



CALIFORNIA STATE UNIVERSITY

Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

Financial Statements

June 30, 2005

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KPMG LLP
Suite 700
600 Anton Boulevard
Costa Mesa, CA 92626-7651

Independent Auditors' Report

The Board of Trustees
California State University:

We have audited the accompanying financial statements of the business-type activities of the California State University (the University) (a department of the State of California) and its aggregate discretely presented component units as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements 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 82 of the 87 aggregate discretely presented component units, which statements reflect total assets constituting 95% and total revenues constituting 97% of the aggregate discretely presented totals. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the 82 discretely presented component units, are 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 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 University's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 respective financial position of the business-type activities of the University and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows 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 23, 2005 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 16 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 23, 2005

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2005

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, 2005 in its entirety, including 23 campuses, the Chancellor's Office, and 87 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, 2005 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosure*. 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, 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, as the GASB Statement No. 35 reporting model requires classification of state appropriations, a significant revenue stream to fund current operations, as nonoperating revenue.

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Management's Discussion and Analysis (Unaudited)

June 30, 2005

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.

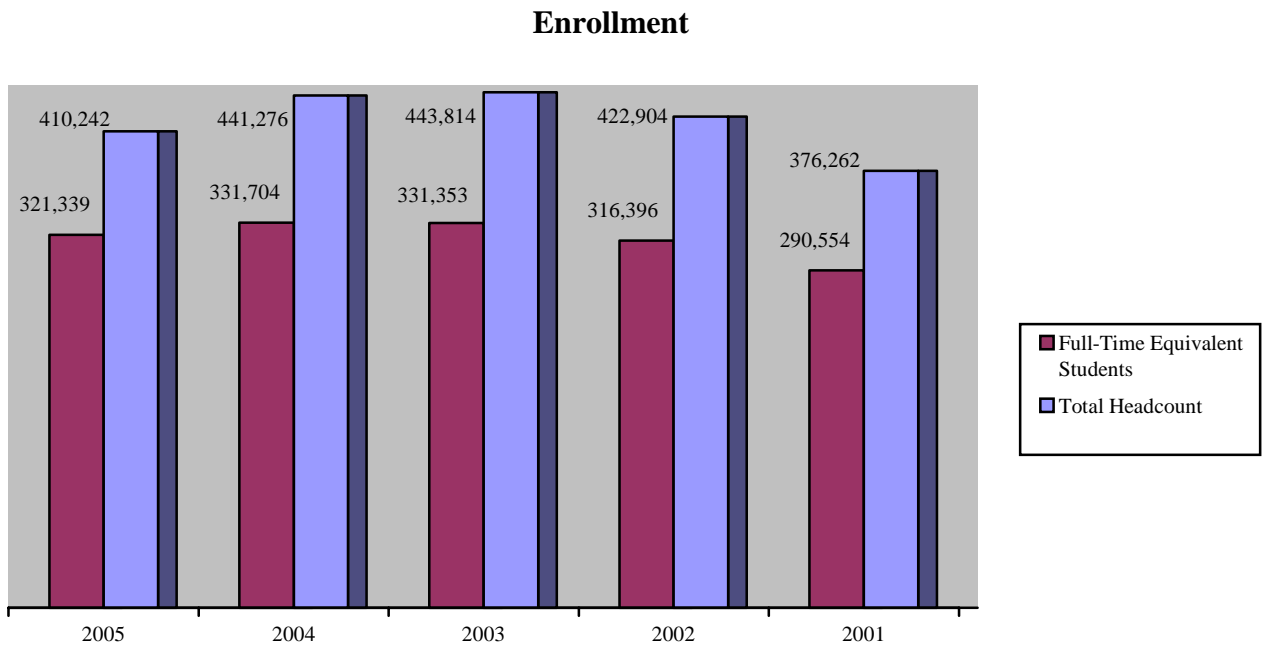
Financial Highlights

Due to the reduction in state funding, the University's general fund support was reduced by a total of \$258.7 million in unfunded costs and reductions in 2005. These included \$201.2 million in net unallocated budget reductions and a \$57.5 million unfunded costs for the University's funding requirements to pay mandatory cost increases for new space, health benefits, and insurance premiums. These budget reductions were partly offset by an increase in student fees, specifically 14% for undergraduate students, 20% for teacher credential students, and a 25% graduate student fee increase in the fall term of 2004. In April 2005, the University's general fund state appropriations were increased by the state in the amount of \$44.4 million to fund increased employer-paid contributions to the California Public Employees' Retirement System (CalPERS) retirement plan.

Due to the reduction in state funding, headcount enrollment decreased from 441,276 in fiscal year 2004 to 410,242 in fiscal year 2005, as shown in the following chart. At the same time, Full-Time Equivalent Students decreased from 331,704 in 2004 to 321,339 in 2005.

CALIFORNIA STATE UNIVERSITY
Management's Discussion and Analysis (Unaudited)
June 30, 2005

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 years 2005 and 2004 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, 2005

I. Schedule of Net Assets

Condensed Schedule of Net Assets

June 30, 2005 and 2004

(In thousands)

	University		Auxiliary organizations	
	2005	2004	2005	2004
Current assets	\$ 2,219,268	1,949,603	745,950	796,006
Capital assets, net	4,700,633	4,262,215	679,067	624,386
Other noncurrent assets	1,112,441	875,502	1,158,108	927,596
Total assets	8,032,342	7,087,320	2,583,125	2,347,988
Current liabilities	930,759	965,249	282,348	341,089
Noncurrent liabilities	2,758,578	2,126,345	824,737	651,739
Total liabilities	3,689,337	3,091,594	1,107,085	992,828
Net assets:				
Invested in capital assets, net of related debt	2,731,668	2,601,421	97,859	171,796
Restricted:				
Nonexpendable	23,887	22,574	528,132	468,586
Expendable	794,707	693,695	527,254	398,340
Unrestricted	792,743	678,036	322,795	316,438
Total net assets	\$ 4,343,005	3,995,726	1,476,040	1,355,160

The 2004 column for the auxiliary organizations in the table above has not been revised for the net restatement of the June 30, 2004 net assets, in the amount of \$11,915.

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, leases receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets totaling \$3.3 billion and \$2.8 billion at June 30, 2005 and 2004, respectively. The net increase of \$507 million in current and other noncurrent assets is attributable to an increase of \$251 million in cash and investments, an increase of \$247 million in accounts receivable, and an increase of \$9 million in prepaid and other assets.

The increase in cash and investments can be attributed to the issuance of the 2005A Systemwide Revenue Bonds and the Channel Islands Financing Authority Revenue Bonds, Series 2004A and B in the current year. The increase in accounts receivable consists primarily of additional unspent capital appropriations and new lease receivables as a result of leases with auxiliaries.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2005

Capital Assets

The University's capital assets, net of accumulated depreciation as of June 30, 2005 and 2004 amounted to \$4.7 billion and \$4.3 billion, respectively. Major capital asset additions during 2005 include the following projects:

- Purchase of the \$143 million San Francisco Stonestown.
- Completion of the \$38 million Monterey Bay North Quad Student Housing Project.
- Completion of the \$34 million Long Beach Peterson Hall Addition.
- Construction in progress on the \$215 million San Jose Campus Village Phase I Housing Project.
- Construction in progress on the \$50 million Stanislaus Science II Seismic Project.
- Construction in progress on the \$45 million Channel Islands Broome Library (Phase I).
- Construction in progress on the \$45 million Fullerton Auditorium/Fine Arts Complex.
- Construction in progress on the \$43 million Los Angeles Science Building, Wing A.
- Construction in progress on the \$41 million San Luis Obispo Engineering IV Building.
- Construction in progress on the \$36 million Sacramento Parking Structure III.
- Construction in progress on the \$32 million Pomona Parking Structure I.
- Construction in progress on the \$32 million San Diego Social Science Building.
- Construction in progress on the \$32 million Hayward Pioneer Heights Phase II Housing Project.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2005

The University's capital assets, net of accumulated depreciation, as of June 30, 2005 and 2004 are comprised of the following:

Capital Assets

June 30, 2005 and 2004

(At historical cost, net of accumulated depreciation)

(In thousands)

	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 221,276	182,074
Buildings and building improvements	3,046,554	2,843,551
Infrastructure	354,118	298,471
Improvements other than buildings	52,385	58,094
Equipment	135,510	139,305
Library books and materials	58,979	60,766
Works of art and historical treasures	19,393	18,748
Intangible assets	53,351	69,265
Construction work in progress	759,067	591,941
Total	<u>\$ 4,700,633</u>	<u>4,262,215</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. Current and noncurrent liabilities for the University increased \$597.7 million in 2005. The major contributing factors to the increase were the issuance of the 2005A Systemwide Revenue Bonds and the 2004A and B Channel Island Financing Authority Revenue Bonds, offset by paydowns in bond anticipation notes and capital lease obligations and the payment of the prior year's faculty early retirement obligation.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2005

