



CALIFORNIA STATE UNIVERSITY

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

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KPMG LLP
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Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Trustees
California State University:

We have audited the accompanying financial statements of the California State University (the University), an agency of the State of California (the State), and its aggregate discretely presented component units as of and for the year ended June 30, 2011, which collectively comprise the University's financial statements as listed in the accompanying 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 91 of the 94 aggregate discretely presented component units, which statements reflect total assets constituting 92% and total revenues constituting 98% 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 91 discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1 to the financial statements, the financial statements of the University are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that are attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

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 California State University and of its aggregate discretely presented component units as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 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 financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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

December 16, 2011

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

The following discussion and analysis provides an overview of the financial position and performance of the California State University as of and for the year ended June 30, 2011, including 23 campuses and the Chancellor's Office (together referred to as the University), and 94 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 year ended June 30, 2011 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 Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged 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 generally reported at their book value, except investments, which are reported at their fair market value, on an accrual basis, as of the statement date, and 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 on an accrual basis 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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The Statement of Cash Flows presents the changes in the University's cash and cash equivalents during the most recent fiscal year. 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 capital appropriations, capital grants and gifts, proceeds from sale of capital assets, principal and interest payments received on capital leases, and notes receivable. Within the capital and related financing activities, uses of funds consist of acquisition of capital assets, debt repayments, and issuance of notes receivable. Sales and purchases of investments are part of investing activities.

The Statement of Cash Flows for the discretely presented auxiliary organizations is not included in the University's financial statements.

Financial Highlights

The revised State Budget Act for fiscal year 2011 restored \$305 million of cuts made in fiscal year 2010, before additional adjustments. The result was an overall \$227 million increase in noncapital state appropriations for the University in fiscal year 2011 to a total of \$2.58 billion from \$2.35 billion in fiscal year 2010. Fee revenues increased by \$69 million in fiscal year 2011 mainly due to increases in student fee rates and offset by a decrease in overall enrollment.

Headcount enrollment decreased from 440,819 in fiscal year 2010 to 409,526 in fiscal year 2011, as reflected in the following chart. At the same time, Full-Time Equivalent Students (FTE) decreased from 354,812 in 2010 to 341,728 in 2011.

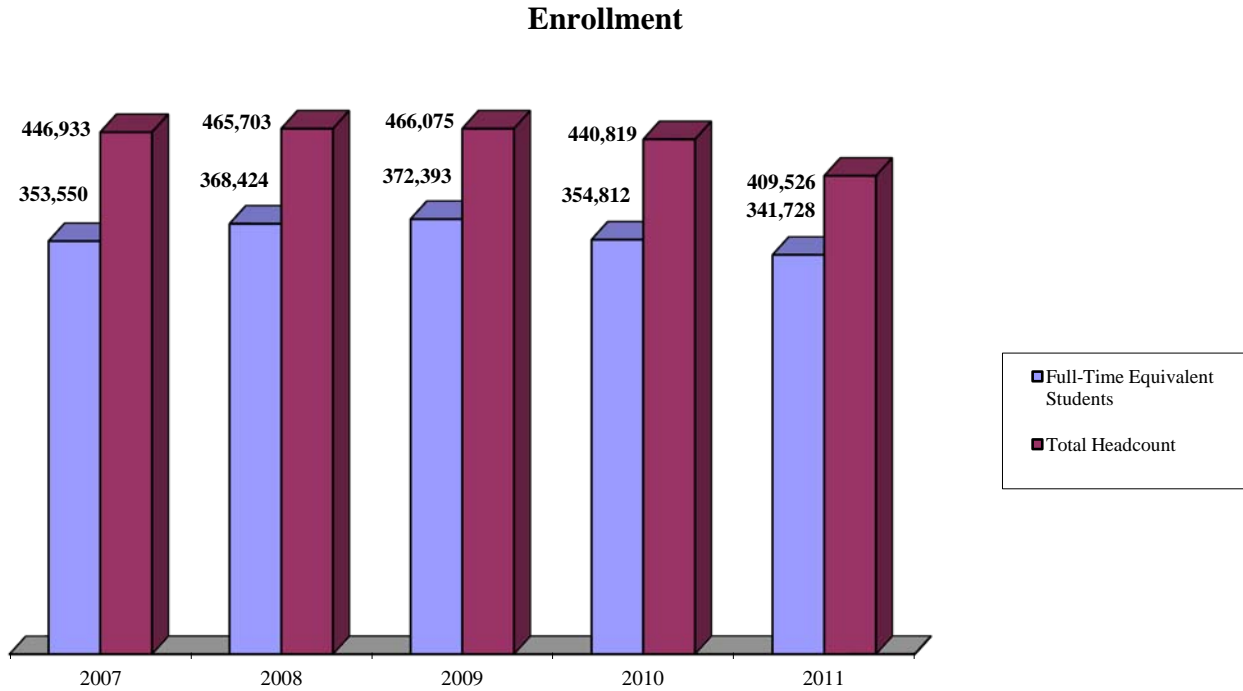
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(Unaudited)

The following chart 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 2011 and 2010 and a look ahead at economic conditions that are expected to affect the University in the future:

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

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Management's Discussion and Analysis

June 30, 2011

(Unaudited)

I. Condensed Schedule of Net Assets

June 30, 2011 and 2010

(In thousands)

	University		Auxiliary organizations	
	2011	2010	2011	2010
Current assets	\$ 2,746,810	2,285,109	1,017,796	889,080
Capital assets, net	7,591,592	7,465,993	816,876	839,034
Other noncurrent assets	1,582,910	2,016,320	1,683,065	1,448,912
Total assets	<u>11,921,312</u>	<u>11,767,422</u>	<u>3,517,737</u>	<u>3,177,026</u>
Current liabilities	1,126,722	1,018,981	405,327	325,060
Noncurrent liabilities	4,887,734	4,844,802	1,086,600	1,133,212
Total liabilities	<u>6,014,456</u>	<u>5,863,783</u>	<u>1,491,927</u>	<u>1,458,272</u>
Net assets:				
Invested in capital assets, net of related debt	3,866,875	3,827,971	198,938	176,612
Restricted:				
Nonexpendable	21,812	22,667	809,801	712,401
Expendable	182,444	591,378	632,292	540,099
Unrestricted	1,835,725	1,461,623	384,779	289,642
Total net assets	<u>\$ 5,906,856</u>	<u>5,903,639</u>	<u>2,025,810</u>	<u>1,718,754</u>

Current and Other Noncurrent Assets

Current and other noncurrent assets are assets that are not capital assets and are used to meet the University's current and noncurrent obligations. These assets consist of cash and cash equivalents, restricted cash and cash equivalents, investments, accounts receivable, notes receivable, leases receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets. The total current and noncurrent assets of \$4.3 billion for the University increased slightly by \$28.3 million mainly from an increase of \$318.3 million in cash and investments, which was offset by a decrease of \$292.1 million in accounts receivable, net. The increase in cash and investments is mainly attributable to an overall increase in operating resources because of student fee rate increases and cost reductions measures to cope with uncertain future state funding levels. The decrease in accounts receivable, net is mainly attributable to the receipts and adjustments to capital appropriations and also adjustments to trust funds held with auxiliary organizations.

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(Unaudited)

Current and noncurrent assets for the auxiliary organizations increased by \$362.9 million mainly due to a \$260.3 million increase in cash and investments, a \$36.5 million increase in pledges receivable, net, and a \$63.6 million increase in accounts receivable, net. The increases in cash and investments and pledges receivable, net were primarily due to an increase in investment income with overall improvement in the financial markets in the current year and an increase in contributions to endowments. The increase in accounts receivable, net was primarily due to the new issuance of \$68.9 million Bond Anticipation Notes (BANs) from the California State University Institute (the Institute), an auxiliary organization of the University.

Capital Assets

The University's capital assets, net of accumulated depreciation, as of June 30, 2011 and 2010, comprise the following:

Capital Assets

June 30, 2011 and 2010

(At historical cost, net of accumulated depreciation)

(In thousands)

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 243,476	242,746
Buildings and building improvements	5,803,047	5,251,237
Infrastructure	593,705	558,906
Improvements other than buildings	142,004	133,241
Equipment	208,016	177,692
Library books and materials	45,180	47,965
Works of art and historical treasures	25,119	24,373
Intangible assets	43,672	59,117
Construction work in progress	487,373	970,716
Total	<u>\$ 7,591,592</u>	<u>7,465,993</u>

The total capital assets increased by \$126 million during 2011 as a result of completion or continuation of various projects including the projects listed below. Buildings and building improvements increased and construction in progress decreased as a result of completion of some projects previously in progress.

- Completion of the \$98 million Long Beach Peterson Hall 3 Replacement Building
- Completion of the \$74 million Sacramento Recreation/Wellness Center
- Completion of the \$55 million Dominguez Hills Education Resource Center Addition
- Completion of the \$53 million Chico Student Housing Phase I Expansion
- Completion of the \$50 million Channel Islands Infrastructure Improvements Phase 1a and 1b
- Completion of the \$43 million East Bay Student Services Replacement Building

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(Unaudited)

- Completion of the \$39 million Humboldt College Creek Apartments
- Construction in progress on the \$119 million San Luis Obispo Center for Science
- Construction in progress on the \$117 million San Francisco J. Paul Leonard Library/Sutro Library
- Construction in progress on the \$101 million San Diego Aztec Center Student Union
- Construction in progress on the \$70 million San Diego Storm/Nasatir Halls Renovation
- Construction in progress on the \$66 million San Luis Obispo Recreation Center Expansion
- Construction in progress on the \$59 million Northridge Student Recreation Center
- Construction in progress on the \$52 million Los Angeles Science Replacement Building Wing B

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, deferred revenue, grants refundable, capitalized lease obligations, long-term debt obligations, self-insurance claims liability, depository accounts, other postemployment benefit obligations, and other liabilities. Current and noncurrent liabilities for the University increased by \$150.7 million, primarily due to the \$156.7 million increase in other liabilities as a result of the increase of \$164.4 million for future obligations related to the State Public Works Board (SPWB). Other major factors included a new issuance of \$68.9 million of BANs from the Institute to the University, an increase of \$38.5 million in other postemployment benefits (OPEB) liabilities allocated from the State, an increase of \$26.8 million in accrued salaries and benefits payable mainly due to the termination of furloughs starting at the beginning of fiscal year 2011, and an increase of \$19.7 million in deferred revenue mainly due to the increase in student fee rate. These increases were offset by overall paydowns in accounts payable, debt, and capitalized lease obligations.

