California State Student Association*, which are included as blended component units. These entities primarily provide services to the University in the areas of risk management and debt financing. The University is financially accountable for these organizations.

**(b) *Basis of Presentation***

As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement 35. The University records revenue in part from fees and other charges for services to external users, and accordingly has chosen to present its financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the University to be reported in a single column in each of the financial statements, accompanied by aggregated financial information for the auxiliary organizations. The effect of internal activity between funds or groups of funds has been eliminated from these financial statements.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**(c) *Auxiliary Organizations Restatements***

The beginning net assets of the auxiliary organizations column has been restated due to the correction of errors reported in the separately audited financial statements of the auxiliary organizations, as well as the implementation of GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*, An Amendment of GASB Statement 14, which resulted in the inclusion of The Bulldog Foundation in the reporting entity.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

A summary of the restatements to net assets at beginning of year related to the auxiliary organizations is as follows:

|  |                         |
|--|-------------------------|
| Net assets as of June 30, 2003, as previously reported               | \$ 1,167,489,000        |
| Net assets of The Bulldog Foundation (CSU Fresno) as of July 1, 2003 | 8,977,000               |
| Recognition of revenue for contributions made in prior year          | 5,365,000               |
| Reversal of previously recognized contributions                      | (1,810,000)             |
| Other adjustments, net   | <u>(192,000)</u>        |
| Net assets at beginning of year                                      | <u>\$ 1,179,829,000</u> |

**(d) Election of Applicable FASB Statements**

The University has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

**(e) Classification of Current and Noncurrent Assets and Liabilities**

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal University business operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

**(f) Cash Equivalents and Statement of Cash Flows**

The University considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

**(g) Investments**

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net assets as investment income, net.

**(h) Capital Assets**

Capital assets are stated at cost or estimated historical cost if purchased, or if donated at estimated fair value at date of donation. Personal property with a value of less than \$5,000 is not capitalized. The University is required to capitalize all infrastructure assets that have been acquired, or that have received major improvements. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying basic financial statements. Capital assets, with the exception of land and land improvements, works of art and historical

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

treasures, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a ten-year period. Periodicals and subscriptions are expensed as purchased. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Depreciation expense is shown separately in the statement of revenues, expenses, and changes in net assets, rather than being allocated among other categories of operating expenses.

**(i) *Deferred Revenue***

Deferred revenue consists primarily of fees collected in advance for summer- and fall-terms and continuing education programs.

**(j) *Compensated Absences***

University employees accrue annual leave at rates based on length of service and job classification.

**(k) *Grants Refundable***

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins and Nursing Loan programs, approved Title IV loan programs. The federal government has the ability to terminate its support of these programs at any time and to request the University to return those contributions that it has made on a cumulative basis. Accordingly, all activity related to these programs received and retained by the University are considered to be liabilities of the University, and are reflected as such in the accompanying statement of net assets.

**(l) *Net Assets***

The University's net assets are classified into the following three net asset categories:

- **Invested in Capital Assets, Net of Related Debt:** Capital assets, net of accumulated depreciation, amortization, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted:**
  - **Nonexpendable:** Net assets subject to externally imposed conditions that the University retain them in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.
  - **Expendable:** Net assets subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

- **Unrestricted:** All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the University or have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures of net assets may be made, and require that unrestricted net assets be designated to support future operations in these areas. University housing programs are a primary example of operations that have unrestricted net assets with designated uses.

The University has adopted a policy of utilizing restricted – expendable funds, when available, prior to unrestricted funds.

### *(m) Classification of Revenues and Expenses*

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement 35. These nonoperating activities include the University's noncapital and capital appropriations from the State of California, net investment income, gifts, and interest expense.

The State of California appropriates funds to the University on an annual basis. The appropriations are, in turn, allocated among the campuses by the Office of the Chancellor. Appropriations are recognized as revenue when authorization is received, and are reported as either noncapital appropriations when used to support general operations or capital appropriations when used for capital projects.

Student tuition and fee revenue, and sales and services of auxiliary enterprises, including revenues from student housing programs, are presented net of scholarships and fellowships applied to student accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

### *(n) Income Taxes*

The University is an agency of the State of California and is treated as a governmental entity for tax purposes. As such, the University is generally not subject to federal or state income taxes. However, the University remains subject to income taxes on any net income which is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

During fiscal year 2004, four campuses of the University underwent tax audits by the Internal Revenue Service (IRS), primarily relating to compliance with rules governing taxation of nonresident aliens for calendar years 2001 and 2002. This resulted in a total tax assessment to the University of \$518,000, of which \$283,000 had been paid as of June 30, 2004. The remaining \$235,000 was recorded as a liability as of June 30, 2004. Additionally, in October 2003, ten campuses of the University received letters of inquiry from the IRS for calendar years 2000 and

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

2001, which resulted in an additional tax assessment of \$199,000, all of which had been paid as of June 30, 2004. In October 2004, these ten campuses also received letters of inquiry from the IRS for calendar year 2002. Any amounts owed related to calendar year 2002 for these ten campuses can not be determined at this time. Accordingly, as of June 30, 2004, no additional taxes have been provided for any assessments that may result from the IRS inquiries for calendar year 2002. Management believes that amounts owed, if any, would not have a material effect on the financial position of the University.

**(o) Eliminations**

In accordance with GASB Statement 39, all significant nonexchange transactions between the University and the discretely presented auxiliary organizations have been eliminated from the total column and are separately presented in the eliminations column in the accompanying statement of net assets and statement of revenues, expenses, and changes in net assets.

**(p) Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the accompanying basic financial statements. Actual results could differ from those estimates.

**(3) Cash, Cash Equivalents, and Investments**

The deposits of the University that are maintained at financial institutions are fully insured or collateralized as required by state law. At June 30, 2004, cash consisted of demand deposits held at the state treasury and petty cash. This cash of \$266,045,000 had a bank balance of \$201,488,000 at June 30, 2004. The difference relates to outstanding checks and deposits in transit.

State law and regulations require that surplus monies of the University be invested. The University's investment policy authorizes excess funds to be invested in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

At June 30, 2004, the investment portfolio consists primarily of investments held in the State of California Surplus Money Investment Fund, Metropolitan West Investment Funds, and the State of California Local Agency Investment Fund.