Long-Term Debt

As of June 30, 2005 and 2004, the University's outstanding long-term debt obligations totaled \$2 billion and \$1.3 billion, respectively, and are summarized as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Systemwide Revenue Bonds	\$ 1,334,025	672,620
Housing System Revenue Bonds	176,198	225,663
Student Union Revenue Bonds	94,665	128,785
Headquarters Building Authority Revenue Bonds	26,515	27,420
Deferred Maintenance Projects	18,350	21,515
Parking Revenue Bonds	24,365	25,105
Financing Authority Revenue Bonds	195,525	96,275
Bond Anticipation Notes	38,695	86,660
Other	60,149	36,420
	<u>1,968,487</u>	<u>1,320,463</u>
Total		
Unamortized bond premium	19,883	—
Unamortized loss on refunding	(1,308)	—
	<u>1,987,062</u>	<u>1,320,463</u>
Total long-term debt		
Less current portion	(91,190)	(112,199)
	<u>1,895,872</u>	<u>1,208,264</u>
Long-term debt, net of current portion		

The University's total debt increased (net of repayments) nearly \$667 million in 2005. The major factors accounting for this increase were the issuance of Systemwide Revenue Bonds, Series 2005A and Channel Islands Financing Authority Revenue Bonds, Series 2004A and B. The 2005A bond proceeds were used to fund the construction of new campus facilities and related site development and also refunded certain senior bonds and auxiliary organization revenue bonds. The 2004A and B bond proceeds were used to fund the construction of residential and commercial structures at the Channel Islands campus.

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

Capitalized lease obligations for the University and auxiliary organizations increased \$57.7 million during the year, consisting of an increase in auxiliary lease obligations of \$103.4 million, offset by \$45.7 million of combined scheduled repayments. The majority of the \$103.4 million increase in auxiliary lease obligations is due to the refunding of auxiliary-issued bonds by University-issued Systemwide Revenue Bonds. The result of such refunding is that the auxiliary reports a capital lease obligation to the University instead of a long-term debt (bond) obligation.

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 \$534 million and \$437 million at June 30, 2005 and 2004, respectively.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2005

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2005. Repayment of specific programmatic revenue bonds is legally limited to the sources of revenue from operations of the projects including specific mandatory fees pledged to the revenue bond program. For the Systemwide Revenue Bonds, revenues pledged generally include student housing fees, parking fees, student union fees, health center facilities fees, and continuing education fees as well as other revenues designated by the Board of Trustees for inclusion in the Systemwide Revenue Bonds program. 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 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. Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at A1, and the Student Unions at A2 (however, all these bonds are insured to Aaa). In March 2005, Standard & Poor's Rating Service revised its intrinsic rating to A for the Systemwide Revenue Bonds, with a "stable outlook", and the Student Unions remain at BBB+ (however, all 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 over \$4.3 billion at June 30, 2005.

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, shown in the pie chart on the following page. The University experienced a net increase in this net asset category of \$130.2 million in the current year. The primary reasons for the increase are due to campus expansions and the pay down of outstanding debt.

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 service funds. The University's restricted expendable net assets increased by \$101 million in fiscal year 2005 and consist largely of the unspent capital projects appropriations.

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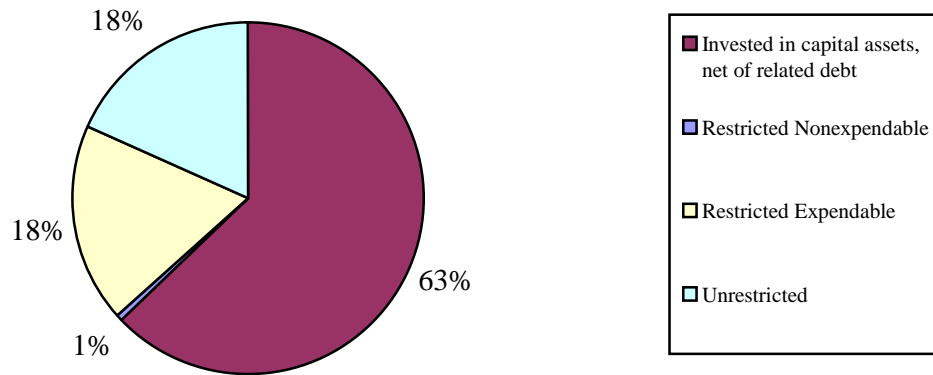
Management's Discussion and Analysis (Unaudited)

June 30, 2005

The "Unrestricted" net asset category represents all other net resources available to the University for general and educational obligations. This category increased by \$114.7 million from June 30, 2004. The increase is a combination of cutbacks in various operating expenses, and an increase in the tuition, fees, and other revenues.

University Net Assets

June 30, 2005



Total net assets: \$4,343,005,000

Overall, the University's net assets increased by \$347.3 million in the current fiscal year, as reflected on the following page.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2005

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

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

Years ended June 30, 2005 and 2004

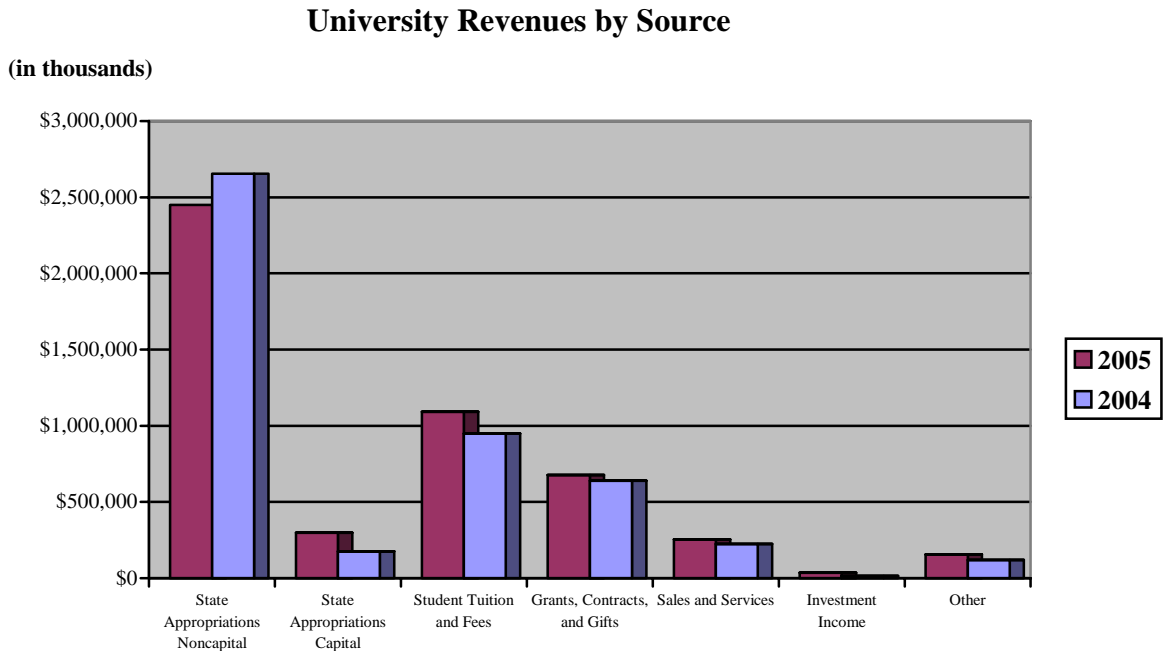
(In thousands)

