

CALIFORNIA STATE UNIVERSITY

Combined Financial Statements

June 30, 2000

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

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Independent Auditors' Report

The Board of Trustees
California State University:

We have audited the accompanying combined balance sheet of the California State University as of June 30, 2000 and the related combined statements of changes in fund balances and net assets and current funds revenues, expenditures and other changes for the year then ended. These combined financial statements are the responsibility of the California State University's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of 67 of the 78 discretely presented auxiliary organizations, which statements reflect total assets constituting 84% and total revenues and other additions constituting 87% of the discretely presented totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 67 discretely presented auxiliary organizations, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the California State University as of June 30, 2000 and the changes in fund balances and net assets and current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2000 on our consideration of the California State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

Orange County, California
November 17, 2000

CALIFORNIA STATE UNIVERSITY

Combined Balance Sheet

June 30, 2000

Assets	Current funds		Loan funds	Endowment funds	Agency funds	Plant funds	Total University (memorandum only)	Auxiliary organizations	Total reporting entity (memorandum only)
	Unrestricted	Restricted							
Cash and cash equivalents	\$ 123,245,000	3,406,000	3,271,000	247,000	5,658,000	1,873,000	137,700,000	164,994,000	302,694,000
Pledges receivable, net	—	—	—	—	—	—	—	51,687,000	51,687,000
Accounts receivable, net	248,499,000	20,583,000	118,793,000	934,000	689,000	399,599,000	789,097,000	153,580,000	942,677,000
Investments	568,666,000	26,628,000	9,420,000	22,170,000	17,899,000	262,719,000	907,502,000	700,407,000	1,607,909,000
Due from other funds	23,342,000	227,000	103,000	—	2,110,000	582,000	26,364,000	13,291,000	39,655,000
Prepaid expenses and other assets	27,740,000	11,000	37,000	18,000	—	—	27,806,000	78,932,000	106,738,000
Property, plant and equipment	—	—	—	—	—	5,684,441,000	5,684,441,000	298,980,000	5,983,421,000
Total assets	\$ 991,492,000	50,855,000	131,624,000	23,369,000	26,356,000	6,349,214,000	7,572,910,000	1,461,871,000	9,034,781,000
Liabilities, Fund Balances and Net Assets									
Liabilities:									
Accounts payable	\$ 102,769,000	14,908,000	555,000	2,000	1,473,000	25,597,000	145,304,000	87,489,000	232,793,000
Accrued salaries and benefits payable	154,539,000	368,000	—	—	—	—	154,907,000	25,758,000	180,665,000
Due to other funds	1,924,000	9,477,000	1,912,000	11,000	834,000	12,206,000	26,364,000	13,291,000	39,655,000
Deferred revenues	92,072,000	104,000	—	—	—	—	92,176,000	35,704,000	127,880,000
Accrued compensated absences	119,886,000	351,000	—	—	—	—	120,237,000	10,566,000	130,803,000
Capitalized lease obligations	—	—	—	—	—	803,838,000	803,838,000	3,074,000	806,912,000
Long-term debt obligations	—	—	—	—	—	657,350,000	657,350,000	206,525,000	863,875,000
Self-insurance claims liability	61,677,000	—	—	—	—	—	61,677,000	—	61,677,000
Depository accounts	—	—	—	—	21,490,000	—	21,490,000	72,180,000	93,670,000
Other liabilities	19,125,000	1,897,000	382,000	3,000	2,559,000	15,184,000	39,150,000	109,705,000	148,855,000
Total liabilities	551,992,000	27,105,000	2,849,000	16,000	26,356,000	1,514,175,000	2,122,493,000	564,292,000	2,686,785,000
Fund balances and net assets:									
Fund balances:									
Unrestricted – designated	439,500,000	—	—	—	—	—	439,500,000	24,038,000	463,538,000
Unrestricted – undesignated	—	—	—	—	—	—	—	19,218,000	19,218,000
Restricted	—	23,750,000	128,775,000	23,353,000	—	—	175,878,000	66,899,000	242,777,000
Unexpended plant, restricted	—	—	—	—	—	494,584,000	494,584,000	—	494,584,000
Net investment in plant	—	—	—	—	—	4,340,455,000	4,340,455,000	32,269,000	4,372,724,000
Total fund balances	439,500,000	23,750,000	128,775,000	23,353,000	—	4,835,039,000	5,450,417,000	142,424,000	5,592,841,000
Net assets:									
Unrestricted	—	—	—	—	—	—	—	356,505,000	356,505,000
Temporarily restricted	—	—	—	—	—	—	—	196,355,000	196,355,000
Permanently restricted	—	—	—	—	—	—	—	202,295,000	202,295,000
Total net assets	—	—	—	—	—	—	—	755,155,000	755,155,000
Total fund balances and net assets	439,500,000	23,750,000	128,775,000	23,353,000	—	4,835,039,000	5,450,417,000	897,579,000	6,347,996,000
Total liabilities, fund balances and net assets	\$ 991,492,000	50,855,000	131,624,000	23,369,000	26,356,000	6,349,214,000	7,572,910,000	1,461,871,000	9,034,781,000