None of the University's investments are represented by specific identifiable investment securities and, accordingly, are not subject to custodial risk categorization as prescribed by GASB Statement 3.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

At June 30, 2004, the University's investments are pooled at both the campus and systemwide levels; however, separate accounting is maintained as to the amounts allocable to the various campuses, funds, and programs. The University's investments at fair value consisted of the following at June 30, 2004:

|                                      | <b>2004</b>             |                   |                      |
|--------------------------------------|-------------------------|-------------------|----------------------|
|                                      | <u>Current</u>          | <u>Noncurrent</u> | <u>Total</u>         |
| State of California Surplus Money    |                         |                   |                      |
| Investment Fund                      | \$ 692,457,000          | 1,194,000         | 693,651,000          |
| Metropolitan West Medium-Term Fund   | 170,999,000             | 14,958,000        | 185,957,000          |
| Metropolitan West Short-Term Fund    | 280,466,000             | 7,151,000         | 287,617,000          |
| Collateralized mortgage obligations: |                         |                   |                      |
| Inverse Floaters                     | —                       | 2,000             | 2,000                |
| Agency and private pass-through      | 3,718,000               | —                 | 3,718,000            |
| State of California Local Agency     |                         |                   |                      |
| Investment Fund                      | 40,255,000              | —                 | 40,255,000           |
| Other                                | 22,117,000              | 261,000           | 22,378,000           |
| Total                                | <u>\$ 1,210,012,000</u> | <u>23,566,000</u> | <u>1,233,578,000</u> |

As noted above, the University's investment portfolio includes investments in collateralized mortgage obligations which consist of inverse floaters and agency and private pass-through securities. Inverse floaters, which are securities in which the investor receives cash flow representing principal from underlying mortgages plus a rate of interest calculated under formulas which vary inversely to the stipulated short-term interest market rate index, are guaranteed by the issuer (FNMA or FHLMC) as to return of principal and timely payment of interest calculated in accordance with the terms of the investments. Agency and private pass-through securities are securities in which the investor receives a pro rata share of principal and interest payments passed through from the underlying mortgages which are issued primarily by FNMA and FHLMC.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

Investments of the discretely presented auxiliary organizations at fair value consisted of the following at June 30, 2004:

|                                    | <b>2004</b>           |                    |                    |
|------------------------------------|-----------------------|--------------------|--------------------|
|                                    | <u>Current</u>        | <u>Noncurrent</u>  | <u>Total</u>       |
| State of California Local Agency   |                       |                    |                    |
| Investment Fund                    | \$ 85,181,000         | 4,034,000          | 89,215,000         |
| Debt and equity securities         | 151,650,000           | 448,239,000        | 599,889,000        |
| Fixed income securities            | 24,758,000            | 115,766,000        | 140,524,000        |
| Real estate                        | 182,000               | 21,125,000         | 21,307,000         |
| Metropolitan West Medium-Term Fund | 1,595,000             | —                  | 1,595,000          |
| Metropolitan West Short-Term Fund  | 14,304,000            | 932,000            | 15,236,000         |
| Metropolitan West Fund             | 4,433,000             | 6,386,000          | 10,819,000         |
| Certificates of deposit            | 4,430,000             | 9,774,000          | 14,204,000         |
| Money market funds and other       |                       |                    |                    |
| short-term investments             | 24,837,000            | 4,324,000          | 29,161,000         |
| Notes receivable                   | —                     | 222,000            | 222,000            |
| Other                              | 14,221,000            | 56,223,000         | 70,444,000         |
| Total                              | \$ <u>325,591,000</u> | <u>667,025,000</u> | <u>992,616,000</u> |

Approximately \$10,447,000 of the investments reported by the University in the statement of net assets at June 30, 2004 is invested under contractual agreements on behalf of the auxiliary organizations of the University.

For additional information regarding the investments of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**(4) Accounts Receivable**

Accounts receivable of the University at June 30, 2004 consisted of the following:

|                                      | <u>Current</u>        | <u>Noncurrent</u>  | <u>Total</u>         |
|--------------------------------------|-----------------------|--------------------|----------------------|
| State appropriations                 | \$ 265,448,000        | 690,248,000        | 955,696,000          |
| Auxiliary organizations              | 34,693,000            | 481,000            | 35,174,000           |
| Student accounts                     | 70,422,000            | 458,000            | 70,880,000           |
| Government grants and contracts      | 38,007,000            | 736,000            | 38,743,000           |
| Other                                | 33,227,000            | 22,078,000         | 55,305,000           |
|                                      | 441,797,000           | 714,001,000        | 1,155,798,000        |
| Less allowance for doubtful accounts | <u>(13,952,000)</u>   | <u>(631,000)</u>   | <u>(14,583,000)</u>  |
| Total                                | \$ <u>427,845,000</u> | <u>713,370,000</u> | <u>1,141,215,000</u> |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2004 consisted of the following:

|                                       | <b>Balance<br/>June 30, 2003</b> | <b>Additions</b>   | <b>Retirements</b>  | <b>Transfers</b>     | <b>Balance<br/>June 30, 2004</b> |
|---------------------------------------|----------------------------------|--------------------|---------------------|----------------------|----------------------------------|
| Non-depreciable capital assets:       |                                  |                    |                     |                      |                                  |
| Land and land improvements            | \$ 180,417,000                   | 1,227,000          | —                   | 430,000              | 182,074,000                      |
| Works of art and historical treasures | 17,704,000                       | 1,099,000          | (55,000)            | —                    | 18,748,000                       |
| Construction work in progress         | 574,349,000                      | 410,474,000        | (9,353,000)         | (383,529,000)        | 591,941,000                      |
| Total non-depreciable capital assets  | <u>772,470,000</u>               | <u>412,800,000</u> | <u>(9,408,000)</u>  | <u>(383,099,000)</u> | <u>792,763,000</u>               |
| Depreciable capital assets:           |                                  |                    |                     |                      |                                  |
| Buildings and building improvements   | 4,813,032,000                    | 33,468,000         | (7,379,000)         | 347,185,000          | 5,186,306,000                    |
| Improvements other than buildings     | 300,454,000                      | 7,828,000          | (394,000)           | 5,970,000            | 313,858,000                      |
| Infrastructure                        | 383,862,000                      | 10,915,000         | (106,000)           | 30,313,000           | 424,984,000                      |
| Personal property:                    |                                  |                    |                     |                      |                                  |
| Equipment                             | 550,228,000                      | 36,147,000         | (30,561,000)        | (7,294,000)          | 548,520,000                      |
| Library books and materials           | 338,860,000                      | 11,077,000         | (2,189,000)         | —                    | 347,748,000                      |
| Intangible assets                     | 192,933,000                      | 19,496,000         | (1,810,000)         | 6,927,000            | 217,546,000                      |
| Total depreciable capital assets      | <u>6,579,369,000</u>             | <u>118,931,000</u> | <u>(42,439,000)</u> | <u>383,101,000</u>   | <u>7,038,962,000</u>             |
| Total cost                            | <u>7,351,839,000</u>             | <u>531,731,000</u> | <u>(51,847,000)</u> | <u>2,000</u>         | <u>7,831,725,000</u>             |
| Less accumulated depreciation:        |                                  |                    |                     |                      |                                  |
| Buildings and building improvements   | 2,205,084,000                    | 139,173,000        | (506,000)           | (996,000)            | 2,342,755,000                    |
| Improvements other than buildings     | 245,116,000                      | 11,247,000         | (599,000)           | —                    | 255,764,000                      |
| Infrastructure                        | 116,076,000                      | 10,437,000         | —                   | —                    | 126,513,000                      |
| Personal property:                    |                                  |                    |                     |                      |                                  |
| Equipment                             | 386,233,000                      | 48,233,000         | (26,593,000)        | 1,342,000            | 409,215,000                      |
| Library books and materials           | 271,990,000                      | 17,073,000         | (2,081,000)         | —                    | 286,982,000                      |
| Intangible assets                     | 119,890,000                      | 29,070,000         | (335,000)           | (344,000)            | 148,281,000                      |
| Total accumulated depreciation        | <u>3,344,389,000</u>             | <u>255,233,000</u> | <u>(30,114,000)</u> | <u>2,000</u>         | <u>3,569,510,000</u>             |
| Net capital assets                    | <u>\$ 4,007,450,000</u>          | <u>276,498,000</u> | <u>(21,733,000)</u> | <u>—</u>             | <u>4,262,215,000</u>             |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