	University		Auxiliary Organizations	
	2005	2004	2005	2004
Operating revenues:				
Student tuition and fees, net	\$ 1,090,596	949,494	96,459	94,073
Grants and contracts, noncapital	617,711	593,694	466,224	461,441
Sales and services of educational activities	35,248	39,920	36,759	30,664
Sales and services of auxiliary enterprises, net	218,490	183,031	442,250	436,862
Other operating revenues	31,324	35,478	89,360	83,715
Total operating revenues	1,993,369	1,801,617	1,131,052	1,106,755
Operating expenses	4,519,389	4,555,769	1,238,689	1,203,808
Operating loss	(2,526,020)	(2,754,152)	(107,637)	(97,053)
Nonoperating revenues, net:				
State appropriations, noncapital	2,448,455	2,654,769	—	—
Gifts, noncapital	26,172	19,814	129,915	163,370
Investment income, net	34,175	13,679	43,706	44,121
Endowment income	657	421	41,740	51,294
Interest on capital-related debt	(89,284)	(86,679)	(25,408)	(17,754)
Other nonoperating revenues (expenses)	122,532	82,592	(8,361)	(3,588)
Net nonoperating revenues	2,542,707	2,684,596	181,592	237,443
State appropriations, capital	297,507	175,423	—	—
Grants and gifts, capital	32,480	25,012	15,163	14,928
Additions to permanent endowments	605	740	43,677	20,013
Increase in net assets	347,279	131,619	132,795	175,331
Net assets – beginning of year, as previously reported	3,995,726	3,864,107	1,355,160	1,167,489
Restatements	—	—	(11,915)	12,340
Net assets – beginning of year, as restated	3,995,726	3,864,107	1,343,245	1,179,829
Net assets – end of year	\$ 4,343,005	3,995,726	1,476,040	1,355,160

CALIFORNIA STATE UNIVERSITY
 Management's Discussion and Analysis (Unaudited)
 June 30, 2005

Revenues (Operating and Nonoperating)

The following graph displays the components of the University's revenues for fiscal years 2005 and 2004:



The largest component of revenues continues to be state appropriations, which accounted for over 55% of the University's revenues. State appropriations are received for both operating and capital purposes. The University experienced a 3% net decrease in these appropriations over the prior year. While noncapital appropriations decreased by approximately \$206 million due to the State budget cuts and enrollment shortfall, capital appropriations increased by \$122 million. The increase resulted from funding for numerous campus construction projects.

Student tuition and fees are up by \$141 million, or nearly 15%, from fiscal year 2004 due to an increase in the student fees.

A significant portion of the University's contracts and grants is managed through its auxiliary organizations. Of the total reporting entity's operating contracts and grants revenue (nearly \$1.1 billion), 43% is managed by these related organizations. Operating contracts and grants revenue for the total reporting entity has increased 2.7% in fiscal year 2005.

Total gift income for the University and the auxiliary organizations (which includes operating and capital gifts, as well as additions to permanent endowments) reached \$248 million, or 3.9% of the reporting entity's total revenues in the current year, and is consistent with \$243.9 million, or 4% of the reporting entity's total revenues in fiscal year 2004. Gifts are used to support a variety of projects, including capital improvements, scholarships, and endowments for various academic and research programs.

CALIFORNIA STATE UNIVERSITY

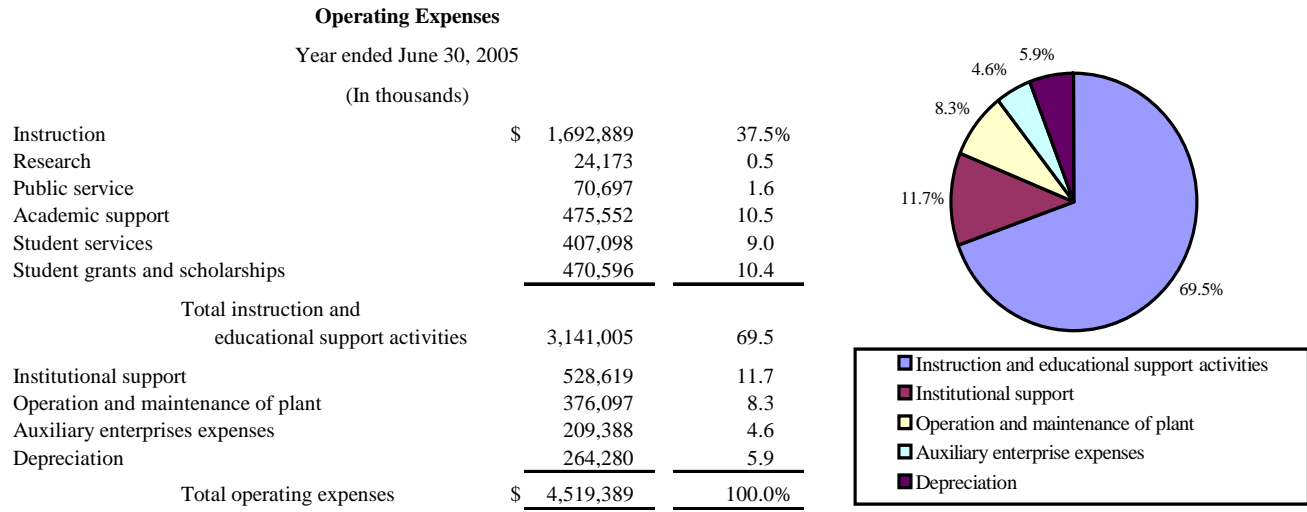
Management's Discussion and Analysis (Unaudited)

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Sales and services of educational activities and sales and services of auxiliary enterprises, net for the University are reported at \$253.7 million, a jump of \$30.8 million or 13.8% from fiscal year 2004. The increase in student housing rates and parking fees, coupled with higher housing occupancy boosted auxiliary enterprises sales.

Operating Expenses

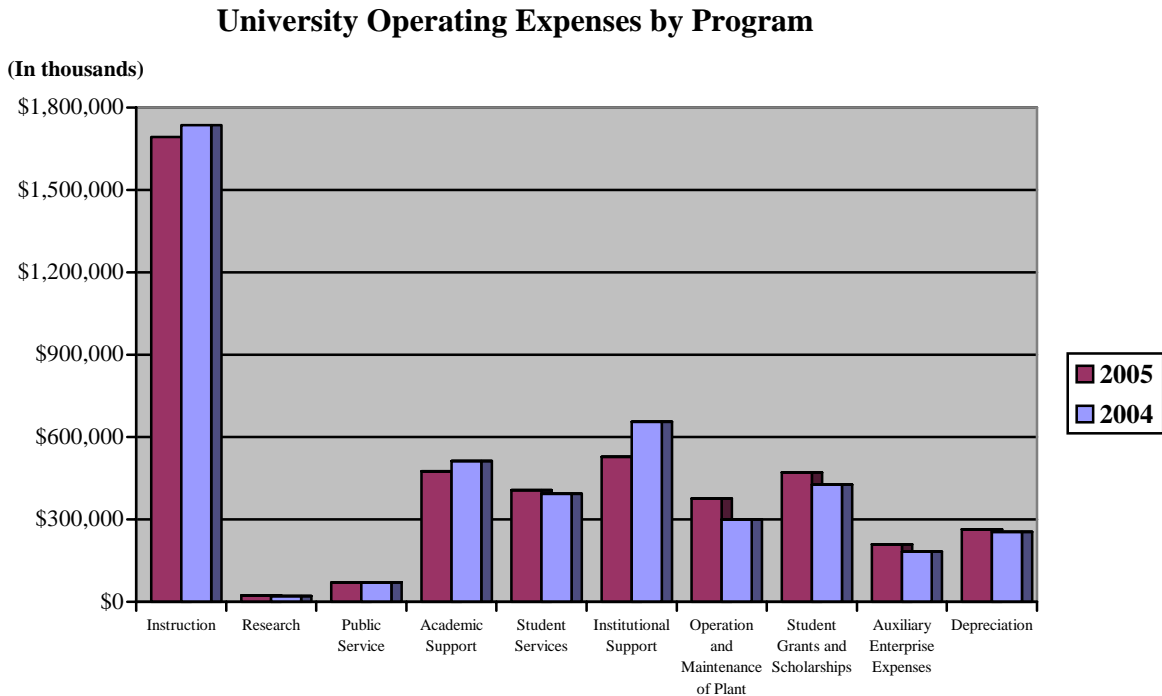
Nearly 38% of the University's total operating expenses directly supports the primary function of the University: instruction. These direct expenses include only faculty and instructional support staff salaries, benefits, and their direct expenses. When the mission-critical educational support activities of student services, academic support, grants and scholarships, public service, and research are added to direct classroom instruction, total instruction and educational support activities account for just short of 70% of the total operating expenses of the University as shown below:



Total operating expenses for the University, excluding auxiliaries, decreased by \$36 million in the current year from the impact of the state budget reductions. Instruction and academic support decreased by \$43 million and \$37 million, respectively, mainly due to budget reductions. Institutional support decreased by \$127 million due to the combination of budget reductions and classification changes of some expenses such as public safety and logistical services to operation and maintenance of plant based on the new definitions by NACUBO (National Association of College and University Business Officers). These decreases were partly offset by increases in other categories. 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 by \$43 million. Operation and maintenance of plant increased by \$76 million mainly due to inclusion of some expenses such as public safety and logistical services that had been reported as institutional support in the past. Student services increased by \$14 million due to employee benefit increases and reclassification of some expenses to a more appropriate category. Auxiliary enterprise expense increased by \$27 million as more costs were incurred in line with increases in revenue for auxiliary enterprise operation. Depreciation increased by \$9 million because more new depreciable assets were added than fully depreciated assets were retired for accounting purposes.