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY
 Combined Statement of Changes in Fund Balances and Net Assets
 Year ended June 30, 2000

	Current funds		Loan funds	Endowment funds	Plant funds	Total University (memorandum only)	Auxiliary Organizations	Total reporting entity (memorandum only)
	Unrestricted	Restricted						
Revenues and other additions:								
State appropriations	\$ 2,196,384,000	—	—	—	261,317,000	2,457,701,000	—	2,457,701,000
Fees and tuition	838,297,000	2,488,000	8,000	—	—	840,793,000	80,072,000	920,865,000
Investment income	28,120,000	848,000	2,754,000	—	12,120,000	43,842,000	36,505,000	80,347,000
Endowment income	82,000	578,000	27,000	384,000	—	1,071,000	9,493,000	10,564,000
Federal grants and contracts	4,928,000	313,808,000	26,588,000	—	—	345,324,000	209,742,000	555,066,000
State grants and contracts	7,748,000	83,727,000	30,000	—	412,000	91,917,000	92,345,000	184,262,000
Private gifts, grants, and contracts	11,434,000	20,119,000	112,000	3,983,000	44,316,000	79,964,000	205,775,000	285,739,000
Sales and service of educational activities	34,411,000	326,000	—	—	—	34,737,000	27,062,000	61,799,000
Sales and service of auxiliary enterprises	163,036,000	—	—	—	—	163,036,000	364,112,000	527,148,000
Expended for plant facilities (including current funds of \$125,781,000)	—	—	—	—	377,296,000	377,296,000	—	377,296,000
Retirement of indebtedness	—	—	—	—	74,354,000	74,354,000	—	74,354,000
Other	72,165,000	7,802,000	1,594,000	11,000	7,010,000	88,582,000	70,816,000	159,398,000
Total revenues and other additions	3,356,605,000	429,696,000	31,113,000	4,378,000	776,825,000	4,598,617,000	1,095,922,000	5,694,539,000
Expenditures and other deductions:								
Educational and general:								
Instruction	1,347,155,000	5,850,000	—	—	—	1,353,005,000	142,260,000	1,495,265,000
Research	1,287,000	24,698,000	—	—	—	25,985,000	117,711,000	143,696,000
Public service	16,298,000	24,734,000	—	—	—	41,032,000	101,420,000	142,452,000
Academic support	416,652,000	3,752,000	—	—	—	420,404,000	45,394,000	465,798,000
Student services	303,195,000	6,589,000	24,699,000	—	—	334,483,000	47,631,000	382,114,000
Institutional support	478,627,000	3,354,000	—	—	—	481,981,000	82,491,000	564,472,000
Operation and maintenance of plant	265,866,000	16,154,000	—	—	—	282,020,000	19,298,000	301,318,000
Student grants and scholarships	157,014,000	316,589,000	1,890,000	—	—	475,493,000	23,873,000	499,366,000
Total educational and general expenditures	2,986,094,000	401,720,000	26,589,000	—	—	3,414,403,000	580,078,000	3,994,481,000
Other expenditures:								
Auxiliary enterprise expenditures	155,317,000	—	—	—	—	155,317,000	383,883,000	539,200,000
Loan cancellations and write-offs	—	—	2,856,000	—	—	2,856,000	—	2,856,000
Expended for plant facilities (including noncapitalized of \$54,013,000)	—	—	—	—	305,528,000	305,528,000	4,617,000	310,145,000
Retirement of indebtedness	—	—	—	—	74,354,000	74,354,000	—	74,354,000
Interest on indebtedness	—	—	—	—	79,468,000	79,468,000	7,097,000	86,565,000
Disposal of plant facilities	—	—	—	—	47,519,000	47,519,000	96,000	47,615,000
Other	—	—	2,101,000	141,000	18,676,000	20,918,000	40,032,000	60,950,000
Total other expenditures	155,317,000	—	4,957,000	141,000	525,545,000	685,960,000	435,725,000	1,121,685,000
Total expenditures and other deductions	3,141,411,000	401,720,000	31,546,000	141,000	525,545,000	4,100,363,000	1,015,803,000	5,116,166,000
Transfers among funds – additions (deductions):								
Mandatory transfers:								
Federal program matching	(3,298,000)	3,022,000	276,000	—	—	—	—	—
Principal and interest	(42,915,000)	—	—	—	42,915,000	—	—	—
Payments on capital lease obligations	(105,574,000)	—	—	—	105,574,000	—	—	—
Nonmandatory transfers:								
Other	(22,266,000)	(48,186,000)	(174,000)	617,000	70,009,000	—	—	—
Total transfers	(174,053,000)	(45,164,000)	102,000	617,000	218,498,000	—	—	—
Net increase (decrease) in fund balances (net assets)	41,141,000	(17,188,000)	(331,000)	4,854,000	469,778,000	498,254,000	80,119,000	578,373,000
Fund balance and net assets at beginning of year, as restated	398,359,000	40,938,000	129,106,000	18,499,000	4,365,261,000	4,952,163,000	817,460,000	5,769,623,000
Fund balance and net assets at end of year	\$ 439,500,000	23,750,000	128,775,000	23,353,000	4,835,039,000	5,450,417,000	897,579,000	6,347,996,000