Capital assets activity of the discretely presented auxiliary organizations of the University for the year ended June 30, 2004 consisted of the following:

|                                       | <u>Balance<br/>June 30, 2003</u> | <u>Additions</u>   | <u>Retirements</u>  | <u>Transfers</u>     | <u>Balance<br/>June 30, 2004</u> |
|---------------------------------------|----------------------------------|--------------------|---------------------|----------------------|----------------------------------|
| Non-depreciable capital assets:       |                                  |                    |                     |                      |                                  |
| Land and land improvements            | \$ 52,955,000                    | 3,625,000          | (764,000)           | 88,000               | 55,904,000                       |
| Works of art and historical treasures | 4,743,000                        | 153,000            | —                   | (95,000)             | 4,801,000                        |
| Construction work in progress         | 156,746,000                      | 25,037,000         | (6,809,000)         | (149,022,000)        | 25,952,000                       |
| Total non-depreciable capital assets  | <u>214,444,000</u>               | <u>28,815,000</u>  | <u>(7,573,000)</u>  | <u>(149,029,000)</u> | <u>86,657,000</u>                |
| Depreciable capital assets:           |                                  |                    |                     |                      |                                  |
| Buildings and building improvements   | 305,696,000                      | 57,780,000         | (2,300,000)         | 146,222,000          | 507,398,000                      |
| Improvements other than buildings     | 72,988,000                       | 377,000            | (4,243,000)         | 1,271,000            | 70,393,000                       |
| Infrastructure                        | 2,698,000                        | —                  | —                   | —                    | 2,698,000                        |
| Personal property:                    |                                  |                    |                     |                      |                                  |
| Equipment                             | 155,846,000                      | 20,043,000         | (8,459,000)         | 1,808,000            | 169,238,000                      |
| Library books and materials           | 17,000                           | —                  | —                   | —                    | 17,000                           |
| Intangible assets                     | 2,303,000                        | 185,000            | (622,000)           | —                    | 1,866,000                        |
| Total depreciable capital assets      | <u>539,548,000</u>               | <u>78,385,000</u>  | <u>(15,624,000)</u> | <u>149,301,000</u>   | <u>751,610,000</u>               |
| Total cost                            | <u>753,992,000</u>               | <u>107,200,000</u> | <u>(23,197,000)</u> | <u>272,000</u>       | <u>838,267,000</u>               |
| Less accumulated depreciation:        |                                  |                    |                     |                      |                                  |
| Buildings and building improvements   | 69,502,000                       | 16,490,000         | (6,392,000)         | 272,000              | 79,872,000                       |
| Improvements other than buildings     | 374,000                          | 3,961,000          | (1,207,000)         | —                    | 3,128,000                        |
| Infrastructure                        | 24,057,000                       | —                  | —                   | —                    | 24,057,000                       |
| Personal property:                    |                                  |                    |                     |                      |                                  |
| Equipment                             | 98,566,000                       | 15,085,000         | (7,389,000)         | —                    | 106,262,000                      |
| Library books and materials           | 13,000                           | 3,000              | —                   | —                    | 16,000                           |
| Intangible assets                     | 511,000                          | 242,000            | (207,000)           | —                    | 546,000                          |
| Total accumulated depreciation        | <u>193,023,000</u>               | <u>35,781,000</u>  | <u>(15,195,000)</u> | <u>272,000</u>       | <u>213,881,000</u>               |
| Net capital assets                    | \$ <u>560,969,000</u>            | <u>71,419,000</u>  | <u>(8,002,000)</u>  | <u>—</u>             | <u>624,386,000</u>               |

For additional information regarding the capital assets of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**(6) Lease Obligations**

The University is obligated under various capital and operating leases. Substantially all of the capital leases are a result of the University's participation with the State of California in the State Public Works Board Lease Revenue Bond program. The University has participated in this program since 1986 in connection

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

with the construction of campus facilities and related equipment. Current California law permits the State Public Works Board (SPWB) to authorize the sale of bonds to construct certain state facilities if there is a revenue stream that can be pledged to repay the obligations. The process is described in brief as follows:

- The University and the State of California Department of Finance agree to the construction of one or more facilities to be funded by SPWB bonds. The projects are approved as part of the University's capital outlay budget.
- The SPWB approves the sale of bonds for the project(s) and the University agrees to execute certain legal documents in connection with the financing, including a site lease to the SPWB, a construction agreement to construct the facility for the SPWB, and a facility lease to lease the completed facility from the SPWB for annual rental payments.
- Prior to the execution of the facility lease, the University receives a short-term loan from the State of California Pooled Money Investment Board to provide working capital for initial phases of the construction.
- Once construction contracts are signed, the bonds are sold by the SPWB, the construction loan is repaid, and site leases and facility leases are executed requiring semiannual lease payments, beginning upon completion of the facilities, by the Trustees that are used to pay principal and interest on the bonds.
- As part of the annual budget process, the State of California Department of Finance augments the University's operating budget to provide additional funds for the required lease payments.

Capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency, and telecommunications equipment. Total assets related to capital leases have a carrying value of \$113,584,000 at June 30, 2004. The leases bear interest at rates ranging from 2% to 21% and have terms expiring in various years through 2030.

Operating leases consist primarily of leases for the use of real property. The University's operating leases having remaining terms of more than one year expire in various fiscal years through 2032. The leases can be canceled if the State does not provide adequate funding. Some of these leases are with related auxiliary organizations for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended June 30, 2004 were \$16,606,000, of which \$4,882,000 was paid to related auxiliary organizations.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2004 are as follows:

|  | <u>Capital<br/>leases</u> | <u>Operating<br/>leases</u> |
|--|---------------------------|-----------------------------|
| Year ending June 30:                           |                           |                             |
| 2005   | \$ 79,439,000             | 15,162,000                  |
| 2006   | 76,527,000                | 9,415,000                   |
| 2007   | 67,030,000                | 7,300,000                   |
| 2008   | 63,555,000                | 6,156,000                   |
| 2009   | 61,320,000                | 4,813,000                   |
| 2010 – 2014                                    | 299,399,000               | 6,949,000                   |
| 2015 – 2019                                    | 251,350,000               | 4,398,000                   |
| 2020 – 2024                                    | 70,371,000                | 3,416,000                   |
| 2025 – 2029                                    | 11,596,000                | 3,342,000                   |
| 2030 – 2034                                    | 4,661,000                 | 2,804,000                   |
| 2035 – 2039                                    | —                         | 487,000                     |
| Total minimum lease payments                   | <u>985,248,000</u>        | \$ <u>64,242,000</u>        |
| Less amount representing interest              | <u>(309,188,000)</u>      |                             |
| Present value of future minimum lease payments | \$ <u>676,060,000</u>     |                             |

**(7) Long-Term Debt Obligations**

**(a) General Obligation Bond Program**

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the California State University, the University of California, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the University by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to California State University projects is approximately \$436,819,000.

**(b) Revenue Bond Programs**

The Revenue Bond Act of 1947 provides the board of trustees with the ability to issue revenue bonds to fund six specific self-supporting programs. The statute has enabled the trustees to finance construction projects for student housing, student unions, parking facilities, health facilities, continuing education facilities, and auxiliary organization facilities.

The housing program provides on-campus housing primarily for students. Housing is a self-supporting program deriving its revenues from fees collected for the use of the residence facilities. Funds are used for current operating expenses, maintenance and repair, improvements to

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The student union program provides facilities and programs aimed at creating and enhancing learning experiences outside the classroom by promoting interaction among students, faculty, and staff. The student union program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. After payment of all authorized charges, the balances of these funds are available for transfer to the campus auxiliary organization that has contracted with the University to operate the facility. The operating entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income.

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for construction, repair and maintenance, and principal and interest payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The health facilities program provides health services on campus to students. The health facilities program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for current operating expenses, maintenance and repair, and improvements to facilities. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The continuing education program provides nonstate supported courses to students. The continuing education program is self-supporting and derives its revenues primarily from student tuition and interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The auxiliary organizations program provides for certain additional facilities on campus for the benefit of students and staff. The auxiliary organizations program derives its revenues primarily from lease income received by the campus from the auxiliary organization using the facility. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the board of trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, student unions, parking facilities, health facilities, continuing education facilities, and auxiliary organization facilities at designated campuses within the system as specified by the individual bond documents. This program is designed to provide lower cost debt and greater flexibility to finance revenue bond projects in the

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2004

University. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of the system's revenues, including revenues of various University programs, as the pledge for the related revenue producing projects.

The net revenues from the University's revenue bond programs in place prior to fiscal year 2003, which include student housing, student unions, and parking facilities, are recorded as student tuition and fees and sales and services of auxiliary enterprises on the statement of revenues, expenses, and changes in net assets and are pledged to retire the related revenue bonds of those respective programs. The University's total outstanding balance of revenue bond indebtedness under these programs was \$379,553,000 at June 30, 2004. These revenue bonds are senior to the Systemwide Revenue Bonds.

The University's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond Program was \$672,620,000 at June 30, 2004.

**(c) *Headquarters Building Authority***

The California State University Headquarters Authority was established to issue Lease Revenue Bonds for the initial purpose of financing the University's previous headquarters building. Subsequent lease revenue bonds were issued to refund the outstanding obligations and provide additional funding for the construction of the new Office of the Chancellor. The related lease revenue bonds outstanding at June 30, 2004 total \$27,420,000.

**(d) *Deferred Maintenance Projects***

During the year ended June 30, 1996, the University entered into an agreement with the California State University Institute (the Institute), a recognized auxiliary organization of the University, whereby the Institute acted as a conduit to facilitate a \$43,095,000 financing arrangement for deferred maintenance projects in the University system. Amounts outstanding under this arrangement totaled \$21,515,000 at June 30, 2004.

**(e) *Financing Authority***

The Channel Islands Financing Authority was formed to provide financing for public capital improvements at the Channel Islands campus. Revenue bonds outstanding at June 30, 2004 relating to the Channel Islands Financing Authority totaled \$96,275,000.

**(f) *Bond Anticipation Notes***

The University has issued Revenue Bond Anticipation Notes to finance the development and construction of housing and student union facilities. The Revenue Bond Anticipation Note are issued for a one to three year period in anticipation of issuing permanent revenue bonds at a future date. Amounts outstanding under the Revenue Bond Anticipation Notes totaled \$86,660,000 at June 30, 2004.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

