



**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Financial Statements and
Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

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KPMG LLP
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355 South Grand Avenue
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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 Systemwide Revenue Bond Program Fund (bond issuances of the California State University) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the California State University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the California State University Systemwide Revenue Bond Program Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements present only the financial position and the changes in financial position and cash flows of the California State University Systemwide Revenue Bond Program Fund and do not purport to, and do not, present fairly the financial position of the California State University as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State University Systemwide Revenue Bond Program Fund as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 5 to the financial statements, the cost of equipment, buildings, and improvements financed by the California State University Systemwide Revenue Bond Program Fund is not capitalized in this fund, as the constructed assets are not owned by the fund and are not pledged as security for the outstanding bonds, resulting in liabilities exceeding assets in the amount of \$2,340,192,110 at June 30, 2009. Certain future revenues are pledged to the retirement of the outstanding bonds.

The California State University has not presented the management's discussion and analysis that U.S. generally accepted accounting principles require to be supplemented, although not to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

December 11, 2009

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Net Assets (Deficit)

June 30, 2009

Assets:

Current assets:

Cash and cash equivalents	\$ 686,517
Short-term investments	702,576,810
Accounts receivable, net of allowance for doubtful accounts of \$4,295,369	17,150,154
Interest receivable	6,904,027
Bond issuance costs	28,006,329
Prepaid expenses	568,227
Other assets	3,050

Total current assets	755,895,114
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Noncurrent assets:

Other long-term investments	368,448,359
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Total assets	1,124,343,473
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Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	67,673,976
Deferred revenue	62,286,347
Due to CSU Trust Fund	10,109,276
Due to CSU Operating Fund	2,845,560
Due to student union	937,671
Due to other CSU Funds	2,220,008
Loan payable to Affordable Student Housing – current portion	65,709
Loans payable – others	883,365
Revenue Bond Anticipation Notes interest payable	12,802
Interest payable	27,925,504
Revenue Bond Anticipation Notes payable	23,344,696
Revenue Bonds payable – current portion	49,556,889
Deposits	4,902,593
Other current liabilities	2,713,353
Arbitrage rebate payable	1,872,887

Total current liabilities	257,350,636
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Noncurrent liabilities:

Loan payable to Affordable Student Housing, net of current portion	2,060,213
Other long term liabilities	22,176
Other postemployment benefits liability	25,796,279
Revenue Bond Anticipation Notes payable, net of current portion	18,047,433
Revenue Bonds payable, net of current portion	3,161,258,846

Total liabilities	3,464,535,583
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Net assets (deficit):

Restricted for:

Building maintenance and repair	38,239,390
Capital projects	330,208,969

Unrestricted	(2,708,640,469)
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Total net deficit	\$ (2,340,192,110)
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See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended June 30, 2009