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY

Combined Statement of Current Funds Revenues, Expenditures and Other Changes
Year ended June 30, 2000

	Current Funds		Total (memorandum only)
	Unrestricted	Restricted	
Revenues:			
State appropriations	\$ 2,196,384,000	—	2,196,384,000
Fees and tuition	838,297,000	2,488,000	840,785,000
Investment income	28,120,000	954,000	29,074,000
Endowment income	82,000	646,000	728,000
Federal grants and contracts	4,928,000	331,778,000	336,706,000
State grants and contracts	7,748,000	83,404,000	91,152,000
Private gifts, grants, and contracts	11,434,000	19,445,000	30,879,000
Sales and service of educational activities	34,411,000	326,000	34,737,000
Sales and service of auxiliary enterprises	163,036,000	—	163,036,000
Other	72,165,000	7,843,000	80,008,000
Total current revenues	3,356,605,000	446,884,000	3,803,489,000
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	1,347,155,000	5,850,000	1,353,005,000
Research	1,287,000	24,698,000	25,985,000
Public service	16,298,000	24,734,000	41,032,000
Academic support	416,652,000	3,752,000	420,404,000
Student services	303,195,000	6,589,000	309,784,000
Institutional support	478,627,000	3,354,000	481,981,000
Operation and maintenance of plant	265,866,000	16,154,000	282,020,000
Student grants and scholarships	157,014,000	316,589,000	473,603,000
Total educational and general expenditures	2,986,094,000	401,720,000	3,387,814,000
Auxiliary enterprises expenditures	155,317,000	—	155,317,000
Transfers among funds – additions (deductions):			
Mandatory transfers:			
Federal program matching	(3,298,000)	3,022,000	(276,000)
Principal and interest	(42,915,000)	—	(42,915,000)
Payments on capital lease obligations	(105,574,000)	—	(105,574,000)
Nonmandatory transfers:			
Other	(22,266,000)	(48,186,000)	(70,452,000)
Total transfers	(174,053,000)	(45,164,000)	(219,217,000)
Total expenditures and transfers	3,315,464,000	446,884,000	3,762,348,000
Excess of restricted receipts over transfers to revenues	—	(17,188,000)	(17,188,000)
Net increase (decrease) in fund balances	\$ 41,141,000	(17,188,000)	23,953,000

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

(1) Organization

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California, the University is reported as a component unit in the State of California's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, and the University Presidents, the chief executive officers of the respective campuses. In addition to the Office of the Chancellor, the following 23 campuses comprise the California State University at June 30, 2000:

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

The accompanying combined financial statements present the combined financial position, changes in fund balances and current funds revenues, expenditures and other changes of the 23 campuses and the Office of the Chancellor of the California State University.