Long-term debt obligations of the University as of June 30, 2004 consist of the following:

| <u>Description</u>  | <u>Interest rate</u> | <u>Fiscal year<br/>maturity<br/>date</u> | <u>Original<br/>issue<br/>amount</u> | <u>Amount<br/>outstanding</u> |
|---|----------------------|--|--------------------------------------|-------------------------------|
| Housing System Revenue Bonds:   |                      |  |                                      |                               |
| Series B (Chico, Humboldt,<br>Long Beach, Northridge,<br>Pomona, San Diego,<br>San Francisco, San Jose,<br>and San Luis Obispo<br>campuses)   | 3%                   | 2006/07                                  | \$ 30,856,000                        | 3,695,000                     |
| Series J – Northridge campus  | 3                    | 2019/20                                  | 3,838,000                            | 2,178,000                     |
| Series K – Dominguez Hills<br>campus  | 3                    | 2019/20                                  | 3,730,000                            | 2,555,000                     |
| Series L – San Diego campus   | 3                    | 2020/21                                  | 4,930,000                            | 2,890,000                     |
| Series M – San Francisco<br>campus  | 3                    | 2020/21                                  | 580,000                              | 345,000                       |
| Series N – Chico campus   | 3                    | 2021/22                                  | 4,320,000                            | 3,090,000                     |
| Series P – San Francisco<br>campus  | 3                    | 2021/22                                  | 1,140,000                            | 700,000                       |
| Series Q – San Diego campus   | 3                    | 2021/22                                  | 555,000                              | 335,000                       |
| Series U – San Jose campus  | 3                    | 2012/13                                  | 3,500,000                            | 1,460,000                     |
| Series Y – Long Beach campus  | 3                    | 2013/14                                  | 2,000,000                            | 905,000                       |
| Series AU – Humboldt campus   | 4.9 – 6.9            | 2016/17                                  | 4,000,000                            | 3,075,000                     |
| Series AV – 1996 Refunding<br>Bonds (Dominguez Hills,<br>Fullerton, Hayward,<br>Humboldt, Long Beach,<br>Los Angeles, Northridge,<br>Sacramento, San Diego,<br>San Francisco, and<br>Sonoma campuses) | 4.25 – 6.3           | 2021/22                                  | 138,375,000                          | 122,430,000                   |
| Series AW – Chico campus  | 4.75 – 5             | 2017/18                                  | 4,580,000                            | 3,860,000                     |
| Series AX – Sonoma campus   | 4.75 – 5.2           | 2030/31                                  | 29,095,000                           | 27,685,000                    |
| Series AY – San Diego campus  | 4.5 – 5.75           | 2031/32                                  | 39,840,000                           | 38,015,000                    |
| Series AZ – San Bernardino<br>campus  | 4.5 – 7.5            | 2031/32                                  | 12,810,000                           | 12,445,000                    |
|   |                      |  | <u>284,149,000</u>                   | <u>225,663,000</u>            |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

| <u>Description</u>                            | <u>Interest rate</u> | <u>Fiscal year maturity date</u> | <u>Original issue amount</u> | <u>Amount outstanding</u> |
|---|----------------------|----------------------------------|------------------------------|---------------------------|
| Student Union Revenue Bonds:                  |                      |                                  |                              |                           |
| Series A – Chico campus                       | 3%                   | 2006/07                          | \$ 1,100,000                 | 140,000                   |
| Series B – Chico campus                       | 4 – 12               | 2028/29                          | 23,370,000                   | 21,790,000                |
| Series C – Fullerton campus – Refunding Bonds | 5.25 – 5.4           | 2020/21                          | 9,590,000                    | 8,375,000                 |
| Series B – Northridge campus                  | 6 – 8                | 2022/23                          | 14,200,000                   | 1,405,000                 |
| Series C – Northridge campus                  | 4 – 5.63             | 2022/23                          | 11,325,000                   | 10,985,000                |
| Series B – Pomona campus                      | 5 – 6                | 2019/20                          | 2,065,000                    | 1,755,000                 |
| Series C – Pomona campus                      | 5 – 6.75             | 2030/31                          | 20,980,000                   | 20,430,000                |
| Series A – San Diego campus                   | 3                    | 2006/07                          | 2,940,000                    | 365,000                   |
| Series B – San Diego campus                   | 5 – 6.125            | 2024/25                          | 31,160,000                   | 8,985,000                 |
| Series C – San Diego campus                   | 4 – 5.63             | 2024/25                          | 19,770,000                   | 19,490,000                |
| Series B – San Francisco campus               | 4 – 12               | 2023/24                          | 12,950,000                   | 11,635,000                |
| Series A – San Jose campus                    | 3                    | 2006/07                          | 3,240,000                    | 405,000                   |
| Series D – San Jose campus                    | 4.5 – 6.5            | 2019/20                          | 23,070,000                   | 18,375,000                |
| Series A – San Luis Obispo campus             | 3                    | 2007/08                          | 3,000,000                    | 485,000                   |
| Series B – San Luis Obispo campus             | 4 – 9.875            | 2025/26                          | 4,650,000                    | 4,165,000                 |
|   |                      |                                  | <u>183,410,000</u>           | <u>128,785,000</u>        |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

| <u>Description</u>  | <u>Interest rate</u> | <u>Fiscal year<br/>maturity<br/>date</u> | <u>Original<br/>issue<br/>amount</u> | <u>Amount<br/>outstanding</u> |
|---|----------------------|--|--------------------------------------|-------------------------------|
| Systemwide Revenue Bonds:   |                      |  |                                      |                               |
| Series 2002A – Bakersfield<br>campus – Refunding Bonds  | 3 – 5.5%             | 2022/23                                  | \$ 1,615,000                         | 1,545,000                     |
| Series 2002A – Dominguez<br>Hills campus<br>– Refunding Bonds   | 3 – 5.5              | 2020/21                                  | 2,295,000                            | 2,185,000                     |
| Series 2002A – Hayward<br>campus – Refunding Bonds  | 3 – 5.5              | 2012/13                                  | 1,065,000                            | 940,000                       |
| Series 2002A – San Bernardino<br>campus – Refunding Bonds   | 3 – 5.5              | 2021/22                                  | 2,905,000                            | 2,770,000                     |
| Series 2002A – Stanislaus<br>campus – Refunding Bonds   | 3 – 5.5              | 2020/21                                  | 780,000                              | 740,000                       |
| Series 2002A – Humboldt<br>campus (student union)   | 3 – 5.5              | 2030/31                                  | 3,490,000                            | 3,395,000                     |
| Series 2002A – Northridge<br>campus (parking)   | 3 – 5.5              | 2027/28                                  | 9,550,000                            | 9,340,000                     |
| Series 2002A – Sacramento<br>campus (student union)   | 3 – 5.5              | 2030/31                                  | 800,000                              | 760,000                       |
| Series 2002A – Sacramento<br>campus (parking)   | 3 – 5.5              | 2026/27                                  | 5,640,000                            | 5,475,000                     |
| Series 2002A – San Marcos<br>campus (student union)   | 3 – 5.5              | 2024/25                                  | 5,665,000                            | 5,580,000                     |
| Series 2002A – Sonoma<br>campus (parking)   | 3 – 5.5              | 2031/32                                  | 9,630,000                            | 9,430,000                     |
| Series 2002A – Fullerton,<br>San Luis Obispo,<br>San Bernardino, and<br>Sonoma campuses (housing)   | 3 – 5.5              | 2033/34                                  | 131,315,000                          | 129,725,000                   |
| Series 2003A – Monterey Bay,<br>Northridge, Pomona,<br>San Jose, Stanislaus,<br>Sacramento, and San<br>Diego campuses (housing<br>continuing education, and<br>auxiliary organizations) | 2.5 – 5.25           | 2035/36                                  | 342,725,000                          | 342,725,000                   |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