CALIFORNIA STATE UNIVERSITY
Management's Discussion and Analysis (Unaudited)
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The following graph displays the University's operating expenses by program for fiscal years 2005 and 2004:



Economic Factors

In accordance with the terms of a six-year higher education financing compact agreement between the governor and California State University, the University's general fund support was increased by a total of \$133.9 million or 5.4% in 2006. This included state support to fund the University's requirements to pay mandatory cost increases for new space, health benefits, and insurance premiums as well as 2.5% enrollment growth. The state general fund increase was supplemented by a \$101.3 million increase in estimated fee revenue, which resulted from an 8% undergraduate and 10% graduate fee increase beginning the fall term of 2005.

The Higher Education Compact, which was reached on May 11, 2004, proposes to fund 2.5% annual enrollment growth through fiscal year 2011. The compact, which took effect in fiscal year 2006, provides for increases in funding for the California State University for each year through 2011.

The University issued Systemwide Revenue Bonds Series 2005B in the amount of \$135 million in August 2005. The proceeds were used to refinance debt that was incurred to construct campus facilities. Also, Series 2005C was issued in October 2005 in the amount of \$541 million. The proceeds are to be used to fund construction of campus facilities and to refinance debt that was incurred to construct campus facilities.

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Management's Discussion and Analysis (Unaudited)
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Another factor impacting the University is the passage of proposition 55, a statewide bond package to repair, upgrade, modernize, and build new facilities and schools. Proposition 55, which was passed in March 2004, authorized the sale of statewide general obligation bonds in the amount of \$12.3 billion, of which \$690 million is earmarked for the California State University.

CALIFORNIA STATE UNIVERSITY

Statement of Net Assets

June 30, 2005

Assets	University	Discretely presented component units Auxiliary organizations	Total
Current assets:			
Cash and cash equivalents	\$ 269,912,000	138,208,000	408,120,000
Short-term investments	1,437,094,000	315,615,000	1,752,709,000
Accounts receivable, net	440,128,000	207,103,000	647,231,000
Leases receivable, current portion	423,000	4,052,000	4,475,000
Pledges receivable, net	25,000	37,063,000	37,088,000
Prepaid expenses and other assets	71,686,000	43,909,000	115,595,000
Total current assets	<u>2,219,268,000</u>	<u>745,950,000</u>	<u>2,965,218,000</u>
Noncurrent assets:			
Restricted cash and cash equivalents	19,316,000	144,102,000	163,418,000
Accounts receivable, net	769,110,000	26,133,000	795,243,000
Leases receivable, net of current portion	180,552,000	40,557,000	221,109,000
Student loans receivable, net	109,573,000	1,106,000	110,679,000
Pledges receivable, net	67,000	63,558,000	63,625,000
Endowment investments	21,359,000	529,429,000	550,788,000
Other long-term investments	2,412,000	272,029,000	274,441,000
Capital assets, net	4,700,633,000	679,067,000	5,379,700,000
Other assets	10,052,000	81,194,000	91,246,000
Total noncurrent assets	<u>5,813,074,000</u>	<u>1,837,175,000</u>	<u>7,650,249,000</u>
Total assets	<u>8,032,342,000</u>	<u>2,583,125,000</u>	<u>10,615,467,000</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	198,933,000	78,889,000	277,822,000
Accrued salaries and benefits payable	204,426,000	21,864,000	226,290,000
Accrued compensated absences – current portion	85,400,000	12,739,000	98,139,000
Deferred revenue	203,449,000	55,357,000	258,806,000
Capitalized lease obligations – current portion	45,155,000	666,000	45,821,000
Long-term debt obligations – current portion	91,190,000	54,721,000	145,911,000
Self-insurance claims liability – current portion	39,633,000	—	39,633,000
Other liabilities	62,573,000	58,112,000	120,685,000
Total current liabilities	<u>930,759,000</u>	<u>282,348,000</u>	<u>1,213,107,000</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	69,979,000	3,980,000	73,959,000
Deferred revenue	3,790,000	20,506,000	24,296,000
Grants refundable	104,753,000	2,554,000	107,307,000
Capitalized lease obligations, net of current portion	585,200,000	154,108,000	739,308,000
Long-term debt obligations, net of current portion	1,895,872,000	510,555,000	2,406,427,000
Self-insurance claims liability, net of current portion	78,006,000	2,273,000	80,279,000
Depository accounts	17,635,000	57,176,000	74,811,000
Other liabilities	3,343,000	73,585,000	76,928,000
Total noncurrent liabilities	<u>2,758,578,000</u>	<u>824,737,000</u>	<u>3,583,315,000</u>
Total liabilities	<u>3,689,337,000</u>	<u>1,107,085,000</u>	<u>4,796,422,000</u>
Net assets:			
Invested in capital assets, net of related debt	2,731,668,000	97,859,000	2,829,527,000
Restricted for:			
Nonexpendable – endowments	23,887,000	528,132,000	552,019,000
Expendable:			
Scholarships and fellowships	12,676,000	81,455,000	94,131,000
Research	1,376,000	4,408,000	5,784,000
Loans	24,078,000	2,400,000	26,478,000
Capital projects	721,162,000	85,055,000	806,217,000
Debt service	31,963,000	96,071,000	128,034,000
Other	3,452,000	257,865,000	261,317,000
Unrestricted	792,743,000	322,795,000	1,115,538,000
Total net assets	<u>\$ 4,343,005,000</u>	<u>1,476,040,000</u>	<u>5,819,045,000</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2005

	<u>University</u>	<u>Discretely presented component units Auxiliary organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$294,314,000)	\$ 1,090,596,000	96,459,000	(209,000)	1,186,846,000
Grants and contracts, noncapital:				
Federal	411,994,000	289,949,000	—	701,943,000
State and local	183,452,000	111,055,000	—	294,507,000
Nongovernmental	22,265,000	65,220,000	—	87,485,000
Sales and services of educational activities	35,248,000	36,759,000	—	72,007,000
Sales and services of auxiliary enterprises (net of scholarship allowances of \$16,838,000)	218,490,000	442,250,000	(6,674,000)	654,066,000
Other operating revenues	31,324,000	89,360,000	(166,000)	120,518,000
Total operating revenues	<u>1,993,369,000</u>	<u>1,131,052,000</u>	<u>(7,049,000)</u>	<u>3,117,372,000</u>
Expenses:				
Operating expenses:				
Instruction	1,692,889,000	127,224,000	(4,565,000)	1,815,548,000
Research	24,173,000	198,422,000	(571,000)	222,024,000
Public service	70,697,000	155,412,000	(2,183,000)	223,926,000
Academic support	475,552,000	46,424,000	(372,000)	521,604,000
Student services	407,098,000	98,794,000	(7,520,000)	498,372,000
Institutional support	528,619,000	86,782,000	(2,399,000)	613,002,000
Operation and maintenance of plant	376,097,000	20,154,000	(1,591,000)	394,660,000
Student grants and scholarships	470,596,000	22,374,000	(2,868,000)	490,102,000
Auxiliary enterprise expenses	209,388,000	444,865,000	(1,135,000)	653,118,000
Depreciation	264,280,000	38,238,000	—	302,518,000
Total operating expenses	<u>4,519,389,000</u>	<u>1,238,689,000</u>	<u>(23,204,000)</u>	<u>5,734,874,000</u>
Operating loss	<u>(2,526,020,000)</u>	<u>(107,637,000)</u>	<u>16,155,000</u>	<u>(2,617,502,000)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	2,448,455,000	—	—	2,448,455,000
Gifts, noncapital	26,172,000	129,915,000	(7,944,000)	148,143,000
Investment income, net	34,175,000	43,706,000	—	77,881,000
Endowment income	657,000	41,740,000	—	42,397,000
Interest on capital-related debt	(89,284,000)	(25,408,000)	—	(114,692,000)
Other nonoperating revenues (expenses)	122,532,000	(8,361,000)	(2,755,000)	111,416,000
Net nonoperating revenues	<u>2,542,707,000</u>	<u>181,592,000</u>	<u>(10,699,000)</u>	<u>2,713,600,000</u>
Income before other revenues and expenses	16,687,000	73,955,000	5,456,000	96,098,000
State appropriations, capital	297,507,000	—	—	297,507,000
Grants and gifts, capital	32,480,000	15,163,000	(4,655,000)	42,988,000
Additions to permanent endowments	605,000	43,677,000	(16,286,000)	27,996,000
Increase in net assets	<u>347,279,000</u>	<u>132,795,000</u>	<u>(15,485,000)</u>	<u>464,589,000</u>
Net assets:				
Net assets at beginning of year, as restated	<u>3,995,726,000</u>	<u>1,343,245,000</u>	<u>15,485,000</u>	<u>5,354,456,000</u>
Net assets at end of year	<u>\$ 4,343,005,000</u>	<u>1,476,040,000</u>	<u>—</u>	<u>5,819,045,000</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2005