Operating revenues:	
Residence and dining halls fees	\$ 232,623,317
Continuing education fees	165,162,726
Student union fees	113,001,254
Parking fees	85,257,900
Health facility fees	6,805,000
Auxiliary lease revenue	5,740,000
Recreation center fees	1,501,963
Other operating revenues	10,962,237
Total operating revenues	621,054,397
Operating expenses:	
Salaries, wages, and benefits	199,652,276
Construction	444,874,083
Repair and replacement	32,243,991
Supplies and services	44,049,794
General and administrative	25,103,278
Utilities and communications	24,106,190
Contractual services	25,864,705
Printing	3,003,936
Travel	4,081,227
Equipment	2,362,729
Postage and freight	1,163,299
Information technology	5,718,034
Arbitrage rebate	(451,769)
Other operating costs	24,829,824
Interest on Affordable Student Housing Loan	141,853
Interest on Revenue Bond Anticipation Notes	1,002,626
Interest on bonds payable	132,591,477
Total operating expenses	970,337,553
Operating loss	(349,283,156)
Nonoperating revenues:	
Investment income, net	22,313,923
Other lease income	24,727,771
Total nonoperating revenues	47,041,694
Loss before transfers	(302,241,462)
Transfer to other funds, net	(90,909,125)
Increase in net deficit	(393,150,587)
Net deficit:	
Net deficit – beginning of year	(1,947,041,523)
Net deficit – end of year	\$ (2,340,192,110)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Residence and dining hall fees	\$ 235,963,222
Continuing education fees	166,121,551
Student union fees	114,561,817
Parking fees	84,488,542
Health facility fees	7,143,335
Auxiliary lease revenue	5,841,667
Recreation center fees	1,514,934
Other operating revenues	10,962,237
Salaries, wages, and benefits	(199,652,276)
Construction costs	(420,202,550)
Financial aid	(22,500)
Advertising and promotional publications	(69,434)
Repair and replacement costs	(30,620,531)
Supplies and services	(44,049,794)
General and administrative costs	9,058,463
Utilities and communications	(24,106,190)
Contractual services	(25,864,705)
Printing	(3,003,936)
Travel	(4,081,227)
Library acquisitions	(285,428)
Equipment	(2,362,729)
Postage and freight	(1,163,299)
Information technology	(5,718,034)
Other operating costs	(22,714,172)
Arbitrage expense	(282,100)
Interest paid	(133,013,469)
	<hr/>
Net cash used in operating activities	(281,556,606)
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Cash flows from noncapital financing activities:	
Deposits	535,268
Transfer to other CSU funds, net	(36,378,920)
Transfer to campus student unions	(53,592,534)
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Net cash used in noncapital financing activities	(89,436,186)
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Cash flows from capital and related financing activities:	
Proceeds from issuance of Revenue Bonds and Revenue Bond Anticipation Notes	597,661,047
Bond issuance costs paid from bond proceeds	(3,204,462)
Retirement of indebtedness	(173,287,205)
	<hr/>
Net cash provided by capital and related financing activities	421,169,380
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Cash flows from investing activities:	
Proceeds from the sale and maturities of investments	2,628,304,840
Purchases of investments	(2,727,419,552)
Interest received	48,686,338
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Net cash used in investing activities	(50,428,374)
	<hr/>
Net decrease in cash and cash equivalents	(251,786)
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Cash and cash equivalents at beginning of year	938,303
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Cash and cash equivalents at end of year	\$ 686,517
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**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Cash Flows

Year ended June 30, 2009

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ <u>(349,283,156)</u>
Amortization of bond issuance costs	952,712
Amortization of bond premium/discount	(3,254,038)
Changes in assets and liabilities:	
Accounts receivable	3,702,799
Due from/to other CSU funds	5,439,929
Due from/to other governments	(4,236,992)
Due from/to CSU Operating Fund	2,901,729
Other assets	462,223
Prepaid expenses	(375,157)
Accounts payable and accrued liabilities	33,423,859
Deferred revenue	1,840,109
Due from/to CSU Trust Fund	478,800
Due from/to other appropriations	(1,414,700)
Revenue Bond Anticipation Notes interest payable	4,479
Arbitrage rebate payable	(733,869)
Loans payable – others	276,911
Interest payable	4,492,976
Other liabilities	<u>23,764,780</u>
Total adjustments	<u>67,726,550</u>
Net cash used in operating activities	<u>\$ (281,556,606)</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

(a) Description of the Program

Beginning in May 1980, the Board of Trustees, for the benefit of the California State University Housing System, issued bonds to finance the construction, repair, and maintenance of student housing facilities. The Systemwide Revenue Bond Program Fund (the Program), formerly the Housing Revenue Bond program, was approved by the Board of Trustees in April 2003 concurrent with the issuance of the Systemwide Revenue Bonds, Series 2003A. The Program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the system as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects at campuses within the system. Rather than relying on specific pledged revenues to support specific debt obligations, the Program pools several sources of revenue as the pledge for the related revenue producing projects.

(b) Basis of Presentation

The accompanying financial statements of the Program, which include the Systemwide Revenue Bonds Series J to Y, the Systemwide Revenue Bonds Series 2002A, 2003A, 2004A, 2005A, 2005B, 2005C, 2007A, 2007B, 2007C, 2007D, 2008A, and 2009A (Systemwide), and the Revenue Bond Anticipation Notes, have been prepared under the standards promulgated by the Governmental Accounting Standards Board (GASB) using the accrual basis of accounting and economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The financial statements required by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, include a statement of net assets (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows. The Program is considered a special-purpose government under the provisions of GASB Statement No. 35. The Program records revenue primarily from fees collected from students and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the Program to be reported in a single column in each of the financial statements. In accordance with the business-type activities reporting model, the Program prepares its statement of cash flows using the direct method.