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

In addition, the accompanying combined financial statements include the accounts of 78 of the University's recognized Auxiliary Organizations. These organizations are legally separate entities that provide services primarily to the University's students. Such organizations include foundations, associated students, student unions, food service entities, book stores, and similar organizations. Foundations, whose fund balances and net assets comprise more than 75% of the discretely presented totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research as well as soliciting and accepting donations, gifts and bequests for University-related use. Separate financial statements are issued for each of the recognized Auxiliary Organizations listed below and may be obtained from the individual campuses.

The discretely presented Auxiliary Organizations are as follows:

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

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Notes to Combined Financial Statements

June 30, 2000

- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Foundation
- California State University, Long Beach Foundation
- Forty-Niner Shops, Inc. (Long Beach)
- Associated Students, California State University, Long Beach
- Cal State L.A. University Auxiliary Services, Inc.
- California State Los Angeles Foundation
- Associated Students, Inc. California State University Los Angeles
- University – Student Union, Inc., California State University, Los Angeles
- Associated Students of the California Maritime Academy
- California Maritime Academy Foundation, Inc.
- Foundation of California State University, Monterey Bay
- CSUMB Employee Housing, Inc.
- University Student Union of California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- Associated Students, California State University, Northridge, Inc.
- The University Corporation (Northridge)
- The California State University, Northridge Foundation
- The Cal Poly Pomona Foundation, Inc.
- Associated Students, Incorporated, California State Polytechnic University, Pomona
- Associated Students of California State University, Sacramento
- California State University, Sacramento Trust Foundation, Inc.
- California State University Sacramento Foundation
- University Union Operation of California State University, Sacramento
- Capital Public Radio, Inc. (Sacramento)
- Associated Students California State University, San Bernardino
- Student Union of California State University, San Bernardino
- Foundation for the California State University, San Bernardino
- Associated Students, San Diego State University
- Aztec Shops, Ltd. (San Diego)
- San Diego State University Foundation
- The Campanile Foundation (San Diego)

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- Associated Students of San Francisco State University
- Franciscan Shops, Inc. (San Francisco)
- San Francisco State University Foundation, Inc.
- San Francisco State University Student Center
- Associated Students, Inc. San Jose State University
- The Student Union of San Jose State University
- Spartan Shops, Inc. (San Jose)
- San Jose State University Foundation
- California Polytechnic State University Foundation
- Associated Students, Inc. of California Polytechnic State University (San Luis Obispo)
- California State University, San Marcos Foundation
- Associated Students of California State University, San Marcos
- Sonoma State Enterprises, Inc.
- Associated Students of Sonoma State University
- Sonoma Student Union Corporation
- Sonoma State University Academic Foundation, Inc.
- California State University, Stanislaus Foundation
- Associated Students Incorporated of California State University, Stanislaus
- University Union of California State University Stanislaus
- California State University, Stanislaus – Stockton Auxiliary Services Corporation
- California State University, Stanislaus Auxiliary and Business Services

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

All significant intercampus transactions have been eliminated.

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

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

(b) Basis of Presentation

The accompanying University financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and are presented utilizing the financial statement model of the American Institute of Certified Public Accountants' Industry Audit Guide, *Audits of Colleges and Universities*.

The combined statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income and expenses.

(c) Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. This is done in accordance with regulations, restrictions, or limitations imposed by donors or sponsoring agencies outside the University, or in accordance with directives issued by the Trustees.

A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Separate accounts are maintained for each fund; however, funds with similar characteristics are combined into fund groups for reporting purposes. These funds are accounted for as mutually exclusive units and include the following:

- **Current Funds** – Used primarily to account for transactions that are expended in performing the primary and support objectives of the University, i.e., instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary enterprise activities. Current funds are segregated into separately balanced fund groups as follows:
 - **Unrestricted** – Used to account for transactions related to the University's State of California general fund appropriations, transactions of auxiliary enterprises and other substantially self-supporting activities. Auxiliary enterprises include, but are not limited to, intercollegiate athletics, parking and student housing and are separate and distinct from the recognized Auxiliary Organizations discussed in the Financial Reporting Entity section above. Assets, liabilities and fund balances of auxiliary enterprises are combined with other unrestricted current funds for reporting purposes. Revenues and expenditures of auxiliary enterprises are reported separately. Self-supporting activities primarily provide services for students, faculty and staff and are funded by fees, unrestricted gifts and other income designated for specific purposes by the Trustees.