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Management's Discussion and Analysis

June 30, 2011

(Unaudited)

Long-Term Debt

As of June 30, 2011 and 2010, the University's outstanding long-term debt obligations totaled \$3.6 billion each year, and are summarized as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Systemwide Revenue Bonds	\$ 3,381,618	3,436,168
Bond Anticipation Notes	85,396	18,045
Other	82,419	90,725
Total	3,549,433	3,544,938
Unamortized bond premium/discount	46,365	49,014
Unamortized loss on refundings	(12,891)	(13,806)
Total long-term debt	3,582,907	3,580,146
Less current portion	(141,739)	(65,259)
Long-term debt, net of current portion	<u>\$ 3,441,168</u>	<u>3,514,887</u>

There was no significant change in the University's total long-term debt obligations (net of repayments) because no Systemwide Revenue Bond was issued in fiscal year 2011. Although \$68.9 million of BANs were issued, this amount was offset by overall paydowns in debt obligations.

The table above does not include the University's capitalized lease obligations. Capitalized lease obligations for the University decreased by \$33.2 million in 2011 to \$943.0 million mainly due to current year repayments.

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 and thus is not recorded in the University's financial statements. Total General Obligation Bond debt carried by the State related to the University projects is approximately \$2.7 billion and \$2.8 billion at June 30, 2011 and 2010, respectively.

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2011. 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 programs. 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. Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Ratings Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, Series 2008A, and Series 2009A, and all maturities of Series 2010A and 2010B, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the

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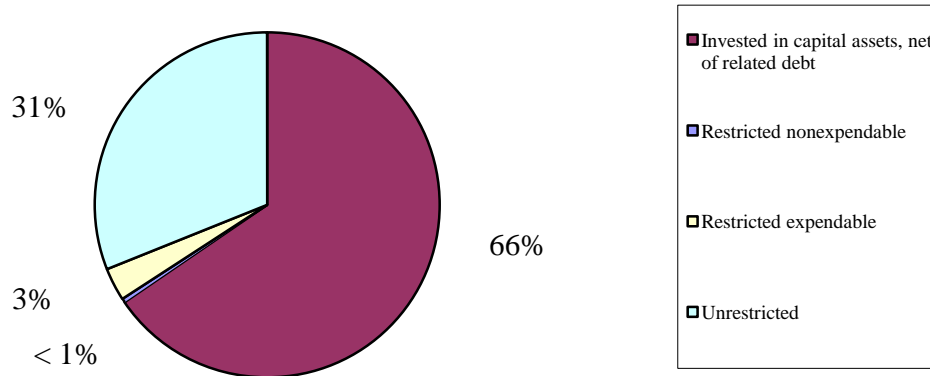
(Unaudited)

Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the University's financial position. As of June 30, 2011, assets exceeded liabilities by \$5.9 billion for the University with no significant changes in total net assets from prior year.

**University Net Assets
June 30, 2011**



Total Net Assets: \$5,906,856,000

The net asset category "Invested in capital assets, net of related debt" represents the University's capital assets, net of accumulated depreciation, and also net of 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 is the largest portion of the University's net assets. In the current year, there was no significant change in the University's invested in capital assets, net of related 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. Generally speaking, the University's foundations, which are recognized auxiliary organizations, hold the significant majority of the University-related endowments. In the current year, there was no significant change in the University's restricted nonexpendable net assets. 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. In current year, the University experienced a net decrease of \$408.9 million in restricted expendable net assets mainly due to debt service repayments, spending down of existing capital appropriations and not receiving new capital appropriations, and adjustments related to capital appropriations for the projects funded through the SPWB.

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Management's Discussion and Analysis

June 30, 2011

(Unaudited)

The unrestricted net assets represents all other net resources available to the University for general and educational obligations. Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions per accounting definition, the predominant portions of the unrestricted net assets are designated for specific programs or projects related to certain revenue sources, as further explained in the following paragraphs. The total unrestricted net assets for the University increased by \$374 million from \$1.46 billion as of June 30, 2010 to \$1.83 billion as of June 30, 2011, which consists of \$1.19 billion designated resources and \$643 million undesignated resources mainly from the operating fund. The resources are held for contingencies that may include the uncertain direction of future state appropriations, as well as the effects of an uncertain economic environment.

Within the unrestricted net asset category, the designated resources come from fee collections and other activities that are designated for very specific purposes and are not to be repurposed and spent for other activities. For example, students pay some fees such as Housing and Parking fees and campus activities generate fees as well, all of which are to be used for specific designated purposes. The University also has certain designated resources that represent amounts set aside to support the Systemwide Revenue Bonds.

Of the \$1.19 billion in designated net assets, approximately 58% was designated for supporting enterprise activities (i.e., Continuing Education, Housing, Parking, Student Union), 16% was designated for campus-based projects or programs, and 12% was designated for special capital projects. The remaining 14% was designated for supporting activities related to education, financial aid, and future liability claims.

CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

II. Condensed Schedule of Revenues, Expenses, and Changes in Net Assets (In thousands)

	University		Auxiliary organizations	
	2011	2010	2011	2010
Operating revenues:				
Student tuition and fees, net	\$ 1,748,536	1,679,551	138,007	130,374
Grants and contracts, noncapital	96,889	98,234	541,719	502,372
Sales and services of educational activities	33,215	26,987	33,128	31,511
Sales and services of auxiliary enterprises, net	350,656	346,632	474,085	472,500
Other operating revenues	174,318	144,137	126,026	117,534
Total operating revenues	<u>2,403,614</u>	<u>2,295,541</u>	<u>1,312,965</u>	<u>1,254,291</u>
Operating expenses	<u>5,866,759</u>	<u>5,451,719</u>	<u>1,436,749</u>	<u>1,392,317</u>
Operating loss	<u>(3,463,145)</u>	<u>(3,156,178)</u>	<u>(123,784)</u>	<u>(138,026)</u>
Nonoperating revenues, net:				
State appropriations, noncapital	2,576,705	2,349,388	—	—
Federal financial aid grants, noncapital	753,887	644,575	—	—
State financial aid grants, noncapital	298,608	262,777	—	—
Nongovernmental and other financial aid grants, noncapital	12,230	12,739	—	—
Other federal nonoperating grants, noncapital	110,757	448,984	—	—
Gifts, noncapital	30,991	42,817	136,940	89,587
Investment income, net	46,558	46,196	80,895	60,057
Endowment income, net	95	75	134,941	71,776
Interest expense	(218,774)	(177,409)	(37,074)	(34,217)
Other nonoperating revenues (expenses)	<u>(196,955)</u>	<u>(71,103)</u>	<u>39,329</u>	<u>(14,747)</u>
Net nonoperating revenues	<u>3,414,102</u>	<u>3,559,039</u>	<u>355,031</u>	<u>172,456</u>
Income (loss) before other revenues and expenses	<u>(49,043)</u>	<u>402,861</u>	<u>231,247</u>	<u>34,430</u>
State appropriations, capital	11,824	22,747	—	—
Grants and gifts, capital	41,353	82,618	6,415	13,389
Additions (reductions) to permanent endowments	<u>(917)</u>	<u>(148)</u>	<u>72,212</u>	<u>48,062</u>
Change in net assets	<u>3,217</u>	<u>508,078</u>	<u>309,874</u>	<u>95,881</u>
Net assets – beginning of year, as previously reported	5,903,639	5,395,561	1,718,754	1,641,432
Restatements	<u>—</u>	<u>—</u>	<u>(2,818)</u>	<u>(18,559)</u>
Net assets – beginning of year, as restated	<u>5,903,639</u>	<u>5,395,561</u>	<u>1,715,936</u>	<u>1,622,873</u>
Net assets – end of year	<u><u>\$ 5,906,856</u></u>	<u><u>5,903,639</u></u>	<u><u>2,025,810</u></u>	<u><u>1,718,754</u></u>

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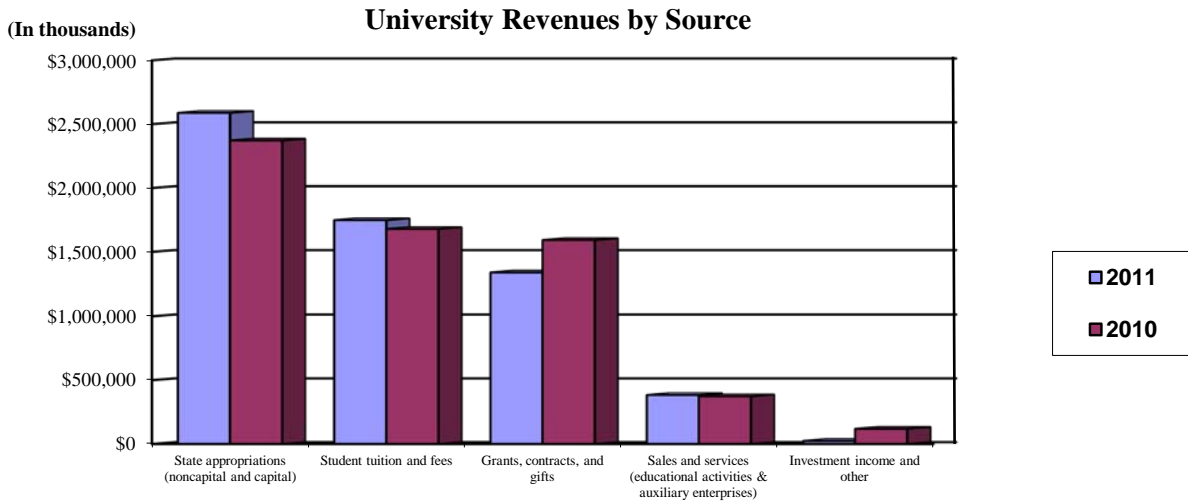
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(Unaudited)