| <u>Description</u>                                  | <u>Interest rate</u> | <u>Fiscal year maturity date</u> | <u>Original issue amount</u> | <u>Amount outstanding</u> |
|---|----------------------|----------------------------------|------------------------------|---------------------------|
| Systemwide Revenue Bonds (continued):               |                      |                                  |                              |                           |
| Series 2004A – Channel Islands campus               | 2.5 – 5.25%          | 2034/35                          | \$ 18,490,000                | 18,490,000                |
| Series 2004A – Fresno campus campus (student union) | 2.5 – 5.25           | 2034/35                          | 4,250,000                    | 4,250,000                 |
| Series 2004A – Fullerton campus                     | 2.5 – 5.25           | 2029/30                          | 21,850,000                   | 21,850,000                |
| Series 2004A – Humboldt campus                      | 2.5 – 5.25           | 2034/35                          | 3,845,000                    | 3,845,000                 |
| Series 2004A – Long Beach campus (housing)          | 2.0 – 5.25           | 2018/19                          | 1,310,000                    | 1,310,000                 |
| Series 2004A – Long Beach campus (student union)    | 2.0 – 5.25           | 2026/27                          | 12,590,000                   | 12,590,000                |
| Series 2004A – Los Angeles campus (parking)         | 2.5 – 5.25           | 2029/30                          | 11,540,000                   | 11,540,000                |
| Series 2004A – Los Angeles campus (student union)   | 2.0 – 5.25           | 2026/27                          | 6,115,000                    | 6,115,000                 |
| Series 2004A – Northridge campus (housing)          | 2.0 – 5.25           | 2018/19                          | 12,555,000                   | 12,555,000                |
| Series 2004A – Northridge campus (student union)    | 2.5 – 5.25           | 2034/35                          | 6,445,000                    | 6,445,000                 |
| Series 2004A – Northridge campus (parking)          | 3.0 – 5.25           | 2030/31                          | 13,300,000                   | 13,300,000                |
| Series 2004A – Pomona campus (student union)        | 2.0 – 5.25           | 2030/31                          | 2,675,000                    | 2,675,000                 |
| Series 2004A – Sacramento campus (student union)    | 2.0 – 5.5            | 2025/26                          | 20,615,000                   | 20,615,000                |
| Series 2004A – San Francisco campus                 | 2.5 – 5.25           | 2034/35                          | 3,580,000                    | 3,580,000                 |
| Series 2004A – San Francisco campus                 | 2.5 – 5.25           | 2033/34                          | 3,200,000                    | 3,200,000                 |
| Series 2004A – Sonoma campus (student union)        | 2.0 – 5.25           | 2034/35                          | 15,650,000                   | 15,650,000                |
|   |                      |                                  | <u>675,485,000</u>           | <u>672,620,000</u>        |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

| <u>Description</u>                               | <u>Interest rate</u> | <u>Fiscal year maturity date</u> | <u>Original issue amount</u> | <u>Amount outstanding</u> |
|--|----------------------|----------------------------------|------------------------------|---------------------------|
| Headquarters Building Authority:                 |                      |                                  |                              |                           |
| Lease Revenue Bonds,<br>Series B                 | 3.9 – 5.25%          | 2022/23                          | \$ 30,680,000                | 27,420,000                |
| Deferred Maintenance Projects                    | 3.73 – 4.107         | 2009/10                          | 43,095,000                   | 21,515,000                |
| Parking Revenue Bonds:                           |                      |                                  |                              |                           |
| San Diego Campus, Series A                       | 4.3 – 12             | 2023/24                          | 13,100,000                   | 11,815,000                |
| San Diego Campus, Series B                       | 4.3 – 12             | 2025/26                          | <u>14,095,000</u>            | <u>13,290,000</u>         |
|  |                      |                                  | <u>27,195,000</u>            | <u>25,105,000</u>         |
| Financing Authority:                             |                      |                                  |                              |                           |
| Channel Islands Rental<br>Housing Bonds          | 3.375 – 4.08         | 2031/32                          | 46,815,000                   | 46,815,000                |
| Channel Islands Revenue<br>Bonds – Series 2001 A | 3.85 – 5.25          | 2031/32                          | <u>49,460,000</u>            | <u>49,460,000</u>         |
|  |                      |                                  | <u>96,275,000</u>            | <u>96,275,000</u>         |
| Bond Anticipation Notes:                         |                      |                                  |                              |                           |
| Channel Islands                                  | Variable             | 2004/05                          | 6,940,000                    | 6,940,000                 |
| Pomona   | Variable             | 2004/05                          | 23,715,000                   | 23,715,000                |
| San Bernardino                                   | Variable             | 2004/05                          | 16,500,000                   | 16,500,000                |
| San Bernardino                                   | Variable             | 2004/05                          | 11,090,000                   | 11,090,000                |
| San Diego  | Variable             | 2004/05                          | 7,795,000                    | 7,795,000                 |
| San Diego  | Variable             | 2004/05                          | <u>20,620,000</u>            | <u>20,620,000</u>         |
|  |                      |                                  | 86,660,000                   | 86,660,000                |
| Other  | Various              | Various                          | <u>53,100,000</u>            | <u>36,420,000</u>         |
| Total long-term debt                             |                      |                                  | \$ <u>1,480,049,000</u>      | 1,320,463,000             |
| Less current portion                             |                      |                                  |                              | <u>(112,199,000)</u>      |
| Long-term debt, net<br>of current portion        |                      |                                  |                              | \$ <u>1,208,264,000</u>   |