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 1,092,971,000
Federal grants and contracts	412,524,000
State and local grants and contracts	189,630,000
Nongovernmental grants and contracts	22,217,000
Payments to suppliers	(920,033,000)
Payments to employees	(2,896,658,000)
Payments to students	(486,338,000)
Collections of student loans	12,553,000
Sales and services of auxiliary enterprises	215,535,000
Sales and services of educational activities	39,883,000
Other receipts	20,585,000
	<hr/>
Net cash used in operating activities	(2,297,131,000)
Cash flows from noncapital financing activities:	
State appropriations	2,457,627,000
Gifts and grants received for other than capital purposes	19,882,000
Federal loan program receipts	589,205,000
Federal loan program disbursements	(586,294,000)
Monies received on behalf of others	109,319,000
Monies disbursed on behalf of others	(105,973,000)
Other noncapital financing activities	198,896,000
	<hr/>
Net cash provided by noncapital financing activities	2,682,662,000
Cash flows from capital and related financing activities:	
Proceeds from capital debt	923,653,000
State appropriations	213,076,000
Capital grants and gifts	6,195,000
Proceeds from sale of capital assets	24,000
Acquisition of capital assets	(695,946,000)
Transfers to escrow agent	(197,843,000)
Principal paid on capital debt and leases	(325,532,000)
Interest paid on capital debt and leases	(89,411,000)
Principal payments received on capital leases	1,411,000
Interest payments received on capital leases	375,000
	<hr/>
Net cash used in capital and related financing activities	(163,998,000)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	1,977,899,000
Purchases of investments	(2,209,912,000)
Investment income proceeds	33,648,000
	<hr/>
Net cash used in investing activities	(198,365,000)
Net increase in cash and cash equivalents	23,168,000
Cash and cash equivalents at beginning of year	266,060,000
Cash and cash equivalents at end of year	\$ 289,228,000
	<hr/>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 269,912,000
Restricted cash and investments	19,316,000
	<hr/>
Total cash and cash equivalents at end of year	\$ 289,228,000
	<hr/>

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2005

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (2,526,020,000)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	264,280,000
Change in assets and liabilities:	
Accounts receivable, net	(50,915,000)
Student loans receivable, net	665,000
Prepaid expenses and other assets	(13,854,000)
Accounts payable	32,260,000
Accrued salaries and benefits	(22,446,000)
Accrued compensated absences	942,000
Deferred revenue	7,925,000
Self-insurance claims liability	(1,072,000)
Depository accounts	4,403,000
Other liabilities	6,701,000
Net cash used in operating activities	<u>\$ (2,297,131,000)</u>
Supplemental schedule of noncash transactions:	
Contributed capital	\$ 31,692,000
Acquisition of capital assets through capital lease	4,339,000
Acquisition of capital assets through long-term debt obligation	2,087,000
Accrued capital assets purchases	29,915,000
Gifts in-kind	5,709,000
Operating expenses paid through long-term debt obligation	1,800,000
Prepaid expenses paid through long-term debt obligation	750,000

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(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, 2005:

- California State University, Bakersfield
- California State University, Channel Islands
- California State University, Chico
- California State University, Dominguez Hills
- California State University, East Bay
- California State University, Fresno
- California State University, Fullerton
- 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, Sacramento
- California State University, San Bernardino
- 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, 2005

(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 87 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 78% 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)
- 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
- Associated Students, Inc. of California State University, East Bay
- Cal State East Bay Educational Foundation, Inc.
- California State University, East Bay Foundation, Inc.
- University Union, Inc. of California State University, East Bay

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

- The CSU, Chico Research Foundation
- The Bulldog Foundation (Fresno)
- California State University, Fresno Foundation
- Fresno State Programs for Children, Inc.
- Associated Students, California State University, Fresno
- 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.
- Cal State Fullerton Philanthropic Foundation
- CSU Fullerton Housing Authority
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Sponsored Programs Foundation
- Humboldt State University Advancement Foundation
- California State University, Long Beach Foundation
- Forty-Niner Shops, Inc. (Long Beach)
- Associated Students Inc., California State University, Long Beach
- California State University, Fresno Athletic Corporation
- 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, Inc., California State University, Northridge
- 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, Sacramento Trust Foundation, Inc.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

- University Enterprises, Inc. (Sacramento)
- 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
- Santos Manuel 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 Research 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, 2005

The auxiliary organizations are presented in the accompanying 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 inter-entity transactions have been eliminated.

The accompanying financial statements also include the *California State University Risk Management Authority*, *California State University Headquarters Building Authority*, *CSUCI Financing Authority*, *California State University, Channel Islands 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. 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(c) Auxiliary Organizations Restatements

The beginning net assets of the auxiliary organizations has been restated due to the correction of errors reported in the separately audited financial statements of the auxiliary organizations. A summary of the restatements to net assets at the beginning of the year related to the auxiliary organizations is as follows:

Net assets as of June 30, 2004, as previously reported	\$ 1,355,160,000
Purchase of capital asset and recording of accumulated depreciation related to prior years	40,898,000
Capital lease obligation entered into in prior years	(41,092,000)
Contributions made as of June 30, 2004	(16,286,000)
Recognition of revenue related to contributions received in prior years	6,001,000
Other adjustments, net	<u>(1,436,000)</u>
Net assets at beginning of year, as restated	<u>\$ 1,343,245,000</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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(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 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 10-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 activities 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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(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.
- **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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(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 financial statements taken as a whole.

(o) Eliminations

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 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 financial statements. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 269,912,000
Restricted cash and cash equivalents	19,316,000
Total cash and cash equivalents	<u>289,228,000</u>
Short-term investments	1,437,094,000
Endowment investments	21,359,000
Other long-term investments	2,412,000
Total investments	<u>1,460,865,000</u>
Total cash and investments	<u><u>\$ 1,750,093,000</u></u>

(a) Cash and Cash Equivalents

At June 30, 2005 and 2004, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$289,228,000 had a corresponding carrying balance with the State Treasury of \$161,712,000 at June 30, 2005. The difference related primarily to deposits in transit and outstanding checks.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(b) Investments

At June 30, 2005, the University's investment portfolio consists primarily of investments held in the California State University investment pool, as well as interest-bearing accounts held in the State Treasury. 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 monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University'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 University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, 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 an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-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 University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2005 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

Notes to Financial Statements

June 30, 2005

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2005:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 33,740,000	—	\$ 8,214,000	—	—	25,526,000
Certificates of deposit	14,490,000	0.80	—	3,863,000	10,627,000	—
U.S. agency securities	221,929,000	1.66	221,929,000	—	—	—
Mortgage-backed securities	28,767,000	12.13	28,767,000	—	—	—
Corporate and fixed income securities	155,718,000	2.09	13,414,000	19,419,000	122,885,000	—
Guaranteed investment contracts	79,243,000	2.74	—	—	—	79,243,000
Total	533,887,000		\$ 272,324,000	23,282,000	133,512,000	104,769,000
Not subject to ratings:						
U.S. treasury securities	32,976,000					
State of California Surplus Money Investment Fund	813,320,000					
State of California Local Agency Investment Fund	80,682,000					
Total investments	\$ 1,460,865,000					

Concentration of Credit Risk

The University'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.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

Investments of the discretely presented auxiliary organizations at fair value consisted of the following at June 30, 2005:

	2005		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State of California Surplus Money			
Investment Fund	\$ 3,185,000	—	3,185,000
State of California Local Agency			
Investment Fund	103,675,000	6,355,000	110,030,000
Metropolitan West Funds	40,279,000	3,347,000	43,626,000
Debt and equity securities	104,616,000	498,961,000	603,577,000
Fixed income securities	30,132,000	141,548,000	171,680,000
Real estate	222,000	25,500,000	25,722,000
Certificates of deposit	3,804,000	12,864,000	16,668,000
Money market funds and other			
short-term investments	24,336,000	2,983,000	27,319,000
Notes receivable	—	10,070,000	10,070,000
Mutual Funds	2,089,000	53,344,000	55,433,000
Other	3,277,000	46,486,000	49,763,000
Total	\$ <u>315,615,000</u>	<u>801,458,000</u>	<u>1,117,073,000</u>

Approximately \$8,580,000 of the investments reported by the University in the statement of net assets at June 30, 2005 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, 2005 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 257,010,000	762,931,000	1,019,941,000
Auxiliary organizations	39,097,000	566,000	39,663,000
Student accounts	63,000,000	502,000	63,502,000
Government grants and contracts	32,725,000	600,000	33,325,000
Other	64,435,000	4,878,000	69,313,000
	<u>456,267,000</u>	<u>769,477,000</u>	<u>1,225,744,000</u>
Less allowance for doubtful accounts	<u>(16,139,000)</u>	<u>(367,000)</u>	<u>(16,506,000)</u>
Total	\$ <u>440,128,000</u>	<u>769,110,000</u>	<u>1,209,238,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(5) Leases Receivable

The University has entered into 30-year capital lease agreements with certain auxiliary organizations to lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A was used to finance such facilities. Lease payments are due twice a year on May 1 and November 1.