(c) Election of Applicable FASB Statements

The Program has elected to follow standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The Program also has the option of following subsequent private-sector guidance subject to the same limitation. The Program has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

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

The Program 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 (deficit) date. Liabilities that reasonably can be expected, as part of the Program's normal business operations, to be liquidated within 12 months of the statement of net assets (deficit) date are considered to be current. All other assets and liabilities are considered to be noncurrent.

(e) *Bond Issuance Costs*

Bond issuance costs are capitalized and amortized on a straight-line basis over the life of the bonds.

(f) *Deferred Revenue*

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

(g) *Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities consist primarily of amounts owed to third-party vendors for goods purchased and services performed in the construction and operations of the facilities of the pledged programs.

(h) *Net Assets (Deficit)*

The Program's net assets (deficit) are classified into the following net asset categories:

Restricted – Net assets subject to restriction based on the bond indenture document for such requirements such as future maintenance and repair of the constructed facilities, and the capital projects for which the bond was issued.

Unrestricted – All other categories of net assets. In addition, unrestricted net assets may be designated for use by the Program or have legislature 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. The Program's net deficit is a result of the constructed asset costs recorded by the Program as construction expenses, whereas the asset is capitalized by the individual campus.

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

(i) *Statement of Cash Flows*

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

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(j) Revenue Sources

Revenues pledged under the Program include student residence and dining halls fees, continuing education fees, student union fees, parking fees, health facility fees, and auxiliary organization lease revenues derived from the projects designated by the trustees of the California State University (CSU) for inclusion in the Program. These projects are located at all 23 campuses of the CSU system and the Chancellor's Office.

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 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. Student union fees, which are collected at 22 of the 23 campuses of the CSU system, ranged from \$42 to \$408 per student for the year ended June 30, 2009.

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 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 health facilities program provides facilities on campus to provide health services to students. The health facilities program derives its revenues primarily from student fees 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. Health facility fees are charged at 22 of the 23 campuses of the CSU system, 14 of the campuses charged fees of \$6, and at the remaining 8 campuses, fees ranged from \$8 to \$50 during the fiscal year ended June 30, 2009.

**CALIFORNIA STATE UNIVERSITY
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Notes to Financial Statements

June 30, 2009

The continuing education program provides nonstate-supported courses to students. The continuing education 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, 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 organization program provides for certain additional facilities on campus for the benefit of students and staff. The auxiliary organization 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 Bonds are payable solely from continuing education, health facilities, housing, parking and student union, and designated auxiliary net income available for debt service. The Program has pledged future continuing education, health facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,269,398,000 in System Revenue Bonds issued in 1980 through 1984 for old housing bonds and 2002 through 2009 for Systemwide Revenue Bonds. Proceeds from the bonds provided financing for the construction of the continuing education, health facilities, housing, parking, student union, and auxiliary projects. The bonds are payable solely from continuing education, health facilities, housing, parking and student union, and designated auxiliary net income available for debt service and are payable through 2044/2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the Program is \$5,730,812,770. In fiscal year 2009, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the Program were \$172,972,000 and \$199,426,000, respectively.

(k) *Classification of Revenues and Expenses*

The Program considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets (deficit) to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Program'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 No. 35. These nonoperating activities primarily include the Program's net investment income, other lease income, and transfers.

(l) *Transfers to Other Funds, Net*

The Program records transfers to other funds primarily to support the operations of the programs discussed in note 1(j).

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(m) Fiscal Year, Principal, and Interest Payment Dates

The end of the fiscal year of the Program is specified in the bond resolution as June 30. Interest ranging from 2.50% to 6.00% on the bonds is paid semiannually on May 1 and November 1. The principal payments are made on November 1 of each year with the final payment due November 1, 2045.

(n) Use of Estimates

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

(o) 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.

Investments that are used for current operations are classified as short-term investments. Investments that are restricted for withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt, and restricted as to the liquidity of the investments are classified as other long-term investments.

(2) Cash and Investments

The deposits of the Program that are maintained at financial institutions are fully insured or collateralized as required by state law. At June 30, 2009, the Program's cash balance consisted of demand deposits held at financial institutions, at the State Treasury, and petty cash. Cash and cash held at the State Treasury had a carrying value of \$686,517 at June 30, 2009.