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

Long-term debt principal and interest are payable and mature in the following fiscal years:

|             | <u>Principal</u>        | <u>Interest</u>    |
|-------------|-------------------------|--------------------|
| 2005        | \$ 112,199,000          | 60,614,000         |
| 2006        | 34,327,000              | 58,104,000         |
| 2007        | 39,540,000              | 56,605,000         |
| 2008        | 40,287,000              | 54,904,000         |
| 2009        | 37,345,000              | 53,275,000         |
| 2010 – 2014 | 189,361,000             | 239,921,000        |
| 2015 – 2019 | 217,331,000             | 191,557,000        |
| 2020 – 2024 | 224,593,000             | 133,403,000        |
| 2025 – 2029 | 204,013,000             | 79,875,000         |
| 2030 – 2034 | 180,828,000             | 28,528,000         |
| 2035 – 2039 | 40,639,000              | 1,611,000          |
|             | <u>\$ 1,320,463,000</u> | <u>958,397,000</u> |

Long-term debt obligations of the discretely presented organizations have been issued to purchase or construct facilities for University related uses. For additional information regarding long-term debt obligations of the discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

**(8) Long-Term Liabilities Activity**

Long-term liability activity for the year ended June 30, 2004 was as follows:

|   | <b>2004</b>                  |                    |                      |                           |                            |
|---|------------------------------|--------------------|----------------------|---------------------------|----------------------------|
|   | <b>Beginning<br/>balance</b> | <b>Additions</b>   | <b>Reductions</b>    | <b>Ending<br/>balance</b> | <b>Current<br/>portion</b> |
| Accrued compensated absences              | \$ 152,456,000               | 70,765,000         | (69,231,000)         | 153,990,000               | 85,375,000                 |
| Self-insurance claims liability (note 11) | 104,471,000                  | 49,591,000         | (35,351,000)         | 118,711,000               | 33,652,000                 |
| Capitalized lease obligations (note 6)    | 701,811,000                  | 20,775,000         | (46,526,000)         | 676,060,000               | 46,273,000                 |
| Long-term debt obligations (note 7):      |                              |                    |                      |                           |                            |
| Housing System Revenue                    |                              |                    |                      |                           |                            |
| Bonds                                     | 249,647,000                  | —                  | (23,984,000)         | 225,663,000               | 9,042,000                  |
| Student Union Revenue Bonds               | 175,305,000                  | —                  | (46,520,000)         | 128,785,000               | 4,020,000                  |
| Parking Revenue Bonds                     | 25,780,000                   | —                  | (675,000)            | 25,105,000                | 740,000                    |
| Systemwide Revenue Bonds                  | 517,155,000                  | 158,010,000        | (2,545,000)          | 672,620,000               | 5,868,000                  |
| Bond Anticipation Notes                   | 72,161,000                   | 97,363,000         | (82,864,000)         | 86,660,000                | 86,660,000                 |
| Headquarters Building                     |                              |                    |                      |                           |                            |
| Authority Revenue Bonds                   | 28,285,000                   | —                  | (865,000)            | 27,420,000                | 905,000                    |
| Deferred Maintenance Projects             | 24,515,000                   | —                  | (3,000,000)          | 21,515,000                | 3,165,000                  |
| Financing Authority Revenue               |                              |                    |                      |                           |                            |
| Bonds                                     | 96,275,000                   | 10,240,000         | (10,240,000)         | 96,275,000                | —                          |
| Other                                     | 8,009,000                    | 29,919,000         | (1,508,000)          | 36,420,000                | 1,799,000                  |
| Total long-term debt obligations          | <u>1,197,132,000</u>         | <u>295,532,000</u> | <u>(172,201,000)</u> | <u>1,320,463,000</u>      | <u>112,199,000</u>         |
| Total long-term liability                 | <u>\$ 2,155,870,000</u>      | <u>436,663,000</u> | <u>(323,309,000)</u> | <u>2,269,224,000</u>      | <u>277,499,000</u>         |

Long-term liability activity for the discretely presented auxiliary organizations of the University for the year ended June 30, 2004 was as follows:

|                               | <b>2004</b>                  |                    |                      |                           |                            |
|-------------------------------|------------------------------|--------------------|----------------------|---------------------------|----------------------------|
|                               | <b>Beginning<br/>balance</b> | <b>Additions</b>   | <b>Reductions</b>    | <b>Ending<br/>balance</b> | <b>Current<br/>portion</b> |
| Capitalized lease obligations | \$ 3,089,000                 | 7,632,000          | (437,000)            | 10,284,000                | 671,000                    |
| Revenue bonds                 | 524,319,000                  | 11,000             | (53,906,000)         | 470,424,000               | 11,310,000                 |
| Commercial paper              | 27,909,000                   | 420,456,000        | (351,669,000)        | 96,696,000                | 87,131,000                 |
| Other                         | 45,686,000                   | 13,412,000         | (15,181,000)         | 43,917,000                | 5,008,000                  |
| Total long-term liability     | <u>\$ 601,003,000</u>        | <u>441,511,000</u> | <u>(421,193,000)</u> | <u>621,321,000</u>        | <u>104,120,000</u>         |

For additional information regarding the long-term liabilities of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

**(9) Advanced Refundings**

**(a) Current Year Refundings**

In February 2004, the University defeased certain Housing Revenue Series AT, Student Union Revenue Series B, and Student Union Revenue Series C bonds (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2004A refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2004A refunding bonds were used to purchase U.S. Government Securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. The Series AT bonds matured on April 1, 2004. The Series B bonds mature on November 1, 2004, March 1, 2006, and November 1, 2006. The Series C bonds mature on March 1, 2005. This transaction will reduce the University's total debt service payments by \$7,394,000 over the life of the bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from this transaction was \$5,073,000. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the current year refunded bonds outstanding as of June 30, 2004 totaled \$41,760,000.

**(b) Prior Years Refundings**

In prior years, the University defeased certain Student Union Revenue Series B bonds by placing the proceeds from the issuance of Student Union Revenue Series C refunding bonds in an irrevocable trust with the state Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the refunding bonds were used to purchase U.S. Government securities that were placed in the trust fund. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matures. Accordingly, the trust account assets and the liability for the defeased Series B bonds are not included in the University's financial statements. The amount of prior years' defeased bonds outstanding as of June 30, 2004 totaled \$18,190,000.

**(10) Pension Plan and Postretirement Benefits**

**(a) Plan Description**

The University, as an agency of the State of California, contributes to the California Public Employees' Retirement System (CalPERS). The state's plan with CalPERS is an agent multiple-employer defined benefit pension plan. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan which provides a defined benefit pension and postretirement benefit program for substantially all eligible University employees. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death, and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, California 95814.