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

Fund balances, even though considered unrestricted for reporting purposes, have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures from the funds may be made, and designate fund balances to support future operations in those areas. Primary among the funds which have designated uses are those related to the operations of housing programs.

- **Restricted** – Used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.
- **Loan Funds** – Consist primarily of funds received from the federal and state governments for student loans. Funds under the federal and state loan programs may be reloaned after collection, but are ultimately refundable to the federal and state governments.
- **Endowment Funds** – Consist of donated funds that, as a condition of the gift, generally require the principal to be invested in perpetuity.
- **Agency Funds** – Consist of resources held by the University primarily on behalf of Auxiliary Organizations in the capacity of custodian or fiscal agent. As these funds are custodial in nature and transactions do not represent activities carried out by the University, such transactions are not included in the statement of changes in fund balances.
- **Plant Funds** – Consist primarily of property, plant, equipment, library books, bound periodicals and collections and the related debt. This fund also accounts for transactions related to the University's State of California capital outlay appropriations.

(d) Investments

University investments are generally reflected at fair value using quoted market prices when available, otherwise at cost or amortized cost. Gains and losses on the investments are included in the accompanying combined statement of changes in fund balances and net assets as investment income.

(e) Property, Plant and Equipment

Property, plant and equipment assets are stated at cost or estimated historical cost when purchased and at estimated fair value when donated. Equipment with a value of less than \$5,000 is not capitalized. Title to all campus and Chancellor's Office assets, whether purchased, constructed, or donated, is held by the State of California. No provision for depreciation has been recorded in the accompanying combined financial statements for these assets.

(f) Due to/from Other Funds

Interfund borrowings and claims that have been made between funds are generally payable within one year without interest.

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

(g) *Deferred Revenues*

Deferred revenues consist primarily of fees collected in advance for summer school as well as continuing education fees.

(h) *Compensated Absences*

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

(i) *State Appropriations*

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

(j) *Income Taxes*

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

The University has not undergone any recent Internal Revenue Service or state income tax audits. No taxes have been provided for any assessments that may result from such audits; since in the opinion of management, any such possible assessments would not be material to the combined financial statements taken as a whole.

(k) *Estimates*

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

(l) *Total Columns (Memorandum Only)*

The total columns on the accompanying financial statements are captioned (memorandum only) to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation as interfund eliminations have not been made. Therefore, amounts in these columns do not present financial position or results of operations in conformity with generally accepted accounting procedures.

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

(3) Cash, Cash Equivalents and Investments

The deposits of the University, included as cash and cash equivalents in the accompanying combined financial statements, are maintained at financial institutions and are fully insured or collateralized as required by state law.

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

At June 30, 2000, the University's investments are pooled at both the campus and systemwide levels. Separate accounting is maintained as to the amounts allocable to the various campuses, funds and programs. Investments at carrying value for the University consisted of the following at June 30, 2000:

	<u>Carrying amount</u>
State of California Local Agency Investment Fund	\$ 17,046,000
Met West Total Return Fund	95,643,000
Met West Short-Term Fund	113,068,000
Met West Long-Term Fund	28,363,000
Collateralized mortgage obligations:	
Inverse floaters	4,475,000
Agency and private pass-through	7,946,000
Funds held at State Treasury	112,839,000
State of California Surplus Money Investment Fund	<u>528,122,000</u>
	<u>\$ 907,502,000</u>

As noted above, the University's investment portfolio includes investments in collateralized mortgage obligations, as follows:

- **Inverse floaters**, which are securities in which the investor receives cash flow representing principal from underlying mortgages plus a rate of interest calculated under formulas which vary inversely to the stipulated short-term interest market rate index. Inverse floaters are guaranteed by the issuer (FNMA or FHLMC) as to return of principal and timely payment of interest calculated in accordance with the terms of the investments.
- **Agency and private pass-through securities**, which are securities in which the investor receives a pro rata share of principal and interest payments passed through from the underlying mortgages which are issued primarily by FNMA and FHLMC.

Approximately \$8,888,000 of the investments reported in the agency funds at June 30, 2000 is invested under contractual agreements on behalf of the Auxiliary Organizations of the University.

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Notes to Combined Financial Statements

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The \$112,839,000 of funds held in the State Treasury has been deposited in irrevocable trusts to provide future debt service payments related to cross-over refundings of debt. See further discussion at note 7.

For information regarding the investments of the discretely presented Auxiliary Organizations, please refer to the separately issued Auxiliary Organizations' reports.