Under the lease agreements, lease payments are due to the University as follows:

Fiscal year ending:	
2006	\$ 10,027,000
2007	9,974,000
2008	10,351,000
2009	10,650,000
2010	10,696,000
Thereafter	<u>291,295,000</u>
Total minimum lease payments to be received	342,993,000
Less amounts representing interest	<u>(162,018,000)</u>
Present value of future minimum lease payments to be received	180,975,000
Less current portion	<u>(423,000)</u>
Long-term lease receivable, net of current portion	<u>\$ 180,552,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

(6) Capital Assets

Capital assets activity for the year ended June 30, 2005 consisted of the following:

	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Nondepreciable capital assets:					
Land and land improvements	\$ 182,074,000	39,192,000	—	10,000	221,276,000
Works of art and historical treasures	18,748,000	645,000	—	—	19,393,000
Construction work in progress	591,941,000	464,151,000	(53,935,000)	(243,090,000)	759,067,000
Total nondepreciable capital assets	792,763,000	503,988,000	(53,935,000)	(243,080,000)	999,736,000
Depreciable capital assets:					
Buildings and building improvements	5,186,306,000	175,007,000	(11,404,000)	180,410,000	5,530,319,000
Improvements other than buildings	313,858,000	3,813,000	(16,843,000)	2,400,000	303,228,000
Infrastructure	424,984,000	13,796,000	(269,000)	59,532,000	498,043,000
Personal property:					
Equipment	548,520,000	35,333,000	(21,483,000)	(35,000)	562,335,000
Library books and materials	347,748,000	10,395,000	(14,767,000)	1,000	343,377,000
Intangible assets	217,546,000	21,647,000	(12,462,000)	772,000	227,503,000
Total depreciable capital assets	7,038,962,000	259,991,000	(77,228,000)	243,080,000	7,464,805,000
Total cost	7,831,725,000	763,979,000	(131,163,000)	—	8,464,541,000
Less accumulated depreciation:					
Buildings and building improvements	(2,342,755,000)	(147,865,000)	6,855,000	—	(2,483,765,000)
Improvements other than buildings	(255,764,000)	(11,323,000)	16,244,000	—	(250,843,000)
Infrastructure	(126,513,000)	(17,488,000)	76,000	—	(143,925,000)
Personal property:					
Equipment	(409,215,000)	(37,735,000)	20,125,000	—	(426,825,000)
Library books and materials	(286,982,000)	(11,574,000)	14,158,000	—	(284,398,000)
Intangible assets	(148,281,000)	(38,295,000)	12,424,000	—	(174,152,000)
Total accumulated depreciation	(3,569,510,000)	(264,280,000)	69,882,000	—	(3,763,908,000)
Net capital assets	\$ 4,262,215,000	499,699,000	(61,281,000)	—	4,700,633,000

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

Capital assets activity of the discretely presented auxiliary organizations of the University for the year ended June 30, 2005 consisted of the following:

	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Nondepreciable capital assets:					
Land and land improvements	\$ 55,904,000	1,812,000	(95,000)	57,000	57,678,000
Works of art and historical treasures	4,801,000	31,000	—	35,000	4,867,000
Construction work in progress	60,463,000	41,932,000	(15,469,000)	(45,501,000)	41,425,000
Total nondepreciable capital assets	121,168,000	43,775,000	(15,564,000)	(45,409,000)	103,970,000
Depreciable capital assets:					
Buildings and building improvements	513,985,000	33,888,000	(32,274,000)	40,590,000	556,189,000
Improvements other than buildings	73,091,000	8,336,000	(2,474,000)	(3,190,000)	75,763,000
Infrastructure	—	—	—	3,431,000	3,431,000
Personal property:					
Equipment	169,237,000	14,679,000	(16,837,000)	3,222,000	170,301,000
Library books and materials	17,000	6,000	—	—	23,000
Intangible assets	1,866,000	1,589,000	(142,000)	1,356,000	4,669,000
Total depreciable capital assets	758,196,000	58,498,000	(51,727,000)	45,409,000	810,376,000
Total cost	879,364,000	102,273,000	(67,291,000)	—	914,346,000
Less accumulated depreciation:					
Buildings and building improvements	(79,872,000)	(17,254,000)	3,204,000	—	(93,922,000)
Improvements other than buildings	(27,385,000)	(4,026,000)	1,582,000	—	(29,829,000)
Infrastructure	—	(45,000)	—	—	(45,000)
Personal property:					
Equipment	(106,262,000)	(16,034,000)	12,217,000	—	(110,079,000)
Library books and materials	(15,000)	(1,000)	—	—	(16,000)
Intangible assets	(546,000)	(878,000)	36,000	—	(1,388,000)
Total accumulated depreciation	(214,080,000)	(38,238,000)	17,039,000	—	(235,279,000)
Net capital assets	\$ 665,284,000	64,035,000	(50,252,000)	—	679,067,000

For additional information regarding the capital assets 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, 2005

(7) 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 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 \$104,282,000 at June 30, 2005. The leases bear interest at rates ranging from 2.0% to 21.0% 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 and expire in various fiscal years through 2035. 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, 2005 were \$19,097,000, of which \$8,876,000 was paid to related auxiliary organizations.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2005 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2006	\$ 77,742,000	14,574,000
2007	69,208,000	11,098,000
2008	65,630,000	9,045,000
2009	63,240,000	5,233,000
2010	63,209,000	4,079,000
2011 – 2015	294,568,000	12,922,000
2016 – 2020	215,758,000	3,792,000
2021 – 2025	47,286,000	3,121,000
2026 – 2030	9,864,000	3,277,000
2031 – 2035	—	2,050,000
	<u>906,505,000</u>	<u>\$ 69,191,000</u>
Less amount representing interest	<u>(276,150,000)</u>	
Present value of future minimum lease payments	630,355,000	
Less current portion	<u>(45,155,000)</u>	
Capital lease obligation, net of current portion	<u>\$ 585,200,000</u>	

(8) 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 \$534,097,000.

(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.

CALIFORNIA STATE UNIVERSITY

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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.

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 facilities on campus in which 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 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 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 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 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 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 University's total outstanding balance of revenue bond indebtedness under the housing, student union, and parking programs was \$295,228,000 at June 30, 2005.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

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, 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 in the University. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The University's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond Program was \$1,334,025,000 at June 30, 2005.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, C, and D and Parking Revenue Bonds Series A and B. At June 30, 2005, the University's outstanding balance for these senior bonds totaled \$119,030,000.

(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, 2005 total \$26,515,000.

(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 \$18,350,000 at June 30, 2005.

(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, 2005 relating to the Channel Islands Financing Authority totaled \$195,525,000.