Revenues (Operating and Nonoperating)

The following chart displays the components of the University's revenues for fiscal years 2011 and 2010:



University Revenues (Operating and Nonoperating)

Years ended June 30, 2011 and 2010

	(In thousands)			
	<u>2011</u>	<u>Percentage of total</u>	<u>2010</u>	<u>Percentage of total</u>
State appropriations (noncapital and capital)	\$ 2,588,529	42.5%	\$ 2,372,135	38.7%
Student tuition and fees, net	1,748,536	28.7	1,679,551	27.4
Grants, contracts, and gifts	1,343,798	22.1	1,592,596	25.9
Sales and services (educational activities and auxiliary enterprises, net)	383,871	6.3	373,619	6.1
Investment income, net and other	24,016	0.4	119,305	1.9
Total revenues (operating and nonoperating)	\$ 6,088,750	100.0%	\$ 6,137,206	100.0%

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The largest component of revenues continues to be state appropriations, which accounted for 42.5% of the University's revenues in fiscal year 2011. State appropriations are received for both noncapital and capital purposes. Noncapital appropriations increased by \$227.3 million, or 9.7%, from \$2.35 billion to \$2.58 billion in the current year, although it was still significantly below the funding levels prior to fiscal year 2009. Capital appropriations decreased by \$10.9 million, or 48.0%, from \$22.7 million to \$11.8 million in the current year, which resulted from less capital appropriations.

Student tuition and fees increased by \$69.0 million, or 4.1%, mainly due to increases in student fee rates and offset by a decrease in overall enrollment.

A significant portion of the University's contracts and grants revenue is managed through its auxiliary organizations. Of the total reporting entity's contracts and grants revenue (\$1.8 billion), 30.1% is managed by these related entities. Contracts and grants revenue for the total reporting entity has decreased \$155.5 million or 7.9% in the current year mainly due to a \$338.2 million decrease in federal funding from the Education Stabilization Fund created by the American Recovery and Reinvestment Act (ARRA). Fiscal year 2011 was the final year for the University to receive the Education Stabilization Fund. The decrease was offset by an overall increase in federal and state financial aid grants awarded to cope with the student fee rate increases.

Total gift income for the University and the auxiliary organizations (which includes operating and capital gifts, as well as additions to permanent endowments) reached \$253.9 million, or 3.2% of the reporting entity's total revenues in fiscal year 2011. It increased \$61.8 million from \$192.1 million, or 2.5% of the reporting entity's total revenues in fiscal year 2010 mainly due to an increase in noncapital gift donations and endowment contributions. Gifts are used to support a variety of projects, including capital improvements, scholarships, and endowments for various academic and research programs.

Auxiliary enterprise operations such as student housing may be run by the University or by auxiliary organizations depending on the campus, whereas student unions are run by auxiliary organizations. There was no significant change in sales and services of auxiliary enterprises revenue for the total reporting entity (either the University or auxiliary organizations) in the current year.

Investment income, net and other for the University, which consists of investment income, endowment income, other operating revenues, and other nonoperating expenses, decreased by \$95.3 million, or 79.9%, to \$24.0 million in the current year. The decrease was primarily due to an increase of \$125.8 million in other nonoperating expenses offset by an increase of \$30.2 million in other operating revenues. There was no significant change in the University's investment and endowment incomes, net in the current year.

The University's investment portfolio consists primarily of investments held in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. The University's strategy continues in investing in securities with low interest rates and short maturities.

Other operating revenues increased by \$30.2 million in the current year mainly due to an overall increase in cost recoveries from the auxiliary organizations. Other nonoperating expenses increased by \$125.8 million mainly due to adjustments related to capital appropriations for the projects funded by the SPWB and also trust funds held with auxiliary organizations.

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(Unaudited)

Operating Expenses

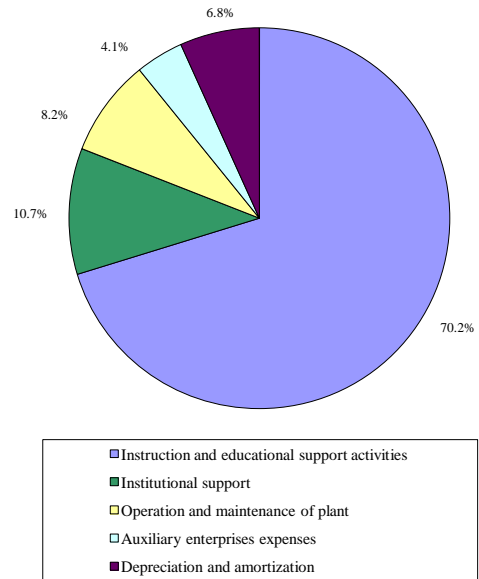
Approximately 35% of the University's total operating expenses in fiscal year 2011 directly support the primary function of the University, which is instruction. These direct expenses include only faculty and instructional support staff salaries, benefits, and their direct expenses. When the mission-critical 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 approximately 70% of the total operating expenses of the University as shown below:

University Operating Expenses

Year ended June 30, 2011

(In thousands)

Instruction	\$ 2,043,761	34.8%
Research	44,950	0.8
Public service	64,966	1.1
Academic support	563,358	9.6
Student services	601,775	10.2
Student grants and scholarships	<u>802,408</u>	<u>13.7</u>
Total instruction and educational support activities	4,121,218	70.2
Institutional support	627,466	10.7
Operation and maintenance of plant	483,054	8.2
Auxiliary enterprises expenses	238,218	4.1
Depreciation and amortization	<u>396,803</u>	<u>6.8</u>
Total operating expenses	\$ 5,866,759	100.0%



Total operating expenses for the University increased by \$415 million in the current year. The increase was mainly a result of the termination of furloughs starting at the beginning of fiscal year 2011. Other factors included an increase in student grants and scholarships expenses due to an overall increase in financial aid, and increases in depreciation and amortization as well as maintenance and repair expenses. These increases were offset by overall cost reductions measures in various functional categories. The chart on the following page displays the University's operating expenses by program for fiscal years 2011 and 2010.

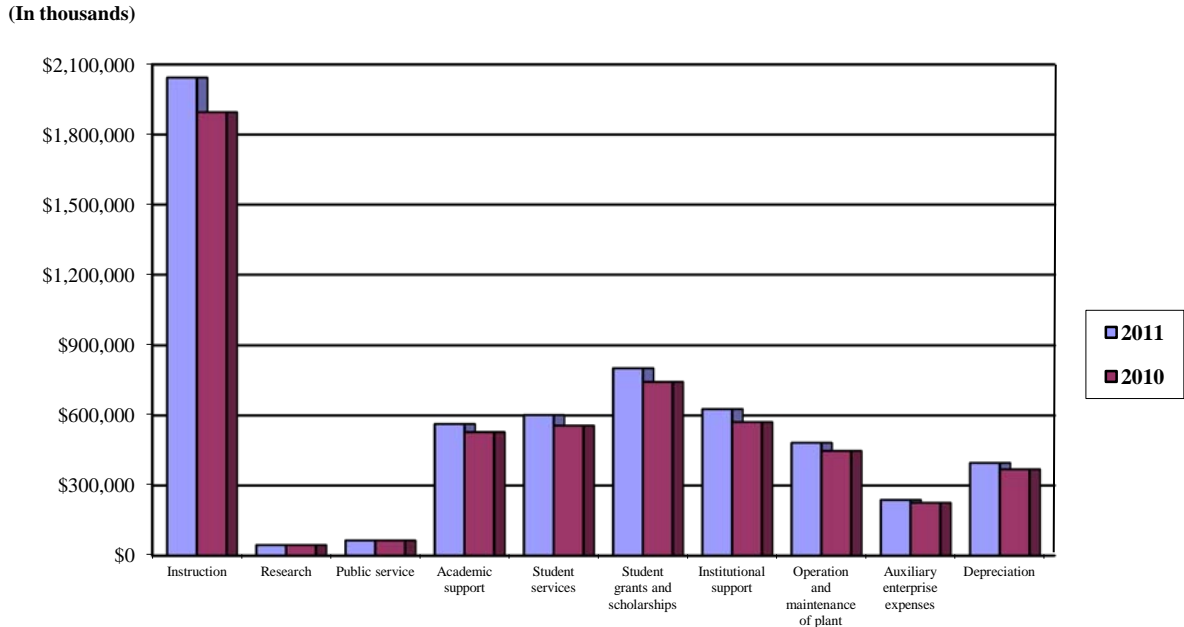
CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2011

(Unaudited)

University Operating Expenses by Program



Factors Impacting Future Periods

The State Budget Act for fiscal year 2012, approved by the Governor on June 30, 2011, reduces the University appropriations by \$650 million before adjustments, or 24% below the fiscal year 2011 enacted budget level. The result will be an approximately \$480 million decrease in noncapital state appropriations for the University in fiscal year 2012 to a total of \$2.10 billion from \$2.58 billion in fiscal year 2011. In December 2011, the University's fiscal year 2012 appropriations were further reduced by an additional \$100 million due to the \$1 billion shortfall in the State revenues.

To mitigate the impact of the appropriation reductions, the University increased tuition fee rates, including a 10% increase approved by the Board of Trustees (the Board) in November 2010 and an additional 12% increase approved by the Board in July 2011, both effective for fiscal year 2012, which together will yield approximately \$265 million in new tuition fee revenue after discounting for financial aid. Moreover, the University reduced its base resident student enrollment target for fiscal year 2012 by roughly 10,000 full-time equivalent students (FTE) from 341,728 in fiscal year 2011 to approximately 331,716 in fiscal year 2012, and instituted expense reduction measures of approximately \$292 million.