(4) Receivables

Receivables at June 30, 2000, by fund, are comprised of the following:

Current Unrestricted Funds

State appropriations	\$ 151,218,000
Auxiliary Organizations	25,764,000
Student accounts, net of allowance for doubtful accounts of \$6,906,000	10,439,000
Other, net of allowance for doubtful accounts of \$1,787,000	61,078,000
	<u>248,499,000</u>

Current Restricted Funds

Government grants and contracts	\$ 19,793,000
Other, net of allowance for doubtful accounts of \$197,000	790,000
	<u>20,583,000</u>

Loan Funds

Student loans receivable, net of allowance for doubtful accounts of \$21,928,000	\$ 116,392,000
Other	2,401,000
	<u>118,793,000</u>

Endowment Funds

Other	\$ <u>934,000</u>
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Agency Funds

Government grants and Federal Direct Loan Program	\$ <u>689,000</u>
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Plant Funds

State appropriations for capital projects	\$ 348,919,000
Other	50,680,000
	<u>399,599,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

(5) Property, Plant and Equipment

Property, plant and equipment at June 30, 2000 includes the following:

Land	\$	100,849,000
Buildings and building improvements		3,653,898,000
Improvements, other than buildings		395,458,000
Equipment		632,083,000
Library books, bound periodicals and collections		487,992,000
Construction work in process		414,161,000
	\$	<u>5,684,441,000</u>

(6) Lease Obligations

The University is obligated under various capital and operating leases. Substantially all of the capital leases are a result of the University's participation with the State of California in the State Public Works Board Lease Revenue Bond program. The University has participated in this program since 1986 in connection with the construction of campus facilities and related equipment. Current California law permits the State Public Works Board (SPWB) to authorize the sale of bonds to construct certain state facilities if there is a revenue stream that can be pledged to repay the obligations. The process is described in brief as follows:

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

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Notes to Combined Financial Statements

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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 \$884,622,000 at June 30, 2000. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.70% to 24.60% and have terms expiring in various years through 2023.

Operating leases consist primarily of leases for the use of real property. The University's operating leases having remaining terms of more than one year expire in various fiscal years through 2017/18. 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, 2000 were approximately \$8,340,000, of which \$1,690,000 was paid to related Auxiliary Organizations.

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2000 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2001	\$ 101,065,000	6,969,000
2002	90,193,000	5,044,000
2003	83,936,000	3,501,000
2004	75,172,000	3,114,000
2005	73,556,000	1,727,000
2006 and thereafter	<u>808,813,000</u>	<u>5,300,000</u>
Total minimum lease payments	1,232,735,000	\$ <u><u>25,655,000</u></u>
Less amount representing interest	<u>(428,897,000)</u>	
Present value of future minimum lease payments	\$ <u><u>803,838,000</u></u>	

(7) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the California State University, the University of California and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the University by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying combined financial statements. Total General Obligation Bond debt carried by the state related to California State University projects is approximately \$527,678,000.

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Notes to Combined Financial Statements

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(b) Revenue Bond Programs

The Revenue Bond Act of 1947 provides the Board of Trustees with the ability to issue revenue bonds to fund four specific self-supporting programs. The statute has enabled the Trustees to finance student housing, parking facilities, student unions and health centers. Outstanding bonds at June 30, 2000 consist of campus student housing, parking and student union bonds.

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

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

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

The net revenues from the housing, student union, and parking programs are pledged to retire the related revenue bonds. Amounts outstanding under these programs total \$472,258,000 at June 30, 2000.

(c) Headquarters Building Authority

The California State University Headquarters Authority was established to issue Lease Revenue Bonds for the initial purpose of financing the University's previous headquarters building. Subsequent lease revenue bonds were issued to refund the outstanding obligations and provide additional funding for the construction of the new Office of the Chancellor. The related lease revenue bonds outstanding at June 30, 2000 total \$30,680,000.

(d) Deferred Maintenance Projects

During the year ended June 30, 1996, the University entered into an agreement with the California State University Institute (the Institute), a recognized Auxiliary Organization of the University, whereby the Institute acted as a conduit to facilitate a \$43,095,000 financing arrangement for deferred maintenance projects in the University system. Amounts outstanding under this arrangement totaled \$32,705,000 at June 30, 2000.