At June 30, 2009, the Program's cash and investments are as follows:

Cash (deposits and petty cash)	\$	583,102
Cash held in State Treasury		103,415
State of California Surplus Money		
Investment Fund		505,809,528
California State University Investment Pool		565,215,641
Total cash and investments	\$	1,071,711,686

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(a) Investments

At June 30, 2009, the Program's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool, an internal investment pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

Investment Policy

State law and regulations require that surplus moneys of the Program must be invested. The primary objective of the Program's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Program. The third objective is to return an acceptable yield. The Program's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the Program's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, high-grade corporate and fixed income securities, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of any investment. Generally, the longer the maturity of any investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Program manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Program monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that callable investments will not be called. The weighted average maturity of the Program's investment portfolio for each investment type as of June 30, 2009 is presented in the table on the following page.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the Program's investment portfolio as of June 30, 2009:

Investment type	Fair value	Weighted average maturity (in years)	AAA	Aa	A	BBB	Not rated
Money market	\$ 26,752,913	—	\$ 26,752,913	—	—	—	—
Commercial paper	—	—	—	—	—	—	—
Certificates of deposit	17,474,648	0.27	2,078,547	—	15,396,101	—	—
U.S. agency securities	242,508,764	0.56	75,308,041	—	167,205,723	—	—
U.S. Treasury Securities	13,660,917	0.64	—	—	—	—	13,660,917
Corporate and fixed income securities	248,065,242	1.60	128,788,446	40,946,743	61,352,617	12,823,183	4,154,253
Mortgage-backed securities	16,753,158	10.85	16,753,158	—	—	—	—
State of California Surplus Money Investment Fund	<u>505,809,528</u>	0.64	—	—	—	—	<u>505,809,528</u>
Total	<u>\$ 1,071,025,170</u>		<u>\$ 249,676,105</u>	<u>40,946,743</u>	<u>243,954,441</u>	<u>12,823,183</u>	<u>523,624,698</u>

Concentration of Credit Risk

The Program's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2009, the following investments represented 5% or more of the Program's investment portfolio: Freddie Mac notes (\$91,016,309 or 8.5%) and Fannie Mae notes (\$85,957,690 or 8.0%).

Risks and Uncertainties

The Program may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

The Program invests in securities with contractual cash flows such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies of defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(3) Bonds Payable

Long-term debt obligations of the Program as of June 30, 2009 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds, Housing Series J-Y	3.00%	2012/13 – 2021/22	\$ 21,693,000	9,593,000
Systemwide Revenue Bonds, Series 2002A	4.00% – 5.50%	2012/13 – 2033/34	174,750,000	154,200,000
Systemwide Revenue Bonds, Series 2003A	3.00% – 5.38%	2033/34 – 2035/36	320,040,000	311,220,000
Systemwide Revenue Bonds, Series 2004A	2.50% – 5.25%	2018/19 – 2034/35	158,010,000	139,805,000
Systemwide Revenue Bonds, Series 2005A	3.00% – 5.00%	2013/14 – 2037/38	667,105,000	637,305,000
Systemwide Revenue Bonds, Series 2005B	5.00%	2015/16 – 2021/22	134,805,000	105,975,000
Systemwide Revenue Bonds, Series 2005C	3.25% – 5.25%	2017/18 – 2038/39	540,900,000	525,965,000
Systemwide Revenue Bonds, Series 2007A	4.00% – 5.00%	2024/25 – 2044/45	254,770,000	253,195,000
Systemwide Revenue Bonds, Series 2007B	5.27% – 5.55%	2027/28 – 2037/38	13,165,000	12,905,000
Systemwide Revenue Bonds, Series 2007C	5.00%	2020/21 – 2028/29	63,275,000	61,455,000
Systemwide Revenue Bonds, Series 2007D	4.00% – 5.00%	2037/38	80,360,000	78,795,000
Systemwide Revenue Bonds, Series 2008A	3.50% – 5.00%	2022/23 – 2039/40	375,160,000	374,710,000
Systemwide Revenue Bonds, Series 2009A	2.50% – 6.00%	2015/16 – 2040/41	<u>465,365,000</u>	<u>465,365,000</u>
Total bonds payable			<u>\$ 3,269,398,000</u>	3,130,488,000
Less current portion				<u>(46,415,000)</u>
Bonds payable, net of current portion				<u>\$ 3,084,073,000</u>