In November 2011, the Board approved an increase in student tuition fees for fiscal year 2013 to raise approximately \$138 million in new tuition fee revenue after discounting for financial aid.

CALIFORNIA STATE UNIVERSITY

Statement of Net Assets

June 30, 2011

Assets	<u>University</u>	<u>Discretely presented component units Auxiliary organizations</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 15,420,000	178,247,000	193,667,000
Short-term investments	2,509,658,000	455,641,000	2,965,299,000
Accounts receivable, net	127,182,000	287,632,000	414,814,000
Leases receivable, current portion	5,342,000	1,387,000	6,729,000
Notes receivable, current portion	33,603,000	2,155,000	35,758,000
Pledges receivable, net	90,000	53,099,000	53,189,000
Prepaid expenses and other assets	55,515,000	39,635,000	95,150,000
Total current assets	<u>2,746,810,000</u>	<u>1,017,796,000</u>	<u>3,764,606,000</u>
Noncurrent assets:			
Restricted cash and cash equivalents	913,000	100,113,000	101,026,000
Accounts receivable, net	397,932,000	78,729,000	476,661,000
Leases receivable, net of current portion	394,254,000	73,005,000	467,259,000
Notes receivable, net of current portion	210,623,000	37,738,000	248,361,000
Student loans receivable, net	95,919,000	527,000	96,446,000
Pledges receivable, net	190,000	110,892,000	111,082,000
Endowment investments	21,812,000	938,679,000	960,491,000
Other long-term investments	428,720,000	298,637,000	727,357,000
Capital assets, net	7,591,592,000	816,876,000	8,408,468,000
Other assets	32,547,000	44,745,000	77,292,000
Total noncurrent assets	<u>9,174,502,000</u>	<u>2,499,941,000</u>	<u>11,674,443,000</u>
Total assets	<u>11,921,312,000</u>	<u>3,517,737,000</u>	<u>15,439,049,000</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	196,787,000	76,860,000	273,647,000
Accrued salaries and benefits payable	264,697,000	26,254,000	290,951,000
Accrued compensated absences, current portion	122,341,000	14,406,000	136,747,000
Deferred revenue	242,180,000	70,144,000	312,324,000
Capitalized lease obligations, current portion	57,331,000	4,744,000	62,075,000
Long-term debt obligations, current portion	141,739,000	117,229,000	258,968,000
Self-insurance claims liability, current portion	25,473,000	15,000	25,488,000
Depository accounts, current portion	9,679,000	8,807,000	18,486,000
Other liabilities	66,495,000	86,868,000	153,363,000
Total current liabilities	<u>1,126,722,000</u>	<u>405,327,000</u>	<u>1,532,049,000</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	83,641,000	2,943,000	86,584,000
Deferred revenue	11,962,000	11,088,000	23,050,000
Grants refundable	98,521,000	2,344,000	100,865,000
Capitalized lease obligations, net of current portion	885,715,000	363,533,000	1,249,248,000
Long-term debt obligations, net of current portion	3,441,168,000	500,318,000	3,941,486,000
Self-insurance claims liability, net of current portion	62,768,000	2,915,000	65,683,000
Depository accounts	5,263,000	14,057,000	19,320,000
Other postemployment benefits obligation	128,545,000	137,939,000	266,484,000
Other liabilities	170,151,000	51,463,000	221,614,000
Total noncurrent liabilities	<u>4,887,734,000</u>	<u>1,086,600,000</u>	<u>5,974,334,000</u>
Total liabilities	<u>6,014,456,000</u>	<u>1,491,927,000</u>	<u>7,506,383,000</u>
Net assets:			
Invested in capital assets, net of related debt	3,866,875,000	198,938,000	4,065,813,000
Restricted for:			
Nonexpendable – endowments	21,812,000	809,801,000	831,613,000
Expendable:			
Scholarships and fellowships	16,536,000	144,554,000	161,090,000
Research	38,000	16,899,000	16,937,000
Loans	13,679,000	1,731,000	15,410,000
Capital projects	124,108,000	36,398,000	160,506,000
Debt service	18,955,000	3,515,000	22,470,000
Other	9,128,000	429,195,000	438,323,000
Unrestricted	1,835,725,000	384,779,000	2,220,504,000
Total net assets	<u>\$ 5,906,856,000</u>	<u>2,025,810,000</u>	<u>7,932,666,000</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2011

	<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 \$774,581,000)	\$ 1,748,536,000	138,007,000	(5,712,000)	1,880,831,000
Grants and contracts, noncapital:				
Federal	59,887,000	355,780,000	—	415,667,000
State	23,217,000	106,408,000	(4,198,000)	125,427,000
Local	6,544,000	14,080,000	(2,000)	20,622,000
Nongovernmental	7,241,000	65,451,000	(47,000)	72,645,000
Sales and services of educational activities	33,215,000	33,128,000	—	66,343,000
Sales and services of auxiliary enterprises (net of scholarship allowances of \$47,098,000)	350,656,000	474,085,000	(10,544,000)	814,197,000
Other operating revenues	174,318,000	126,026,000	(4,064,000)	296,280,000
Total operating revenues	<u>2,403,614,000</u>	<u>1,312,965,000</u>	<u>(24,567,000)</u>	<u>3,692,012,000</u>
Expenses:				
Operating expenses:				
Instruction	2,043,761,000	157,521,000	(646,000)	2,200,636,000
Research	44,950,000	208,071,000	(170,000)	252,851,000
Public service	64,966,000	177,254,000	(1,820,000)	240,400,000
Academic support	563,358,000	59,406,000	(1,160,000)	621,604,000
Student services	601,775,000	130,034,000	(13,632,000)	718,177,000
Institutional support	627,466,000	127,867,000	(12,723,000)	742,610,000
Operation and maintenance of plant	483,054,000	28,512,000	(452,000)	511,114,000
Student grants and scholarships	802,408,000	45,104,000	(19,521,000)	827,991,000
Auxiliary enterprise expenses	238,218,000	456,114,000	(6,047,000)	688,285,000
Depreciation and amortization	396,803,000	46,866,000	—	443,669,000
Total operating expenses	<u>5,866,759,000</u>	<u>1,436,749,000</u>	<u>(56,171,000)</u>	<u>7,247,337,000</u>
Operating loss	<u>(3,463,145,000)</u>	<u>(123,784,000)</u>	<u>31,604,000</u>	<u>(3,555,325,000)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	2,576,705,000	—	—	2,576,705,000
Federal financial aid grants, noncapital	753,887,000	—	—	753,887,000
State financial aid grants, noncapital	298,608,000	—	—	298,608,000
Nongovernmental and other financial aid grants, noncapital	12,230,000	—	(8,548,000)	3,682,000
Other federal nonoperating grants, noncapital	110,757,000	—	—	110,757,000
Gifts, noncapital	30,991,000	136,940,000	(15,466,000)	152,465,000
Investment income net	46,558,000	80,895,000	—	127,453,000
Endowment income	95,000	134,941,000	—	135,036,000
Interest expense	(218,774,000)	(37,074,000)	—	(255,848,000)
Other nonoperating revenues (expenses)	(196,955,000)	39,329,000	10,023,000	(147,603,000)
Net nonoperating revenues	<u>3,414,102,000</u>	<u>355,031,000</u>	<u>(13,991,000)</u>	<u>3,755,142,000</u>
Income (loss) before other revenues and expenses	<u>(49,043,000)</u>	<u>231,247,000</u>	<u>17,613,000</u>	<u>199,817,000</u>
State appropriations, capital	11,824,000	—	—	11,824,000
Grants and gifts, capital	41,353,000	6,415,000	(18,287,000)	29,481,000
Additions (reduction) to permanent endowments	(917,000)	72,212,000	674,000	71,969,000
Increase in net assets	<u>3,217,000</u>	<u>309,874,000</u>	<u>—</u>	<u>313,091,000</u>
Net assets:				
Net assets at beginning of year, as previously reported	5,903,639,000	1,718,754,000	—	7,622,393,000
Restatements	—	(2,818,000)	—	(2,818,000)
Net assets at beginning of year, as restated	<u>5,903,639,000</u>	<u>1,715,936,000</u>	<u>—</u>	<u>7,619,575,000</u>
Net assets at end of year	<u>\$ 5,906,856,000</u>	<u>2,025,810,000</u>	<u>—</u>	<u>7,932,666,000</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2011

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 1,759,748,000
Federal grants and contracts	65,710,000
State grants and contracts	24,889,000
Local grants and contracts	6,624,000
Nongovernmental grants and contracts	7,497,000
Payments to suppliers	(953,494,000)
Payments to employees	(3,676,731,000)
Payments to students	(805,381,000)
Collections of student loans	5,932,000
Sales and services of educational activities	30,859,000
Sales and services of auxiliary enterprises	354,561,000
Other receipts	179,338,000
Net cash used in operating activities	<u>(3,000,448,000)</u>
Cash flows from noncapital financing activities:	
State appropriations	2,577,513,000
Federal financial aid grants	753,957,000
State financial aid grants	310,521,000
Nongovernmental and other financial aid grants	12,076,000
Other federal nonoperating grants	110,757,000
Gifts and grants received for other than capital purposes	28,915,000
Federal loan program receipts	1,226,194,000
Federal loan program disbursements	(1,227,241,000)
Monies received on behalf of others	84,882,000
Monies disbursed on behalf of others	(89,503,000)
Other noncapital financing activities	62,017,000
Net cash provided by noncapital financing activities	<u>3,850,088,000</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	50,463,000
State appropriations	196,278,000
Capital grants and gifts	23,332,000
Proceeds from sale of capital assets	472,000
Acquisition of capital assets	(528,200,000)
Issuance of notes receivable	(7,028,000)
Principal paid on capital debt and leases	(128,952,000)
Interest paid on capital debt and leases	(209,670,000)
Principal payments received on capital leases receivable	4,631,000
Interest payments received on capital leases receivable	15,401,000
Principal payments received on notes receivable	4,494,000
Interest payments received on notes receivable	11,737,000
Net cash used in capital and related financing activities	<u>(567,042,000)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	6,435,203,000
Purchases of investments	(6,745,146,000)
Investment income proceeds	30,903,000
Net cash used in investing activities	<u>(279,040,000)</u>
Net increase in cash and cash equivalents	3,558,000
Cash and cash equivalents at beginning of year	<u>12,775,000</u>
Cash and cash equivalents at end of year	<u>\$ 16,333,000</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 15,420,000
Restricted cash and cash equivalents	913,000
Total cash and cash equivalents at end of year	<u>\$ 16,333,000</u>