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Notes to Combined Financial Statements

June 30, 2000

Long-term debt obligations of the University as of June 30, 2000 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Housing System Revenue Bonds:				
Series B (Chico, Fresno, Humboldt, Long Beach, Northridge, Pomona, San Diego, San Francisco, San Jose and San Luis Obispo campuses)	3%	2006/07	\$ 34,110,000	8,895,000
Series J – Northridge campus	3	2019/20	3,838,000	2,578,000
Series K – Dominguez Hills campus	3	2019/20	3,730,000	3,025,000
Series L – San Diego campus	3	2020/21	4,930,000	3,380,000
Series M – San Francisco campus	3	2020/21	580,000	405,000
Series N – Chico campus	3	2021/22	4,320,000	3,590,000
Series P – San Francisco campus	3	2021/22	1,140,000	810,000
Series Q – San Diego campus	3	2021/22	555,000	395,000
Series U – San Jose campus	3	2012/13	3,500,000	1,990,000
Series Y – Long Beach campus	3	2013/14	2,000,000	1,200,000
Series AI – 1991 Refunding Bonds (Long Beach, Los Angeles, Sonoma and San Diego campuses)	6.25 – 7.5	2014/15	35,890,000	30,060,000
Series AJ – San Francisco campus	6.3 – 8.25	2021/22	22,500,000	20,145,000
Series AL – Sacramento campus	6.3 – 8.25	2021/22	6,400,000	5,730,000
Series AM – Sonoma campus	6.3 – 8.25	2021/22	6,300,000	5,635,000
Series AN – San Diego campus	6.3 – 8.25	2021/22	14,500,000	12,975,000
Series AP – Humboldt campus	6.3 – 8.25	2021/22	7,600,000	6,805,000
Series AQ – Northridge campus	6.3 – 8.25	2021/22	27,400,000	24,530,000
Series AR – Dominguez Hills campus	6.3 – 8.25	2021/22	8,600,000	7,705,000
Series AT – 1994 Refunding Bonds (Long Beach and Northridge campuses)	5.625 – 7.625	2018/19	16,510,000	15,700,000
Series AU – Humboldt campus	4.9 – 6.9	2016/17	4,000,000	3,665,000
Series AV – 1996 Refunding Bonds (Dominguez Hills, Fullerton, Hayward, Humboldt, Long Beach, Los Angeles, Northridge, Sacramento, San Diego, San Francisco and Sonoma campuses)	4.25 – 6.3	2021/22	138,375,000	137,540,000
Series AW – Chico campus	4.75 – 5	2017/18	4,580,000	4,580,000
Series AX – Sonoma campus	4.75 – 5.2	2030/31	29,095,000	29,095,000
Series AY – San Diego	4.5 – 5.75	2031/32	39,840,000	39,840,000
			<u>420,293,000</u>	<u>370,273,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 2000

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding
Student Union Revenue Bonds :				
Series A – Bakersfield campus	6 – 8%	2022/23	\$ 1,780,000	1,620,000
Series A – Chico campus	3	2006/07	1,100,000	305,000
Series B – Chico campus	4 – 12	2028/29	23,370,000	23,370,000
Series A – Dominguez Hills campus	6.25 – 8.25	2020/21	2,700,000	2,395,000
Series B – Fresno campus	4.9 – 6.9	2025/26	4,890,000	4,620,000
Series B – Fullerton campus	6.25 – 8.25	2000/01	10,000,000	190,000
Series C – Fullerton campus – Refunding Bonds	5.25 – 5.4	2020/21	9,590,000	9,290,000
Series A – Hayward campus – Refunding Bonds	5.5 – 7.5	2012/13	1,415,000	1,130,000
Series A – Humboldt campus	6	2000/01	1,850,000	150,000
Series B – Long Beach campus	4.9 – 6.9	2026/27	13,130,000	12,750,000
Series B – Los Angeles campus	5.375 – 5.6	2026/27	6,580,000	6,295,000
Series A – Northridge campus	7.4 – 7.5	2001/02	4,700,000	755,000
Series B – Northridge campus	6 – 8	2022/23	14,200,000	2,480,000
Series C – Northridge campus	4 – 5.63	2022/23	11,325,000	11,265,000
Series B – Pomona campus	5 – 6	2019/20	2,065,000	2,065,000
Series C – Pomona campus	5 – 6.75	2030/31	20,980,000	20,980,000
Series B – Sacramento campus	5.5 – 7	2021/22	900,000	810,000
Series C – Sacramento campus	5 – 7	2025/26	22,275,000	21,570,000
Series B – San Bernardino campus	6 – 8	2021/22	3,200,000	2,885,000
Series A – San Diego campus	3	2006/07	2,940,000	815,000
Series B – San Diego campus	5 – 6.125	2024/25	31,160,000	11,430,000
Series C – San Diego campus	4 – 5.63	2024/25	19,770,000	19,720,000
Series A – San Francisco campus	4.5 – 5.25	2002/03	6,500,000	1,250,000
Series B – San Francisco campus	4 – 12	2023/24	12,950,000	12,950,000
Series A – San Jose campus	3	2006/07	3,240,000	890,000
Series D – San Jose campus – Refunding Bonds	4.5 – 6.5	2019/20	23,070,000	21,070,000
Series A – San Luis Obispo campus	3	2007/08	3,000,000	925,000
Series B – San Luis Obispo campus	4 – 9.875	2025/26	4,650,000	4,560,000
Series A – Sonoma campus	7.6 – 7.7	2001/02	1,050,000	175,000
Series A – Stanislaus campus	6.1 – 6.2	2001/02	375,000	50,000
Series B – Stanislaus campus	6.3 – 8.3	2020/21	900,000	800,000
			265,655,000	199,560,000