(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 Notes 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 \$38,695,000 at June 30, 2005.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2005

Long-term debt obligations of the University as of June 30, 2005 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Housing System Revenue Bonds:				
Series B (Chico, Humboldt, Long Beach, Northridge, Pomona, San Diego, San Francisco, San Jose, and San Luis Obispo campuses)	3%	2007/08	\$ 30,856,000	2,345,000
Series J – Northridge campus	3	2019/20	3,838,000	2,068,000
Series K – Dominguez Hills campus	3	2019/20	3,730,000	2,430,000
Series L – San Diego campus	3	2020/21	4,930,000	2,755,000
Series M – San Francisco campus	3	2020/21	580,000	330,000
Series N – Chico campus	3	2021/22	4,320,000	2,960,000
Series P – San Francisco campus	3	2021/22	1,140,000	670,000
Series Q – San Diego campus	3	2021/22	555,000	320,000
Series U – San Jose campus	3	2012/13	3,500,000	1,320,000
Series Y – Long Beach campus	3	2013/14	2,000,000	825,000
Series AV – 1996 Refunding Bonds (Dominguez Hills, Fullerton, East Bay, Humboldt, Long Beach, Los Angeles, Northridge, Sacramento, San Diego, San Francisco, and Sonoma campuses)	4.25 – 6.3	2021/22	138,375,000	117,100,000
Series AW – Chico campus	4.75 – 5	2017/18	4,580,000	3,660,000
Series AX – Sonoma campus	4.75 – 5.2	2030/31	29,095,000	27,175,000
Series AZ – San Bernardino campus	4.5 – 7.5	2031/32	12,810,000	12,240,000
			<u>240,309,000</u>	<u>176,198,000</u>

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Notes to Financial Statements

June 30, 2005

<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	95,000
Series B – Chico campus	4 – 12	2028/29	23,370,000	21,280,000
Series C – Fullerton campus – Refunding Bonds	5.25 – 5.4	2020/21	9,590,000	8,060,000
Series B – Northridge campus	6 – 8	2007/08	14,200,000	1,090,000
Series C – Northridge campus	4 – 5.63	2022/23	11,325,000	10,905,000
Series A – San Diego campus	3	2006/07	2,940,000	245,000
Series C – San Diego campus	4 – 5.63	2024/25	19,770,000	19,420,000
Series B – San Francisco campus	4 – 12	2023/24	12,950,000	11,250,000
Series A – San Jose campus	3	2006/07	3,240,000	275,000
Series D – San Jose campus	4.5 – 6.5	2019/20	23,070,000	17,620,000
Series A – San Luis Obispo campus	3	2007/08	3,000,000	370,000
Series B – San Luis Obispo campus	4 – 9.875	2025/26	4,650,000	4,055,000
			<u>129,205,000</u>	<u>94,665,000</u>
Systemwide Revenue Bonds:				
Series 2002A – Bakersfield campus – Refunding Bonds	3 – 5.5%	2022/23	1,615,000	1,495,000
Series 2002A – Dominguez Hills campus – Refunding Bonds	3 – 5.5	2020/21	2,295,000	2,100,000
Series 2002A – East Bay campus – Refunding Bonds	3 – 5	2012/13	1,065,000	855,000
Series 2002A – San Bernardino campus – Refunding Bonds	3 – 5.5	2021/22	2,905,000	2,675,000
Series 2002A – Stanislaus campus – Refunding Bonds	3 – 5.5	2020/21	780,000	710,000
Series 2002A – Humboldt campus (student union)	3 – 5.5	2030/31	3,490,000	3,335,000
Series 2002A – Northridge campus (parking)	3 – 5.5	2027/28	9,550,000	9,125,000
Series 2002A – Sacramento campus (student union)	3 – 5.5	2021/22	800,000	730,000
Series 2002A – Sacramento campus (parking)	3 – 5.5	2026/27	5,640,000	5,335,000
Series 2002A – San Marcos campus (student union)	3 – 5.5	2032/33	5,665,000	5,485,000

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Notes to Financial Statements

June 30, 2005

<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 2002A – Sonoma campus (parking)	3 – 5.5%	2031/32	\$ 9,630,000	9,260,000
Series 2002A – Fullerton, San Luis Obispo, San Bernardino, and Sonoma campuses (housing)	3 – 5.5	2033/34	131,315,000	127,505,000
Series 2003A – Monterey Bay, Northridge, Pomona, San Jose, Stanislaus, Sacramento, and San Diego campuses (housing, continuing education, and auxiliary organizations)	2.5 – 5.37	2035/36	342,725,000	341,900,000
Series 2004A – Channel Islands campus	2.0 – 5.25	2034/35	18,490,000	18,490,000
Series 2004A – Fresno campus (student union)	2.0 – 5.25	2025/26	4,250,000	4,165,000
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	1,250,000
Series 2004A – Long Beach campus (student union)	2.0 – 5.25	2026/27	12,590,000	12,340,000
Series 2004A – Los Angeles campus (parking)	2.0 – 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	6,000,000
Series 2004A – Northridge campus (housing)	2.0 – 5.25	2018/19	12,555,000	11,975,000
Series 2004A – Northridge campus (student union)	2.5 – 5.25	2034/35	6,445,000	6,445,000
Series 2004A – Northridge campus (parking)	2.0 – 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	2,645,000
Series 2004A – Sacramento campus (student union)	2.0 – 5	2025/26	20,615,000	20,160,000
Series 2004A – San Francisco campus	2.0 – 5.25	2034/35	3,580,000	3,580,000

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Notes to Financial Statements

June 30, 2005

<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 – San Francisco campus	2.0 – 5.25%	2033/34	\$ 3,200,000	3,175,000
Series 2004A – Sonoma campus (student union)	2.5 – 5.25	2034/35	15,650,000	15,650,000
Series 2005A – Dominguez Hills campus	2.5 – 5	2035/36	22,765,000	22,765,000
Series 2005A – Fresno campus (student union)	2.5 – 5	2035/36	17,440,000	17,440,000
Series 2005A – East Bay campus (housing)	2.5 – 5	2035/36	30,015,000	30,015,000
Series 2005A – East Bay campus (student union)	2.5 – 5	2035/36	11,720,000	11,720,000
Series 2005A – Humboldt campus (housing)	2.5 – 5	2016/17	2,985,000	2,985,000
Series 2005A – Northridge campus (student union)	2.5 – 5	2035/36	8,815,000	8,815,000
Series 2005A – Pomona campus (student union)	2.5 – 5	2030/31	22,920,000	22,920,000
Series 2005A – San Bernardino campus (housing)	2.5 – 5	2034/35	28,575,000	28,575,000
Series 2005A – San Bernardino campus (student union)	2.5 – 5	2035/36	28,000,000	28,000,000
Series 2005A – San Diego campus (housing)	2.5 – 5	2030/31	39,850,000	39,850,000
Series 2005A – San Diego campus (student union)	2.5 – 5	2035/36	8,470,000	8,470,000
Series 2005A – San Francisco campus (housing)	2.5 – 5	2035/36	150,655,000	150,655,000
Series 2005A – Channel Islands, Fresno, Fullerton, Los Angeles, Pomona, San Diego, and San Marcos campuses (parking, health facilities, and auxiliary organizations)	2.5 – 5	2037/38	<u>294,895,000</u>	<u>294,895,000</u>
			<u>1,342,590,000</u>	<u>1,334,025,000</u>

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Notes to Financial Statements

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<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, Series B	7.5 – 7.6%	2022/23	\$ 30,680,000	26,515,000
Deferred Maintenance Projects	3.13	2009/10	43,095,000	18,350,000
Parking Revenue Bonds:				
San Diego campus, Series A	4.0 – 7.5	2023/24	13,100,000	11,435,000
San Diego campus, Series B	4.3 – 12	2025/26	<u>14,095,000</u>	<u>12,930,000</u>
			<u>27,195,000</u>	<u>24,365,000</u>
Financing Authority:				
Channel Islands Rental Housing Bonds	3.375 – 4.08	2031/32	46,815,000	46,815,000
Channel Islands Revenue Bonds – Series 2001A	3.85 – 5.25	2031/32	49,460,000	49,460,000
Channel Islands Revenue Bonds – Series 2004A	2.5	2007/08	44,500,000	44,500,000
Channel Islands Revenue Bonds – Series 2004A	2.5 – 4.08	2044/45	50,735,000	50,735,000
Channel Islands Revenue Bonds – Series 2004B	3.79 – 5.59	2044/45	<u>4,015,000</u>	<u>4,015,000</u>
			<u>195,525,000</u>	<u>195,525,000</u>
Bond Anticipation Notes:				
Long Beach campus	Variable	2005/06	22,045,000	22,045,000
Los Angeles campus	Variable	2005/06	<u>16,650,000</u>	<u>16,650,000</u>
			<u>38,695,000</u>	<u>38,695,000</u>
Other	Variable	Various	<u>75,231,000</u>	<u>60,149,000</u>
Total			<u>\$ 2,122,525,000</u>	1,968,487,000
Unamortized bond premium				19,883,000
Unamortized loss on refunding				<u>(1,308,000)</u>
Total long-term debt				1,987,062,000
Less current portion				<u>(91,190,000)</u>
Long-term debt, net of current portion				<u>\$ 1,895,872,000</u>

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

	<u>Principal</u>	<u>Interest</u>
2006	\$ 91,190,000	89,906,000
2007	49,197,000	86,977,000
2008	89,547,000	84,761,000
2009	47,113,000	82,727,000
2010	50,945,000	83,996,000
2011 – 2015	262,005,000	371,062,000
2016 – 2020	309,891,000	302,187,000
2021 – 2025	333,546,000	220,908,000
2026 – 2030	349,666,000	137,507,000
2031 – 2035	302,635,000	52,681,000
2036 – 2040	60,962,000	8,003,000
2041 – 2045	21,790,000	2,481,000
	<u>\$ 1,968,487,000</u>	<u>1,523,196,000</u>

Long-term debt obligations of the discretely presented auxiliary 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.