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

Bonds payable activity for the year ended June 30, 2009 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Bonds payable	\$ 2,706,828,000	465,365,000	(41,705,000)	3,130,488,000	46,415,000
Discount on bonds	(1,484,193)	(3,983,365)	100,128	(5,367,430)	(191,165)
Premium on bonds	88,330,541	718,790	(3,354,166)	85,695,165	3,333,054
	<u>\$ 2,793,674,348</u>	<u>462,100,425</u>	<u>(44,959,038)</u>	<u>3,210,815,735</u>	<u>49,556,889</u>

Bonds payable at June 30, 2009 mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2010	\$ 46,415,000	154,955,725
2011	52,790,000	150,572,338
2012	63,370,000	148,282,912
2013	71,605,000	145,632,386
2014	77,990,000	142,384,715
2015 – 2019	449,710,000	651,996,039
2020 – 2024	545,348,000	528,398,918
2025 – 2029	617,940,000	383,421,431
2030 – 2034	670,040,000	217,003,343
2035 – 2039	453,885,000	71,245,987
2040 – 2044	77,000,000	6,332,088
2045	4,395,000	98,888
	<u>\$ 3,130,488,000</u>	<u>2,600,324,770</u>

As specified in the bond resolution, the bonds payable at June 30, 2009 are secured by the future revenue streams rather than by the constructed assets. Additionally, the bonds are subject to special mandatory redemption prior to their respective maturity dates, in whole or in part, at a redemption price equal to the principal amount, and accrued interest to the redemption date, plus a premium as specified in the bond resolution.

In April 2003, concurrent with the issuance of the Systemwide Revenue Bonds Series 2003A, the Board of Trustees completed the conversion of the old Housing System Revenue Bonds into the Systemwide Revenue Bond Program. The Systemwide Revenue Bonds are secured by the Program's gross revenues. Also, upon the conversion, excess revenues from campus student union fees were pledged to the Systemwide Revenue Bond Program.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(4) Revenue Bond Anticipation Notes Payable

The CSU Board of Trustees has authorized the issuance of Revenue Bond Anticipation Notes (BANs) to provide short-term financing to the System for certain projects. The BANs are issued to the CSU Institute, an auxiliary organization of the System, to secure the issuance of commercial paper (CP) by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. Interest is variable and changes based upon the cost of the Institute's commercial paper program. The commercial paper interest rate is determined by the commercial paper dealer at each issuance of the commercial paper. The maximum and minimum weighted average interest rates for the year ended June 30, 2009 were 1.71% and 0.34%, respectively.

Short-term financing activity for the year ended June 30, 2009 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Revenue Bond Anticipation Notes \$	37,352,000	136,578,030	(132,537,901)	41,392,129	23,344,696

(5) Buildings, Improvements, Equipment, and Construction in Progress

The original capitalized cost of buildings, improvements, and equipment, during construction and upon completion of construction, is recorded by the CSU. As the constructed assets are not owned by the Program and do not act as security for the Systemwide Revenue Bond Program debt, construction costs are recorded as expenses in the accompanying statement of revenues, expenses, and changes in net assets (deficit).

(6) Affordable Student Housing Loan

At June 30, 2009, the Program had an outstanding loan from the Affordable Student Housing Program bearing interest at rates ranging from 6.33% to 6.80%. The loan is to be repaid over a 40-year period, primarily from future residence and dining hall revenues and interest earned thereon.

Affordable Student Housing Loan activity for the year ended June 30, 2009 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Affordable Student Housing Loan \$	2,187,633	—	(61,711)	2,125,922	65,709

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

Payments on the Affordable Student Housing Loan are scheduled as follows:

	Principal amount
Fiscal years:	
2010	\$ 65,709
2011	69,967
2012	74,502
2013	79,329
2014	84,471
2015 – 2019	511,946
2020 – 2024	700,883
2025 – 2027	539,115
	2,125,922
Less current portion	(65,709)
	\$ 2,060,213

(7) Advanced Refundings

In April 2005, the Program defeased certain Housing Revenue Bond Series AY (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The net proceeds from the Series 2005A 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 matures. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The total amount of refunded bonds outstanding as of June 30, 2009 totaled \$34,360,000.