**(b) Funding Policy**

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 14.8% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

The University's contributions to CalPERS for the most recent three fiscal years were equal to the required contributions and were as follows:

|      |               |
|------|---------------|
| 2002 | \$ 79,708,000 |
| 2003 | 140,640,000   |
| 2004 | 291,032,000   |

**(c) Faculty Early Retirement Program**

During the fiscal year ended June 30, 2004, the University implemented the Faculty Early Retirement Program, which was authorized by Executive Order S-8-04 issued by the Governor on May 6, 2004. In order to enroll in the program, participants must meet the CalPERS retirement eligibility requirements of age 50 or more on the date of retirement and have five years or more of service credit. Eligible employees who elect to participate in this program will receive two additional years of service credit in their retirement income calculation if their 1) separation date is no earlier than May 5, 2004, and no later than July 27, 2004, and 2) CalPERS retirement date is no earlier than May 6, 2004, and no later than July 28, 2004. In return, the University must contribute to CalPERS an amount representing the actuarial equivalent of the value of this benefit. As the early retirement benefit is not dependent upon future services and has already been earned as of June 30, 2004 by those who have elected to participate in the program, the University's estimated liability of \$29,600,000 has been recorded as a component of accrued salaries and benefits payable as of June 30, 2004.

**(11) Self-Insurance Claims Liability**

The University and certain auxiliary organizations have established a public entity risk pool to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The liability included in the accompanying financial statements reflects the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 2004. The liability includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is estimated through an actuarial calculation using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2004.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

Changes in the self-insurance claims liability for the two years ended June 30, 2004 are as follows:

|  |                             |
|--|-----------------------------|
| Liability at June 30, 2002                                   | \$ 102,523,000              |
| Incurred claims and changes in estimates                     | 42,919,000                  |
| Claim payments   | <u>(40,971,000)</u>         |
| Liability at June 30, 2003                                   | 104,471,000                 |
| Incurred claims and changes in estimates                     | 49,591,000                  |
| Claim payments   | <u>(35,351,000)</u>         |
| Liability at June 30, 2004                                   | 118,711,000                 |
| Less current portion   | <u>(33,652,000)</u>         |
| Long-term liability at June 30, 2004, net of current portion | <u><u>\$ 85,059,000</u></u> |

The University maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$45,000,000 per occurrence. The University also maintains excess workers' compensation insurance provided by SELF for individual claims over \$1,000,000 per occurrence. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the System maintains excess policies with SELF, the ultimate responsibility for payment of claims resides with the System.

**(12) Commitments and Contingencies**

**(a) Litigation**

The State of California is a defendant in multiple lawsuits involving University matters not covered by the risk pool discussed in note 11. An accrual has been made for certain liabilities considered probable of assertion. Management of the University is of the opinion that the remaining liability, if any, arising from litigation will not have a material effect on the financial position of the University.

Federal grant programs are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes that it has adhered to the terms of its grants and that any disallowed expenditures resulting from such reviews would not have a material effect on the financial position of the University.

**(b) Construction Commitments**

Authorized expenditures for construction projects unexpended as of June 30, 2004 totaled \$410,842,000. These expenditures will be funded primarily through state appropriations and bond proceeds.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2004

**(13) Classification of Operating Expenses**

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2004, operating expenses by natural classification consisted of the following:

|                                       | 2004                    |                    |   |  |  |                      |
|---------------------------------------|-------------------------|--------------------|---|--|--|----------------------|
|                                       | <u>Salaries</u>         | <u>Benefits</u>    | <u>Scholarships<br/>and<br/>fellowships</u> | <u>Supplies<br/>and other<br/>services</u> | <u>Depreciation<br/>and<br/>amortization</u> | <u>Total</u>         |
| Functional classification:            |                         |                    |   |  |  |                      |
| Instruction                           | \$ 1,212,224,000        | 372,178,000        | —   | 151,387,000                                | —  | 1,735,789,000        |
| Research                              | 6,912,000               | 1,292,000          | —   | 13,701,000                                 | —  | 21,905,000           |
| Public service                        | 22,768,000              | 6,080,000          | —   | 42,761,000                                 | —  | 71,609,000           |
| Academic support                      | 281,948,000             | 87,393,000         | —   | 143,429,000                                | —  | 512,770,000          |
| Student services                      | 238,297,000             | 78,830,000         | —   | 76,010,000                                 | —  | 393,137,000          |
| Institutional support                 | 305,609,000             | 142,066,000        | —   | 207,738,000                                | —  | 655,413,000          |
| Operation and maintenance of<br>plant | 116,552,000             | 47,806,000         | —   | 135,578,000                                | —  | 299,936,000          |
| Student grants and scholarships       | —                       | —                  | 427,342,000                                 | —  | —  | 427,342,000          |
| Auxiliary enterprise expenses         | 49,754,000              | 15,857,000         | —   | 117,024,000                                | —  | 182,635,000          |
| Depreciation and amortization         | —                       | —                  | —   | —  | 255,233,000                                  | 255,233,000          |
| <b>Total</b>                          | <b>\$ 2,234,064,000</b> | <b>751,502,000</b> | <b>427,342,000</b>                          | <b>887,628,000</b>                         | <b>255,233,000</b>                           | <b>4,555,769,000</b> |

**(14) Transactions with Related Entities**

The California State University is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations allocated to the University aggregated approximately \$2.8 billion for the year ended June 30, 2004. State appropriations receivable aggregated \$955,696,000 at June 30, 2004.

**(15) Subsequent Events**

The State of California continues to experience a budget crisis in fiscal year 2005. Subsequent to year-end, the 2005 state budget was passed with a total fiscal impact to the University of \$235 million in General Fund budget reductions and unfunded costs. The \$235 million budget reduction was offset by estimated fee revenue of \$101.5 million for a net fiscal loss of \$133.5 million in the state support budget to the California State University System.

On August 12, 2004, the Channel Islands Financing Authority issued For Sale Housing Construction Bonds, Rental Housing and Town Center Bonds, and Rental Housing and Town Center Bonds (Taxable) in the amount of \$44,500,000, \$50,735,000, and \$4,015,000, respectively. The For Sale Housing Construction Bonds were issued at a discount of \$516,864, bear interest at a rate of 2.5%, and mature on August 1, 2034. The Rental Housing and Town Center Bonds were issued at a discount of \$575,245, bear interest at a rate of 2.5%, and mature on August 1, 2044. The Rental Housing and Town Center Bonds (Taxable) were issued at a discount of \$48,211, bear interest at a rate of 3.79%, and mature on August 1, 2044. The bonds will be used by the California State University, Channel Islands Site Authority to develop For Sale Housing Phase 1C-1E and Rental Housing Phase 1C-1E and Town Center on the Channel Islands Campus.