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2011

	University
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,463,145,000)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	396,803,000
Change in assets and liabilities:	
Accounts receivable, net	5,790,000
Student loans receivable, net	1,428,000
Prepaid expenses and other assets	(2,500,000)
Accounts payable	(5,192,000)
Accrued salaries and benefits	18,278,000
Accrued compensated absences	(9,322,000)
Deferred revenue	19,696,000
Self-insurance claims liability	932,000
Depository accounts	212,000
Other postemployment benefits obligation	38,488,000
Other liabilities	(1,916,000)
Net cash used in operating activities	\$ (3,000,448,000)
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 14,061,000
Acquisition of capital assets through capital lease	16,850,000
Change in accrued capital asset purchases	29,148,000
Debt proceeds directly issued to auxiliary organizations	27,775,000
Other miscellaneous noncash transactions related to auxiliary organizations and capital assets	1,075,000
Gifts in kind	3,756,000
Amortization of bond premium and discount	3,430,000
Amortization of loss on refundings	1,145,000

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

(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 State), the University is also included in the State'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, 2011:

- 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

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 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 94 University-related recognized auxiliary organizations. These organizations are legally separate entities that provide services primarily to the University and its students. Such organizations include foundations, associated students, student unions, food service entities, bookstores, and similar organizations. Foundations, whose net assets comprise approximately 78% of the discretely presented component unit 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 recognized auxiliary organizations are as follows:

- California State University, Bakersfield, Foundation
- Associated Students, Inc., California State University, Bakersfield
- California State University, Bakersfield Student Union
- California State University, Bakersfield, Auxiliary for Sponsored Programs Administration
- California State University Institute
- California State University Foundation
- California State University, Channel Islands Foundation
- Associated Students of California State University, Channel Islands, Inc.
- CSUCI Financing Authority
- California State University, Channel Islands Site Authority
- California State University Channel Islands University Glen Corporation

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

- The CSU, Chico Research Foundation
- The University Foundation, California State University, Chico
- Associated Students of California State University, Chico
- California State University Dominguez Hills Foundation
- 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, East Bay Foundation, Inc.
- Associated Students, Inc. of California State University, East Bay
- Cal State East Bay Educational Foundation, Inc.
- California State University, Fresno Foundation
- Associated Students, Inc. of California State University, Fresno
- California State University, Fresno Association, Inc.
- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Athletic Corporation
- The Bulldog Foundation (Fresno)
- Fresno State Programs for Children, Inc.
- Cal State Fullerton Philanthropic Foundation
- Associated Students, California State University, Fullerton, Inc.
- Titan Student Centers Associated Students California State University, Fullerton, Inc.
- CSU Fullerton Housing Authority
- CSU Fullerton Auxiliary Services Corporation
- Humboldt State University Sponsored Programs Foundation
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Advancement Foundation
- California State University, Long Beach Foundation
- Associated Students, Inc., California State University, Long Beach
- Forty-Niner Shops, Inc. (Long Beach)
- Cal State L.A. University Auxiliary Services, Inc.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

- California State University, Los Angeles Foundation
- Associated Students of California State University, Los Angeles, Inc.
- University – Student Union Board, California State University, Los Angeles
- California Maritime Academy Foundation, Inc.
- Associated Students of the California Maritime Academy
- University Corporation at Monterey Bay
- Foundation of California State University, Monterey Bay
- California State University, Northridge Foundation
- Associated Students, Inc., California State University, Northridge
- University Student Union, Inc., California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- The University Corporation (Northridge)
- Cal Poly Pomona Foundation, Inc.
- Associated Students, Inc., California State Polytechnic University, Pomona
- Cal Poly Pomona University Educational Trust
- The University Foundation at Sacramento State
- University Enterprises, Inc. (Sacramento)
- University Enterprises Development Group (Sacramento)
- Associated Students of California State University, Sacramento
- University Union Operation of California State University, Sacramento
- Capital Public Radio, Inc. (Sacramento)
- Santos Manuel Student Union of California State University, San Bernardino
- The Foundation for California State University, San Bernardino
- Associated Students, Incorporated, California State University, San Bernardino
- San Diego State University Research Foundation
- The Campanile Foundation (San Diego)
- Associated Students of San Diego State University
- Aztec Shops, Ltd. (San Diego)
- The University Corporation, San Francisco State

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

- Associated Students of San Francisco State University
- San Francisco State University Student Center
- Franciscan Shops (Operating as SFSU Bookstore)
- San Francisco State University Foundation
- Associated Students of San Jose State University
- The Student Union of San Jose State University
- The Tower Foundation (San Jose)
- San Jose State University Research Foundation
- Spartan Shops, Inc. (San Jose)
- California Polytechnic State University Foundation (San Luis Obispo)
- Cal Poly Housing Corporation (San Luis Obispo)
- Cal Poly Corporation (San Luis Obispo)
- Associated Students, Inc., California Polytechnic State University, San Luis Obispo
- University Auxiliary and Research Services Corporation (San Marcos)
- Associated Students, Inc. of California State University, San Marcos
- San Marcos University Corporation
- California State University San Marcos Foundation
- Sonoma State University Academic Foundation, Inc.
- Associated Students, Incorporated of Sonoma State University
- Sonoma Student Union Corporation
- Sonoma State Enterprises, Inc.
- California State University, Stanislaus Foundation
- Associated Students Incorporated of California State University, Stanislaus
- University Student Union of California State University, Stanislaus
- California State University, Stanislaus Auxiliary and Business Services

The auxiliary organizations are presented in the accompanying financial statements as discretely presented 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 with the University. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish between the University and the auxiliary organizations. None

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

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 (CSURMA); 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, asset management, and debt financing. The University is financially accountable for these organizations.

(b) Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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.

As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement No. 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present 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.

(c) Auxiliary Organizations Restatements

The beginning net assets of the auxiliary organizations have been restated due to the correction of errors and the change in accounting methods. 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, 2010, as previously reported	\$ 1,718,754,000
Adjustments for prior year depreciation and change in capitalization threshold	(1,264,000)
Adjustments for understatement of OPEB liability	(2,684,000)
Adjustments for overstatement of pledge receivables	(1,597,000)
Adjustments for overstatement of liability	<u>2,727,000</u>
Net assets at beginning of year, as restated	<u><u>\$ 1,715,936,000</u></u>

(d) Election of Applicable FASB Statements

The University follows standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The University also has the option of following

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Notes to Financial Statements

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subsequent private-sector guidance subject to the same limitation. The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

(e) *Classification of Current and Noncurrent Assets (Other Than Investments) 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 noncurrent. For classification of current and noncurrent investments, refer to note 2(g).

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

The University considers highly liquid investments with an original maturity date of three months or less to be cash equivalents. The University considers amounts included in the California State University Investment Pool to be investments. 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.

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

(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. Capital assets, including infrastructure and intangible assets, with an original value of \$5,000 or more and with a useful life of one year or more, are capitalized. Such cost includes, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all University assets, whether purchased, constructed, or donated, is held by the State. 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 financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, construction work in progress, and certain intangible assets, are depreciated or amortized 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. Works of art and historical treasures are valued at cost, if purchased, or the fair market value at the date of donation, if contributed. 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.

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Depreciation and amortization 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***

Compensated absences are recognized when the right to receive the compensation is earned by the employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1, 2011 to calculate the liability for accrued compensated absences. The University employees pay rates are based on length of service and job classifications.

(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, both 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, the federal contributions received and retained by the University at year-end are considered liabilities of the University and are reflected as such in the accompanying statement of net assets.

(l) ***Net Assets***

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation, 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 retains 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 have legislative or bond indenture requirements associated with their use or may be designated for use by management of the University. 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.

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(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 and 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 No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, financial aid and federal American Recovery and Reinvestment Act (ARRA) grants, net investment income, noncapital gifts, interest expense, and capital grants and gifts.

The State 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 in general 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.

In fiscal year 2011, the State received federal education grants that were passed on to school districts and the state's universities to restore state appropriations. The Governor had filed an application with the federal government to receive California's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The federal education grants have been appropriated to the University by the State and reported separately under the caption of other federal nonoperating grants, noncapital in nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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

(n) *Internal Services Activities*

Certain institutional internal service providers offer goods and services to University departments, as well as to their external customers. These include activities such as copy centers, postal services, and telecommunications. All internal service activities to University departments have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

(o) *Income Taxes*

The University is an agency of the State 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 that 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 net income from any unrelated trade or

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business. If there is net income, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

(p) 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.

(q) Use of Estimates

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

(3) Cash, Cash Equivalents, and Investments

The University's cash, cash equivalents, and investments as of June 30, 2011 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 15,420,000
Restricted cash and cash equivalents	913,000
	<hr/>
Total cash and cash equivalents	16,333,000
	<hr/>
Short-term investments	2,509,658,000
Endowment investments	21,812,000
Other long-term investments	428,720,000
	<hr/>
Total investments	2,960,190,000
	<hr/>
Total cash, cash equivalents, and investments	\$ 2,976,523,000
	<hr/> <hr/>

(a) Cash and Cash Equivalents

At June 30, 2011, cash and cash equivalents consisted of demand deposits held at the State Treasury and commercial banks, and petty cash. Total cash and cash equivalents of \$16,333,000 had a corresponding carrying balance with the State Treasury and commercial banks of \$20,467,000 at June 30, 2011. The difference was primarily related to deposits in transit and outstanding checks.