On October 12, 2005, the Program issued \$540,900,000 in Systemwide Revenue Bonds Series 2005C. Of this amount, \$398,220,000 was to fund new construction projects allowed under the Bond Indenture. The Program issued \$142,680,000 in Systemwide Revenue Bonds Series 2005C refunding certain Housing Revenue Bond Series AZ, and Systemwide Revenue Bonds Series 2003A (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005C refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The net proceeds from the Series 2005C 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 matures. Accordingly, the refunded bonds were considered defeased and have been removed as a liability from the accompanying financial statements. The amount of the defeased bonds outstanding as of June 30, 2009 totaled \$11,385,000.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(8) Other Postemployment Benefits (OPEB)

The Program has adopted GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, relating to Other Postemployment Benefits (OPEB). Under this statement, public employers sponsoring and subsidizing retiree healthcare benefit programs will need to recognize the cost of such benefits on an accrual basis.

(a) Plan Description

The State of California provides retiree healthcare benefits to statewide employees, including employees of the California State University, (the University), through the programs administered by the California Public Employees' Retirement System (CalPERS). The State's substantive plan represents a substantive single-employer defined benefit OPEB Plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The University provides dental benefits to eligible University retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with five years of service credit.

For healthcare benefits, CalPERS offers Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), and Exclusive Provider Organizations (EPOs) (limited to members in certain California counties); for dental benefits, CalPERS offers a Dental Maintenance Organization (DMO) and dental indemnity plans to the University retirees. Health plans offered, covered benefits, monthly rates, and copayments are determined by the CalPERS Board, which reviews health plan contracts annually.

The contribution requirements of retirees and the State are established and may be amended by the State legislature. For healthcare benefits, the State makes a contribution towards the retiree's monthly health premiums, with the retirees covering the difference between the State's contribution and the actual healthcare premium amount. The State contribution is normally established through collective bargaining agreements. No retiree contribution is required for dental benefits.

(b) Funding Policy

For healthcare benefits, responsibility for funding the cost of the employer share of premiums is apportioned between the State and the University based on "billable" and "nonbillable" accounts. Billable accounts have special revenue sources such as fees, licenses, penalties, assessments, and interest, which offset the costs incurred by a State department during the year. The University reimburses the State for retiree's health benefit costs allocated to billable accounts but not for costs allocated to nonbillable accounts. The University is responsible for funding the costs of the billable accounts on a pay-as-you-go basis as part of the statewide general administrative costs charged to the University.

The State is responsible for funding the cost of the employer share of healthcare premiums of retirees for all nonbillable accounts.

The University is responsible for funding the cost of dental benefits for all University retirees. The University makes payments directly to Delta Dental for the retiree's monthly dental premiums. The University is funding these benefits on a pay-as-you-go basis.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

(c) Annual OPEB Cost and Net OPEB Obligation for the Program

The following table shows the components of the total annual required contribution (ARC) for the Program's allocated portion of the postretirement healthcare plan, the amount contributed to the plan by the Program, and changes in the Program's net OPEB obligation (NOO) for the fiscal year ended 2009:

ARC:	
Housing	\$ 7,345,000
Student union	43,000
Parking	2,850,000
Continuing education	8,152,000
Auxiliary organizations	25,000
Total ARC	18,415,000
Contributions:	
Housing	(2,828,000)
Student union	(17,000)
Parking	(1,097,000)
Continuing education	(3,137,000)
Auxiliary organizations	(10,000)
Total contributions	(7,089,000)
Increase in NOO	11,326,000
NOO – beginning of year	14,470,000
NOO – end of year	\$ 25,796,000

(d) Actuarial Methods and Assumptions and Plan Funding Information

As an agency of the State, the CSU and the Program were included in the State's OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controller's Office (SCO) and a portion related to billable accounts is allocated to the University. Since the ARC allocated by the SCO does not provide a breakdown of the ARC for health and dental benefits separately, the ARC for the nonbillable accounts, which related only to dental benefits, was estimated based on the percentage of dental contributions compared to the total OPEB contributions.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2008 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2009 and 8.50% in 2010, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the Program's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended 2009.

(9) Subsequent Events

In September 2009, a \$27.4 million BAN was authorized for the construction of a Recreation and Wellness Center at the East Bay campus. In October 2009, \$16.2 million of commercial paper was issued, leaving an unissued amount of \$11.2 million.

In September 2009, a \$6.9 million BAN was authorized for the acquisition and renovation of the Dobbs Street Apartments at the Los Angeles campus. Commercial paper has not yet been issued for this project.

In September 2009, a \$26.7 million BAN was authorized for the acquisition of Albert's College Apartment at the San Diego campus. In November 2009, \$25.3 million of commercial paper was issued, leaving an unissued amount of \$1.4 million.