(9) Advanced Refundings

(a) Current Year Refundings

In April 2005, the University defeased certain Housing System Revenue Bonds Series AU and AY, certain Student Union Revenue Bonds Series B and C, and certain bonds of the discretely presented auxiliary organizations (refunded bonds) by placing a portion of 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 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 matured. This transaction will reduce the University's total debt service payments by \$4,826,000 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 \$3,924,000. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the University's current year defeased bonds outstanding as of June 30, 2005 totaled \$62,060,000.

(b) Prior Years Refundings

In prior years, the University defeased certain Student Union Revenue Bonds Series B 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

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Notes to Financial Statements

June 30, 2005

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 bonds are not included in the University's financial statements. The amount of prior years' defeased bonds outstanding as of June 30, 2005 totaled \$17,245,000.

(10) Long-Term Liability Activity

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 153,990,000	80,299,000	(78,910,000)	155,379,000	85,400,000
Self-insurance claims liability (note 12)	118,711,000	33,419,000	(34,491,000)	117,639,000	39,633,000
Capitalized lease obligations (note 7)	676,060,000	4,198,000	(49,903,000)	630,355,000	45,155,000
Long-term debt obligations (note 8):					
Housing System Revenue					
Bonds	225,663,000	—	(49,465,000)	176,198,000	8,845,000
Student Union Revenue Bonds	128,785,000	—	(34,120,000)	94,665,000	3,075,000
Systemwide Revenue Bonds	672,620,000	667,105,000	(5,700,000)	1,334,025,000	11,675,000
Headquarters Building					
Authority Revenue Bonds	27,420,000	—	(905,000)	26,515,000	945,000
Deferred Maintenance Projects	21,515,000	—	(3,165,000)	18,350,000	3,340,000
Parking Revenue Bonds	25,105,000	—	(740,000)	24,365,000	775,000
Financing Authority Revenue					
Bonds	96,275,000	99,250,000	—	195,525,000	—
Bond Anticipation Notes	86,660,000	130,414,000	(178,379,000)	38,695,000	38,695,000
Other	36,420,000	26,884,000	(3,155,000)	60,149,000	23,840,000
Total	<u>1,320,463,000</u>	<u>923,653,000</u>	<u>(275,629,000)</u>	<u>1,968,487,000</u>	<u>91,190,000</u>
Unamortized bond premium	—	19,944,000	(61,000)	19,883,000	—
Unamortized loss on refunding	—	(1,319,000)	11,000	(1,308,000)	—
Total long-term debt obligations	<u>1,320,463,000</u>	<u>942,278,000</u>	<u>(275,679,000)</u>	<u>1,987,062,000</u>	<u>91,190,000</u>
Total long-term liability	\$ <u>2,269,224,000</u>	<u>1,060,194,000</u>	<u>(438,983,000)</u>	<u>2,890,435,000</u>	<u>261,378,000</u>

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Notes to Financial Statements

June 30, 2005

Long-term liability activity for the discretely presented auxiliary organizations of the University for the year ended June 30, 2005 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 15,831,000	7,090,000	(6,202,000)	16,719,000	12,739,000
Self-insurance claims liability	2,073,000	2,105,000	(1,905,000)	2,273,000	—
Capitalized lease obligations	51,376,000	104,519,000	(1,121,000)	154,774,000	666,000
Long-term debt obligations:					
Revenue bonds	368,487,000	42,275,000	(36,803,000)	373,959,000	9,364,000
Other bonds	101,937,000	—	(31,537,000)	70,400,000	1,864,000
Commercial paper	96,696,000	989,804,000	(1,034,853,000)	51,647,000	40,638,000
Other	43,917,000	39,139,000	(13,786,000)	69,270,000	2,855,000
Total long-term debt obligations	<u>611,037,000</u>	<u>1,071,218,000</u>	<u>(1,116,979,000)</u>	<u>565,276,000</u>	<u>54,721,000</u>
Total long-term liability	<u>\$ 680,317,000</u>	<u>1,184,932,000</u>	<u>(1,126,207,000)</u>	<u>739,042,000</u>	<u>68,126,000</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.

(11) 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.

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.

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June 30, 2005

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

2003	\$	140,640,000
2004		291,032,000
2005		323,745,000

(c) Faculty Early Retirement Program

During the fiscal year ended June 30, 2005, 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. The early retirement benefit is not dependent upon future services and, therefore, is already earned as of June 30, 2004 by those who have elected to participate in the program. The University's total estimated liability under the program is \$29,778,000, of which \$25,287,000 was paid during fiscal year 2005. The University's remaining liability of \$4,491,000 has been recorded as a component of accrued salaries and benefits payable as of June 30, 2005.

(12) 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, 2005. 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, 2005.

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Notes to Financial Statements

June 30, 2005

Changes in the self-insurance claims liability for the two years ended June 30, 2005 are as follows:

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
Incurred claims and changes in estimates	33,419,000
Claim payments	<u>(34,491,000)</u>
Liability at June 30, 2005	117,639,000
Less current portion	<u>(39,633,000)</u>
Long-term liability at June 30, 2005, net of current portion	<u><u>\$ 78,006,000</u></u>

The University maintains excess general liability insurance coverage provided by Schools Excess Liability Program (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$45,000,000 per occurrence. The University purchases excess workers' compensation insurance provided by the Insurance Corporation of Hanover (ICH) to limits of \$50,000,000 in excess of \$2,500,000 self-insured retention and coverage from American Home Assurance Company (AIG) for limits of \$50,000,000 excess of \$50,000,000. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the University maintains excess policies with SELF, ICH, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the University.

(13) 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 12. 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, 2005 totaled \$431,488,000. These expenditures will be funded primarily through state appropriations and bond proceeds.

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(14) 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, 2005, operating expenses by natural classification consisted of the following:

	2005					Total
	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	
Functional classification:						
Instruction	\$ 1,175,422,000	367,218,000	—	150,249,000	—	1,692,889,000
Research	7,196,000	1,883,000	—	15,094,000	—	24,173,000
Public service	30,471,000	8,205,000	—	32,021,000	—	70,697,000
Academic support	260,391,000	90,628,000	—	124,533,000	—	475,552,000
Student services	237,431,000	84,163,000	—	85,504,000	—	407,098,000
Institutional support	261,432,000	130,086,000	—	137,101,000	—	528,619,000
Operation and maintenance of plant	155,950,000	66,836,000	—	153,311,000	—	376,097,000
Student grants and scholarships	—	—	470,596,000	—	—	470,596,000
Auxiliary enterprise expenses	57,567,000	19,994,000	—	131,827,000	—	209,388,000
Depreciation and amortization	—	—	—	—	264,280,000	264,280,000
Total	\$ <u>2,185,860,000</u>	<u>769,013,000</u>	<u>470,596,000</u>	<u>829,640,000</u>	<u>264,280,000</u>	<u>4,519,389,000</u>

(15) 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 \$2.75 billion for the year ended June 30, 2005. State appropriations receivable aggregated \$1,019,941,000 at June 30, 2005.

(16) Subsequent Events

On August 3, 2005, the University issued Systemwide Revenue Bonds Series 2005B in the amount of \$134,805,000. The bond proceeds will be used to current refund certain Housing System Revenue Bonds Series AV and certain Student Union Revenue Bonds Series D.

On October 13, 2005, the University issued Systemwide Revenue Bonds Series 2005C in the amount of \$540,900,000. Of the total bond proceeds, \$398,220,000 will be used for six construction projects; \$23,070,000 will be used to refund certain Parking Revenue Bonds Series A and B; \$3,875,000 will be used to refund certain Student Union Revenue Bonds Series B; \$62,430,000 will be used to refund certain Housing System Revenue Bonds Series AW, AX, and AZ and certain Systemwide Revenue Bonds Series 2003A; \$25,110,000 will be used to refund the Headquarters Building Authority Lease Revenue Bonds Series B; and \$28,195,000 will be used to refund certain debt of the discretely presented auxiliary organizations.