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that the University will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in

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that the University's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

(b) Investments

At June 30, 2011, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

Investment Policy

State law and regulations require that surplus 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, high grade corporate and fixed income securities, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University has formal duration guidelines to manage its interest rate risk. The duration guidelines include limits on the maximum maturity of any individual investment in the portfolio and average duration of the investment portfolio. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University identifies and manages the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that the callable investments will not be called. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2011 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.

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The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's allocated share of the California State University Investment Pool and the SMIF as of June 30, 2011:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market Repurchase agreements	\$ 19,426,000	0.01	\$ 6,406,000	—	—	—	13,020,000
Certificates of deposit	5,439,000	—	—	—	5,439,000	—	—
Commercial paper	319,280,000	0.41	—	21,387,000	207,958,000	—	89,935,000
U.S. agency securities	174,731,000	0.08	—	—	174,731,000	—	—
State of California Local agency Investment Fund	736,468,000	1.22	510,459,000	—	226,009,000	—	—
State of California Surplus Money Investment Fund	6,000	0.64	—	—	—	—	6,000
Corporate and fixed income securities	551,531,000	0.64	—	—	—	—	551,531,000
U.S. Treasury securities	780,812,000	1.91	288,459,000	203,178,000	284,514,000	4,661,000	—
Municipal securities	343,212,000	1.88	—	—	—	—	343,212,000
Mortgage-backed securities	2,571,000	10.48	351,000	1,045,000	1,175,000	—	—
	26,714,000	13.30	24,823,000	1,891,000	—	—	—
Total	\$ 2,960,190,000		\$ 830,498,000	227,501,000	899,826,000	4,661,000	997,704,000

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. As of June 30, 2011, the following investments (excluding U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Mortgage Corporation notes (\$277,850,000 or 9.4%), Federal Home Loan Bank notes (\$274,299,000 or 9.3%), and Federal National Mortgage Association notes (\$158,806,000 or 5.4%).

Risk and Uncertainties

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

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

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Auxiliary Organizations' Investments

Investments of the discretely presented auxiliary organizations at fair value consisted of the following at June 30, 2011:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State of California Local Agency			
Investment Fund	\$ 219,819,000	8,893,000	228,712,000
U.S. Bank SWIFT pool	26,832,000	1,155,000	27,987,000
Common fund	3,842,000	53,434,000	57,276,000
Debt securities	3,123,000	103,586,000	106,709,000
Equity securities	38,146,000	239,720,000	277,866,000
Fixed income securities	31,919,000	137,927,000	169,846,000
Real estate	—	21,194,000	21,194,000
Certificates of deposit	36,537,000	26,603,000	63,140,000
Notes receivable	—	5,264,000	5,264,000
Money market funds	7,879,000	6,841,000	14,720,000
Mutual funds	84,927,000	499,400,000	584,327,000
Partnership interests	—	18,175,000	18,175,000
Alternative investments	—	48,173,000	48,173,000
Hedge funds	746,000	9,283,000	10,029,000
Other	1,871,000	57,668,000	59,539,000
	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>455,641,000</u>	<u>1,237,316,000</u>	<u>1,692,957,000</u>

For additional information regarding the investments of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

Approximately \$4.5 million of the investments reported by the University in the statement of net assets at June 30, 2011 is invested under contractual agreements on behalf of the auxiliary organizations of the University.

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Notes to Financial Statements

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(4) Accounts Receivable

Accounts receivable of the University at June 30, 2011 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 3,649,000	392,362,000	396,011,000
Auxiliary organizations	34,818,000	4,615,000	39,433,000
Student accounts	50,697,000	34,000	50,731,000
Government grants and contracts	27,405,000	129,000	27,534,000
Other	32,531,000	1,410,000	33,941,000
	<u>149,100,000</u>	<u>398,550,000</u>	<u>547,650,000</u>
Less allowance for doubtful accounts	<u>(21,918,000)</u>	<u>(618,000)</u>	<u>(22,536,000)</u>
Total	\$ <u>127,182,000</u>	<u>397,932,000</u>	<u>525,114,000</u>

(5) Leases Receivable

The University has entered into capital lease agreements with certain auxiliary organizations to lease existing and newly constructed facilities to the auxiliary organizations. 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:		
2012		\$ 26,595,000
2013		28,494,000
2014		29,804,000
2015		29,741,000
2016		27,121,000
2017 – 2021		145,369,000
2022 – 2026		150,786,000
2027 – 2031		141,118,000
2032 – 2036		75,694,000
2037 – 2041		25,775,000
2042 – 2046		17,972,000
Total minimum lease payments to be received		698,469,000
Less amounts representing interest		<u>(298,873,000)</u>
Present value of future minimum lease payments to be received		399,596,000
Less current portion		<u>(5,342,000)</u>
Long-term lease receivable, net of current portion		\$ <u>394,254,000</u>

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Notes to Financial Statements

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(6) Notes Receivable

The University has entered into note agreements with certain auxiliary organizations to finance existing and newly constructed facilities for the auxiliary organizations. Note payments are due twice a year, on May 1 and November 1.

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

Fiscal year ending:	
2012	\$ 43,168,000
2013	15,542,000
2014	23,060,000
2015	15,860,000
2016	14,620,000
2017 – 2021	83,751,000
2022 – 2026	67,813,000
2027 – 2031	63,859,000
2032 – 2036	41,925,000
2037 – 2041	16,032,000
Total minimum note payments to be received	385,630,000
Less amounts representing interest	(141,404,000)
Present value of future minimum note payments to be received	244,226,000
Less current portion	(33,603,000)
Long-term notes receivable, net of current portion	\$ <u>210,623,000</u>

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Notes to Financial Statements

June 30, 2011

(7) Capital Assets

Capital assets activity for the University for the year ended June 30, 2011 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 242,746,000	700,000	—	30,000	243,476,000
Works of art and historical treasures	24,373,000	772,000	(26,000)	—	25,119,000
Construction work in progress	970,716,000	360,573,000	(6,935,000)	(836,981,000)	487,373,000
Intangible assets	<u>2,533,000</u>	<u>996,000</u>	<u>—</u>	<u>(2,278,000)</u>	<u>1,251,000</u>
Total nondepreciable/ nonamortizable capital assets	<u>1,240,368,000</u>	<u>363,041,000</u>	<u>(6,961,000)</u>	<u>(839,229,000)</u>	<u>757,219,000</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	8,676,386,000	76,022,000	(12,827,000)	745,706,000	9,485,287,000
Improvements other than buildings	452,922,000	5,157,000	(42,000)	22,603,000	480,640,000
Infrastructure	835,106,000	9,548,000	(29,000)	55,909,000	900,534,000
Personal property:					
Equipment	639,596,000	68,191,000	(36,845,000)	12,659,000	683,601,000
Library books and materials	375,463,000	7,330,000	(1,412,000)	—	381,381,000
Intangible assets	<u>299,135,000</u>	<u>6,762,000</u>	<u>(3,371,000)</u>	<u>2,352,000</u>	<u>304,878,000</u>
Total depreciable/ amortizable capital assets	<u>11,278,608,000</u>	<u>173,010,000</u>	<u>(54,526,000)</u>	<u>839,229,000</u>	<u>12,236,321,000</u>
Total cost	<u>12,518,976,000</u>	<u>536,051,000</u>	<u>(61,487,000)</u>	<u>—</u>	<u>12,993,540,000</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(3,425,149,000)	(267,652,000)	10,561,000	—	(3,682,240,000)
Improvements other than buildings	(319,681,000)	(18,955,000)	—	—	(338,636,000)
Infrastructure	(276,200,000)	(30,631,000)	2,000	—	(306,829,000)
Personal property:					
Equipment	(461,904,000)	(46,447,000)	32,766,000	—	(475,585,000)
Library books and materials	(327,498,000)	(10,116,000)	1,413,000	—	(336,201,000)
Intangible assets	<u>(242,551,000)</u>	<u>(23,002,000)</u>	<u>3,096,000</u>	<u>—</u>	<u>(262,457,000)</u>
Total accumulated depreciation/ amortization	<u>(5,052,983,000)</u>	<u>(396,803,000)</u>	<u>47,838,000</u>	<u>—</u>	<u>(5,401,948,000)</u>
Net capital assets	\$ <u>7,465,993,000</u>	<u>139,248,000</u>	<u>(13,649,000)</u>	<u>—</u>	<u>7,591,592,000</u>

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Capital assets activity of the discretely presented auxiliary organizations of the University for the year ended June 30, 2011 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 93,730,000	680,000	(400,000)	—	94,010,000
Works of art and historical treasures	5,317,000	303,000	—	—	5,620,000
Construction work in progress	18,495,000	14,007,000	(6,292,000)	(9,999,000)	16,211,000
Intangible assets	<u>5,083,000</u>	<u>—</u>	<u>(1,000)</u>	<u>—</u>	<u>5,082,000</u>
Total nondepreciable/ nonamortizable capital assets	<u>122,625,000</u>	<u>14,990,000</u>	<u>(6,693,000)</u>	<u>(9,999,000)</u>	<u>120,923,000</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	726,842,000	5,320,000	(1,735,000)	7,422,000	737,849,000
Improvements other than buildings	111,109,000	1,673,000	(3,999,000)	318,000	109,101,000
Infrastructure	63,419,000	12,000	—	—	63,431,000
Personal property:					
Equipment	192,760,000	14,572,000	(16,410,000)	2,109,000	193,031,000
Intangible assets	<u>7,669,000</u>	<u>648,000</u>	<u>(113,000)</u>	<u>150,000</u>	<u>8,354,000</u>
Total depreciable/ amortizable capital assets	<u>1,101,799,000</u>	<u>22,225,000</u>	<u>(22,257,000)</u>	<u>9,999,000</u>	<u>1,111,766,000</u>
Total cost	<u>1,224,424,000</u>	<u>37,215,000</u>	<u>(28,950,000)</u>	<u>—</u>	<u>1,232,689,000</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(183,985,000)	(25,097,000)	1,928,000	—	(207,154,000)
Improvements other than buildings	(46,806,000)	(5,021,000)	1,544,000	—	(50,283,000)
Infrastructure	(9,113,000)	(1,569,000)	—	—	(10,682,000)
Personal property:					
Equipment	(141,166,000)	(14,591,000)	13,011,000	—	(142,746,000)
Intangible assets	<u>(4,320,000)</u>	<u>(734,000)</u>	<u>106,000</u>	<u>—</u>	<u>(4,948,000)</u>
Total accumulated depreciation/ amortization	<u>(385,390,000)</u>	<u>(47,012,000)</u>	<u>16,589,000</u>	<u>—</u>	<u>(415,813,000)</u>
Net capital assets	\$ <u>839,034,000</u>	<u>(9,797,000)</u>	<u>(12,361,000)</u>	<u>—</u>	<u>816,876,000</u>

For additional information regarding the capital assets of the individual discretely presented auxiliary organizations of the University, refer to their separately issued financial statements.