In November 2009, a \$49.8 million BAN was authorized for the construction of a Student Recreation Center at the Northridge campus. Commercial paper has not yet been issued for this project.

In November 2009, a \$80.8 million BAN was authorized for the expansion of the Recreation Center at the San Luis Obispo campus. In December 2009, \$9.3 million of commercial paper was issued, leaving an unissued amount of \$71.5 million.

In November 2009, a \$6.0 million BAN was authorized for the construction of a Public Safety Building at the San Marcos campus. Commercial paper has not yet been issued for this project.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Residence and Dining Halls Operating Data by Campus

Year ended June 30, 2009

(Unaudited)

	Operating and other revenue	Operating expenditures	Excess (deficiency) of revenue over (under) expenditures	Design capacity	Operational capacity (1)	Average number of spaces occupied	Percentage of spaces occupied	Average annual rates per academic year (2)						
								Residence halls			Apartments			
								Single	Double	Suite	Single	Double	Suite	
CSU, Bakersfield	\$ 1,762,230	1,682,909	79,321	348	296	297	100%	\$ 3,426	2,866	—	—	—	—	—
CSU, Channel Islands	6,409,186	2,094,174	4,315,012	820	800	777	97	8,000	7,450	—	8,600	—	—	—
CSU, Chico	12,586,614	9,334,310	3,252,304	1,737	1,954	1,865	95	7,286	6,536	—	6,404	6,272	—	—
CSU, Dominguez Hills	2,710,798	2,501,040	209,758	712	580	569	98	—	—	—	7,260	6,210	—	—
CSU, East Bay	6,556,897	2,383,219	4,173,678	1,286	1,286	1,187	92	—	—	—	7,518	5,233	6,282	—
CSU, Fresno	—	—	—	—	—	—	—	—	—	—	—	—	—	—
CSU, Fullerton	5,406,697	1,622,483	3,784,214	832	821	814	99	—	—	—	7,375	5,498	—	—
Humboldt State University	8,740,172	6,492,905	2,247,267	1,594	1,621	1,601	99	5,530	4,467	—	5,655	4,569	—	—
CSU, Long Beach	10,788,711	6,404,105	4,384,606	1,962	1,962	1,944	99	5,920	4,928	—	—	—	—	—
CSU, Los Angeles	4,992,061	2,463,609	2,528,452	1,008	977	872	89	—	—	—	—	5,118	—	—
Maritime	2,089,538	932,468	1,157,070	459	504	486	96	5,030	4,200	—	—	—	—	—
CSU, Northridge	15,503,963	8,536,737	6,967,226	3,019	2,468	2,434	99	8,680	5,119	—	7,578	4,973	—	—
CSPU, Pomona	11,413,262	6,538,923	4,874,339	1,616	1,856	1,708	92	7,908	5,580	—	7,434	6,144	9,054	—
CSU, Sacramento	6,738,718	6,398,463	340,255	1,066	1,044	976	93	6,726	6,356	6,956	—	—	—	—
CSU, San Bernardino	8,614,644	4,134,828	4,479,816	1,553	1,470	1,249	85	5,373	4,311	—	6,606	—	7,281	—
San Diego State University	24,845,663	17,116,450	7,729,213	3,100	2,864	2,480	87	5,688	5,688	9,816	6,688	—	—	—
San Francisco State University (3)	36,349,250	21,678,472	14,670,778	2,425	2,409	2,383	99	—	6,908	—	9,842	8,750	—	—
San Jose State University	21,559,788	14,474,654	7,085,134	3,470	3,566	3,407	96	5,563	5,658	—	10,497	8,580	—	—
CPSU, San Luis Obispo	28,482,714	19,349,153	9,133,561	5,110	5,293	5,241	99	7,836	5,218	—	6,025	—	—	—
Sonoma State University	16,258,296	7,894,707	8,363,589	2,459	2,451	2,303	94	6,914	5,262	—	8,158	6,219	—	—
CSU, Stanislaus	3,993,391	2,327,966	1,665,425	460	475	444	93	6,426	5,036	—	7,054	—	—	—
	<u>235,802,592</u>	<u>144,361,575</u>	<u>91,441,017</u>	<u>35,036</u>	<u>34,697</u>	<u>33,037</u>	<u>95%</u>	<u>\$ 6,420</u>	<u>5,349</u>	<u>8,386</u>	<u>7,513</u>	<u>6,142</u>	<u>7,539</u>	
Systemwide offices	—	(118,029)	118,029											
Interest income	3,987,457	—	3,987,457											
Total	\$ 239,790,049	144,243,545	95,546,504											

(1) This column reflects capacity adjusted for increase or decrease in permanent conversions and temporary adjustments.

(2) This section primarily reflects an average of the more traditional rates to students. Each campus has different rates depending on accommodation, such as super doubles, cluster occupancy, etc.

(3) The operational capacity does not include 902 apartment units available to students, faculty, and staff. The annual rates for the one-bedroom, two-bedroom, or three-bedroom units (not bed-spaces) vary between \$1,275 and \$3,150.

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Insurance Coverage

June 30, 2009

(Unaudited)

<u>Expiration date</u>	<u>Coverage</u>	<u>Amount</u>	<u>Company</u>	<u>Policy number</u>
July 1, 2009*	CSU Master Property Policy, "All Risk" Building, Equipment, and Rental Income	\$ 1,000,000,000 per occurrence	California Public Entity Insurance Program	PPROP0809
July 1, 2009*	CSU Master Property Policy, Boiler and Machinery	100,000,000	Hartford	PBOILER0809
July 1, 2009*	Bodily Injury and Property Damage Liability (Primary)	3,000,000 per occurrence	CSURMA	RMA-SYST-0809-1
July 1, 2009*	Bodily Injury and Property Damage Liability (Excess)	5,000,000	Everest National	71P2040000-081
July 1, 2009*	Bodily Injury and Property Damage Liability (Excess)	10,000,000	SELF Pool	19J1247

* Additional insurance policies are maintained for the period from July 1, 2009 to June 30, 2010. These policies provide the same coverage indicated above.

See accompanying independent auditor's report.

**CALIFORNIA STATE UNIVERSITY
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Income and Expenses Pledged Against Systemwide Revenue Bonds

Year ended June 30, 2009

(Unaudited)

Gross revenues (1):		
Housing system	\$	239,780,749
Student unions (2)		116,262,622
Parking (3)		87,731,985
Health centers (2)		7,583,375
Continuing education		172,414,922
Auxiliary (4)		414,443,016
Related governmental entities (5)		12,011,771
Total gross revenues	\$	<u>1,050,228,440</u>
Debt service:		
Auxiliary – other (6)	\$	11,217,398
Systemwide Revenue Bonds (7)		139,817,637
Total debt service	\$	<u>151,035,035</u>
Operating expenditures (8) (10):		
Housing system	\$	163,421,315
Student unions		54,530,405
Parking		55,495,237
Health centers (9)		5,573,552
Continuing education		157,339,013
Auxiliary (4)		373,930,210
Related governmental entities		—
Total operating expenditures	\$	<u>810,289,732</u>

- (1) Includes interest income.
- (2) Gross Revenues shown here are derived solely from certain mandatory student fees – not revenues derived from operations of student unions or student health centers.
- (3) Excludes fines and forfeitures collected separately from parking fees.
- (4) Revenues and expenditures shown are for those auxiliary organizations that have financed with Systemwide Revenue Bonds through a lease or loan and exclude research grant and contract activity and restricted gifts. Gross Revenues pledged under the Bond Indenture are a smaller amount derived from payments under certain leases or loans with the Board.
- (5) Includes revenues derived from leases with California State University, Channel Islands Site Authority, and the Headquarters Building Authority, which are used solely to pay debt service on Systemwide Revenue Bonds therefore, operating expenditures are not applicable.
- (6) Since June 30, 2004, certain auxiliary organizations have participated in financing and refinancing facilities through the Systemwide Revenue Bond program. Debt service noted includes outstanding auxiliary organization debt that is not part of the Systemwide Revenue Bond program.
- (7) Debt service shown excludes interest, which has been funded from bond proceeds.
- (8) Operating expenditures also include extraordinary maintenance and repair projects, and other postemployment benefit liability, which are generally paid from existing program fund balances.
- (9) Operating expenditures shown here are only such expenditures that are paid from certain mandatory student fees shown under total gross revenue.
- (10) GASB Statement No. 45, which requires the accrual of costs related to other postemployment benefits were included in operating expenses in the cumulative amount of \$25,796,279 for the fiscal year ended June 30, 2009.

See accompanying independent auditors' report.