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June 30, 2011

(8) Lease Obligations

The University is obligated under various capital and operating leases and installment purchase agreements for the acquisition of equipment and facility rentals. A substantial amount of the capital leases is a result of the University's participation with the State in the SPWB 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 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 in general 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 and in some cases the construction.
- Generally, during the construction phase of the project, 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.

The University also enters into capital leases with financial institutions and via commercial paper issued by the California State University Institute (the Institute).

Overall 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 \$649,500,000 at June 30, 2011. The leases bear interest at rates ranging from 1.0% to 19.0% and have terms expiring in various years through 2041.

Operating leases consist primarily of leases for the use of real property. The University's operating leases expire in various fiscal years through 2099. 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, 2011 were \$23,606,000 of which \$11,487,000 was paid to related auxiliary organizations.

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Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2011 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2012	\$ 107,375,000	21,542,000
2013	106,699,000	16,212,000
2014	111,709,000	14,343,000
2015	108,797,000	9,660,000
2016	101,444,000	9,154,000
2017 – 2021	379,249,000	36,219,000
2022 – 2026	231,923,000	6,510,000
2027 – 2031	209,882,000	3,507,000
2032 – 2036	140,823,000	2,930,000
2037 – 2041	11,937,000	2,417,000
2042 – 2046	—	365,000
2047 – 2051	—	365,000
2052 – 2056	—	33,000
2057 – 2061	—	33,000
2062 – 2066	—	33,000
2067 – 2071	—	33,000
2072 – 2076	—	33,000
2077 – 2081	—	33,000
2082 – 2086	—	33,000
2087 – 2091	—	33,000
2092 – 2096	—	33,000
2097 – 2099	—	12,000
Total minimum lease payments	1,509,838,000	\$ <u>123,533,000</u>
Less amount representing interest	<u>(569,707,000)</u>	
Present value of future minimum lease payments	940,131,000	
Unamortized premium	4,349,000	
Unamortized loss on refundings	<u>(1,434,000)</u>	
Total capital lease obligation	943,046,000	
Less current portion	<u>(57,331,000)</u>	
Capital lease obligation, net of current portion	\$ <u>885,715,000</u>	

(9) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond

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programs provides a pool of available funds, which is allocated on a project-by-project basis among the 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. 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 the University projects is approximately \$2,707,128,000 as of June 30, 2011.

(b) Revenue Bond Programs

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

The housing program provides on-campus housing primarily for students. Housing is a self-supporting program deriving its revenues from fees collected for the use of the residence facilities and from interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The 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 from 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 and can be transferred to a campus auxiliary organization that would have a contract 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 from 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 from interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The continuing education program provides nonstate-supported courses to students. The continuing education program is self-supporting and derives its revenues primarily from student fees and from

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interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay 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 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 at 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 revenue-producing projects. The University's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$3,381,618,000 at June 30, 2011.

The University has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,618,713,000 in Systemwide Revenue Bonds issued through fiscal year 2011. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the University is \$6,048,938,884. In fiscal year 2011, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the University were \$226,515,000 and \$306,951,000, respectively.

(c) ***Bond Anticipation Notes (BANs)***

The Trustees have authorized the issuance of BANs to provide short-term financing to the University System for certain projects. The BANs are purchased by the California State University Institute, a discretely presented component unit, with proceeds from the commercial paper issued by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. State law was amended in 2008 to allow BAN maturities to extend beyond three years and the maturity date for the issuance of BANs to be determined by the Trustees. In fiscal year 2010, the Trustees authorized three projects for financing with maturities beyond three years and they will remain in BANs until the debt is retired. BAN interest is variable and changes based upon the cost of the Institute's commercial paper program. The maximum and minimum weighted average interest rates for the year ended June 30, 2011 were 0.32% and 0.24%,

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respectively. Amounts outstanding under the BANs totaled \$85,396,000 at June 30, 2011. The not-to-exceed amounts related to the outstanding amounts totaled \$175,505,000 of which \$84,569,000 has not been issued and \$5,540,000 has been issued and paid back.

Long-term debt obligations of the University as of June 30, 2011 consisted of the following:

Description	Interest rate percentage	Final maturity date	Original issue amount	Amount outstanding
Systemwide Revenue Bonds, Housing Series J – Y	3.00	2013/14 – 2021/22	\$ 18,913,000	8,098,000
Systemwide Revenue Bonds, Series 2002A	4.13 – 5.50	2012/13 – 2033/34	174,750,000	146,065,000
Systemwide Revenue Bonds, Series 2003A	3.30 – 5.38	2033/34 – 2035/36	320,040,000	305,010,000
Systemwide Revenue Bonds, Series 2004A	2.75 – 5.25	2018/19 – 2034/35	158,010,000	130,400,000
Systemwide Revenue Bonds, Series 2005A	3.25 – 5.00	2013/14 – 2037/38	667,105,000	613,560,000
Systemwide Revenue Bonds, Series 2005B	5.00	2015/16 – 2021/22	134,805,000	89,115,000
Systemwide Revenue Bonds, Series 2005C	3.25 – 5.25	2017/18 – 2038/39	540,900,000	513,700,000
Systemwide Revenue Bonds, Series 2007A	4.00 – 5.00	2024/25 – 2044/45	254,770,000	249,010,000
Systemwide Revenue Bonds, Series 2007B	5.27 – 5.55	2027/28 – 2037/38	13,165,000	12,340,000
Systemwide Revenue Bonds, Series 2007C	5.00	2020/21 – 2028/29	63,275,000	57,535,000
Systemwide Revenue Bonds, Series 2007D	4.00 – 5.00	2037/38	80,360,000	76,825,000
Systemwide Revenue Bonds, Series 2008A	3.50 – 5.00	2022/23 – 2039/40	375,160,000	364,590,000
Systemwide Revenue Bonds, Series 2009A	2.50 – 6.00	2015/16 – 2040/41	465,365,000	465,035,000
Systemwide Revenue Bonds, Series 2010A	1.00 – 5.00	2019/20 – 2031/32	146,950,000	145,190,000
Systemwide Revenue Bonds, Series 2010B	5.45 – 6.48	2035/36 – 2041/42	205,145,000	205,145,000
			<u>3,618,713,000</u>	<u>3,381,618,000</u>
Bond Anticipation Notes (note 9c)	Variable	2011/12 – 2019/20	90,936,000	85,396,000
Other	Variable	Various	111,610,000	82,419,000
			<u>3,821,259,000</u>	<u>3,549,433,000</u>
				46,365,000
				<u>(12,891,000)</u>
				3,582,907,000
				<u>(141,739,000)</u>
			\$	<u><u>3,441,168,000</u></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>
2012	\$ 141,739,000	170,690,000
2013	88,652,000	167,517,000
2014	95,687,000	163,739,000
2015	99,921,000	159,362,000
2016	100,744,000	154,817,000
2017 – 2021	580,316,000	695,414,000
2022 – 2026	640,711,000	546,174,000
2027 – 2031	727,948,000	376,541,000
2032 – 2036	689,815,000	189,208,000
2037 – 2041	355,320,000	49,518,000
2042 – 2045	28,580,000	1,915,000
	<u>\$ 3,549,433,000</u>	<u>2,674,895,000</u>

Long-term debt obligations of the individual 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 individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

(10) Advanced Refundings

Prior Years Refundings

In prior years, the University defeased certain Systemwide Revenue Bonds (Series 2003A) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005C refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the refunding bonds were used to purchase U.S. government securities that were placed in the State University 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 matured. 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, 2011 totaled \$4,605,000.

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(11) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2011 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 219,611,000	130,054,000	(143,683,000)	205,982,000	122,341,000
Self-insurance claims liability (note 13)	87,309,000	21,270,000	(20,338,000)	88,241,000	25,473,000
Capitalized lease obligations (note 8)	976,278,000	23,287,000	(56,519,000)	943,046,000	57,331,000
Long-term debt obligations (note 9):					
Systemwide Revenue Bonds	3,436,168,000	—	(54,550,000)	3,381,618,000	66,975,000
Bond Anticipation Notes	18,045,000	68,867,000	(1,516,000)	85,396,000	63,636,000
Other	90,725,000	9,362,000	(17,668,000)	82,419,000	11,128,000
	<u>3,544,938,000</u>	<u>78,229,000</u>	<u>(73,734,000)</u>	<u>3,549,433,000</u>	<u>141,739,000</u>
Unamortized bond premium	49,014,000	9,000	(2,658,000)	46,365,000	—
Unamortized loss on refundings	<u>(13,806,000)</u>	<u>—</u>	<u>915,000</u>	<u>(12,891,000)</u>	<u>—</u>
Total long-term debt obligations	<u>3,580,146,000</u>	<u>78,238,000</u>	<u>(75,477,000)</u>	<u>3,582,907,000</u>	<u>141,739,000</u>
Total long-term liabilities	<u>\$ 4,863,344,000</u>	<u>252,849,000</u>	<u>(296,017,000)</u>	<u>4,820,176,000</u>	<u>346,884,000</u>

Long-term liabilities activity of the individual discretely presented auxiliary organizations of the University for the year ended June 30, 2011 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 16,987,000	10,838,000	(10,476,000)	17,349,000	14,406,000
Self-insurance claims liability	2,829,000	101,000	—	2,930,000	15,000
Capitalized lease obligations	372,265,000	442,000	(4,430,000)	368,277,000	4,744,000
Long-term debt obligations:					
Revenue bonds	322,215,000	—	(7,209,000)	315,006,000	8,521,000
Other bonds	365,000	—	(180,000)	185,000	185,000
Commercial paper	94,271,000	540,695,000	(451,600,000)	183,366,000	105,883,000
Other	156,560,000	1,977,000	(40,159,000)	118,378,000	2,640,000
	<u>573,411,000</u>	<u>542,672,000</u>	<u>(499,148,000)</u>	<u>616,935,000</u>	<u>117,229,000</u>
Unamortized bond premium	5,810,000	—	(297,000)	5,513,000	—
Unamortized loss on refundings	<u>(5,138,000)</u>	<u>—</u>	<u>237,000</u>	<u>(4,901,000)</u>	<u>—</u>
Total long-term debt obligations	<u>574,083,000</u>	<u>542,672,000</u>	<u>(499,208,000)</u>	<u>617,547,000</u>	<u>117,229,000</u>
Total long-term liabilities	<u>\$ 966,164,000</u>	<u>554,053,000</u>	<u>(514,114,000)</u>	<u>1,006,103,000</u>	<u>136,394,000</u>

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For additional information regarding the long-term liabilities of the individual discretely presented auxiliary organizations of the University, refer to their separately issued financial statements.

(12) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

The University, as an agency of the State, contributes to the CalPERS. The State's plan with CalPERS is an agent multiple-employer defined benefit pension plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan, which provides a defined benefit pension and postretirement program for substantially all eligible University employees. 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, CA 95814.

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 18.2% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2009	\$ 400,106,000
2010	369,417,000
2011	423,818,000

(b) Postretirement Healthcare Plan

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Relating to Other Postemployment Benefits* (OPEB), which is effective July 1, 2007. Under this statement, public employers sponsoring and subsidizing retiree healthcare benefit programs are required to recognize the cost of such benefits on an accrual basis.

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Plan Description

The State provides retiree healthcare benefits to statewide employees, including the University employees, through the programs administered by CalPERS. The State's substantive plan represents a substantive single-employer defined benefit OPEB Plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The University provides dental benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with 5 years of service credit.

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

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

Funding Policy

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

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

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

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Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the total annual required contribution (ARC) for the University's allocated portion of the postretirement healthcare plan, the amount contributed to the plan by the University, and changes in the University's net OPEB obligation (NOO) for the fiscal year ended 2011:

Annual required contribution (ARC):	
Billable accounts	\$ 25,375,000
Nonbillable accounts (dental only)	38,594,000
Total ARC	<u>63,969,000</u>
Contributions:	
Billable accounts	(9,919,000)
Nonbillable accounts (dental only)	<u>(15,562,000)</u>
Total contributions	<u>(25,481,000)</u>
Increase in net OPEB obligation (NOO)	\$ <u>38,488,000</u>
NOO – beginning of year	\$ 90,057,000
NOO – end of year:	
Billable accounts	60,106,000
Nonbillable accounts (dental only)	<u>68,439,000</u>
Total NOO	\$ <u>128,545,000</u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2011	40%

Actuarial Methods and Assumptions and Plan Funding Information

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

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2011 and 9.00% in 2012, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

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Funding progress information specifically related to the University's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans' funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended 2011.

(13) Self-Insurance Claims Liability

The University and certain auxiliary organizations have established the California State University Risk Management Authority (CSURMA), a blended component unit of the University, to centrally manage workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The liability included in the accompanying financial statements reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2011. The liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not yet been reported. The liability is also reduced by estimated amounts recoverable from the reinsurer that are related to the liabilities for unpaid claims and claim adjustment expenses. 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, 2011.

Changes in the self-insurance claims liability for the two years ended June 30, 2011 are as follows:

Liability at June 30, 2009	\$ 70,748,000
Incurred claims and changes in estimates	43,097,000
Claim payments	<u>(26,536,000)</u>
Liability at June 30, 2010	87,309,000
Incurred claims and changes in estimates	21,270,000
Claim payments	<u>(20,338,000)</u>
Long-term liability at June 30, 2011	88,241,000
Less current portion	<u>(25,473,000)</u>
Long-term liability at June 30, 2011, net of current portion	<u>\$ 62,768,000</u>

For the year ended June 30, 2011, the CSURMA purchased excess insurance to protect the members from catastrophic losses. The CSURMA maintained excess public entity liability insurance coverage provided by School Excess Liability Fund (SELF), a Joint Power Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence until December 2009, Ironshore Specialty Insurance Company and other various insurers with coverage for individual claims above \$5,000,000 and up to \$200,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, Pennsylvania (Chartis) to statutory limits in excess of the \$2,500,000 self-insured retention. For the Auxiliary Organizations' Risk Management Authority (AORMA) Workers' Compensation Program, the CSURMA purchased excess workers' compensation insurance provided by Safety National to statutory limits in excess of \$500,000

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self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF a public entity risk pool. The CSURMA remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. The assessment liability as of June 30, 2011 is \$16,917,000.

For the year ended June 30, 2011, the CSURMA entered into a reinsurance contract with Insurance Company of the State of Pennsylvania (Reinsurer). This transaction reinsured the University's workers' compensation claims liability for claims incurred within the \$2,500,000 self-insured retention during the fiscal year 2011 up to \$26,834,000. While such losses are reinsured, the CSURMA will not be relieved of its primary obligations to the policyholder in this reinsurance transaction. The estimated amount that is recoverable from the Reinsurer and that reduces the liabilities as of June 30, 2011 for unpaid claims and claim adjustment expenses is \$10,148,000. The CSURMA paid \$17,889,000 of reinsurance premium for the fiscal year 2011.

For the year ended June 30, 2011, the CSURMA entered into a reinsurance contract with General Reinsurance Corporation with coverage for AORMA liability individual claims above \$350,000 and up to \$5,000,000 per occurrence. The CSURMA paid \$825,000 of reinsurance premium for this coverage for fiscal year 2011.

(14) Commitments and Contingencies

The State is a defendant in multiple lawsuits involving University matters not covered by the risk pool discussed in note 13. 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.

Authorized but unexpended expenditures for construction projects as of June 30, 2011 totaled \$409,282,000. These expenditures will be funded primarily by State appropriations and bond proceeds.

As of June 30, 2011, in order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Service (DGS) and Shell Energy North America (Shell), respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$58,835,000 and \$32,480,000 of natural gas and electricity at fixed prices through June 2017 and March 2014, respectively. The University estimates that the special purchase contracts in place represent approximately 50.3% and 14.4% of its total annual natural gas and electricity expenses, respectively.

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(15) 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, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2011, operating expenses by natural classification consisted of the following:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 1,374,794,000	531,956,000	—	137,011,000	—	2,043,761,000
Research	22,115,000	5,791,000	—	17,044,000	—	44,950,000
Public service	32,655,000	9,425,000	—	22,886,000	—	64,966,000
Academic support	308,440,000	125,490,000	—	129,428,000	—	563,358,000
Student services	324,401,000	139,933,000	—	137,441,000	—	601,775,000
Institutional support	327,237,000	145,891,000	—	154,338,000	—	627,466,000
Operation and maintenance of plant	178,326,000	94,366,000	—	210,362,000	—	483,054,000
Student grants and scholarships	—	—	802,408,000	—	—	802,408,000
Auxiliary enterprise expenses	62,951,000	41,122,000	—	134,145,000	—	238,218,000
Depreciation and amortization	—	—	—	—	396,803,000	396,803,000
Total	<u>\$ 2,630,919,000</u>	<u>1,093,974,000</u>	<u>802,408,000</u>	<u>942,655,000</u>	<u>396,803,000</u>	<u>5,866,759,000</u>

(16) Transactions with Related Entities

The University is an agency of the State and receives about 42.5% of total revenues through state appropriations. State appropriations allocated to the University aggregated approximately \$2.6 billion for the year ended June 30, 2011. State appropriations receivable aggregated \$396,011,000 at June 30, 2011.

(17) Subsequent Events

In July 2011, a \$11.6 million BAN was authorized for the construction of the Parking Structure 2 at the Chico campus. In July 2011, \$9.0 million of commercial paper was issued, leaving unused proceeds of \$2.6 million. The BAN was later refinanced by the Systemwide Revenue Bonds issued in September 2011.

In July 2011, the state legislature created a new investment vehicle at the state level in which the University may invest funds. Senate Bill 79 created the State Agency Investment Fund (SAIF), under new Government Code section 16330, which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. Pursuant to a memorandum of understanding between the University and the State, the University transferred \$700 million from the California State University Investment Pool to the SAIF in September 2011. The University will earn interest incomes at an annual rate of 2.0% through April 2013.

In August 2011, Standard & Poor's Rating Services lowered the long-term debt rating of the U.S. government and federal agencies from AAA to AA+. The University has \$736,468,000 and \$343,212,000, or 24.9% and 11.6% of total investment in U.S. agency securities and U.S. Treasury securities, respectively as of June 30, 2011.

CALIFORNIA STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

In September 2011, Standard & Poor's Ratings Services changed its outlook on the University's Systemwide Revenue Bonds from stable to positive. With the change in outlook, Standard & Poor's Ratings Services affirmed its A+ rating on the Systemwide Revenue Bonds.

In September 2011, the University issued its Systemwide Revenue Bonds Series 2011A in the amount \$429,855,000. In addition to providing funding for new projects, proceeds were used to pay off \$71,000,000 of BANs, \$80,710,000 was used to refund Systemwide Revenue Bonds Series 2002A, and \$112,350,000 was used as a partial refunding for Systemwide Revenue Bonds Series 2003A.