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Notes to Combined Financial Statements

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<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Headquarters Building Authority – Lease Revenue Bonds, Series B	3.9 – 5.25	2022/23	\$ 30,680,000	30,680,000
Deferred Maintenance Projects	3.73 – 4.107	2009/10	43,095,000	32,705,000
Parking Revenue Bonds – San Diego campus	4 – 7.5	2023/24	13,100,000	13,100,000
Other	Various	Various	<u>14,571,000</u>	<u>11,032,000</u>
			<u>\$ 787,394,000</u>	<u>657,350,000</u>

Long-term debt principal obligations outstanding at June 30, 2000 mature in the following fiscal years:

2001	\$ 19,224,000
2002	24,911,000
2003	24,626,000
2004	24,023,000
2005	22,350,000
2006 and thereafter	<u>542,216,000</u>
	<u>\$ 657,350,000</u>

(f) Debt Refundings

Prior Refundings

The University has defeased certain Student Union Revenue Bonds in prior fiscal years by placing a portion of the proceeds from the refunding bonds in irrevocable trusts with the State Treasurer to provide for all future debt service payments on the old bonds. The proceeds from the refunding bonds were used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the accompanying combined financial statements. As of June 30, 2000, the amount of defeased outstanding debt amounted to \$38,290,000.

Cross-Over Refundings

The University has also cross-over refunded certain Housing System Revenue Bonds, again, by placing the proceeds of the refunding bonds in an irrevocable trust with the State Treasurer. The net proceeds of the refunding for series AI, AJ, AK, AL, AM, AN, AP, AQ and AR are invested in U.S. Governmental Securities until the bonds are redeemed. Those securities are deposited to provide debt service payments on the old bonds at the time of redemption. Series AK is redeemable on November 1, 1999 (cross-over date), all other series are redeemable on November 1, 2000 (cross-

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over date). As the debt is not considered defeased until the cross-over dates are reached, the debt from bonds series AI, AJ, AK, AL, AM, AN, AP, AQ and AR has not been removed from the accompanying combined financial statements. As of June 30, 2000, the amount of debt to be repaid in connection with the cross-over refundings amounted to \$110,675,000.

(8) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

(b) Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 0% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

1998	\$	187,376,000
1999		132,581,000
2000		18,720,000

(9) Self-Insurance Claims Liability

The University and certain Auxiliary Organizations have established a public entity risk pool to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The liability included in the accompanying combined financial statements reflects the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 2000. The liability includes the amount that will be required for future payments of claims that have been reported and claims related to

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

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events that have occurred but have not been reported. The liability is estimated through an actuarial calculation using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonably adequate at June 30, 2000.

Changes in the self-insurance claims liability for the two years ended June 30, 2000 are as follows:

Liability at June 30, 1998	\$ 60,926,000
Incurred claims and changes in estimates	35,721,000
Claim payments	<u>(24,524,000)</u>
Liability at June 30, 1999	72,123,000
Incurred claims and changes in estimates	17,612,000
Claim payments	<u>(28,058,000)</u>
Liability at June 30, 2000	<u>\$ 61,677,000</u>

At June 30, 2000, approximately \$25,420,000 in assets have been set aside to fund the claims liability. The University maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$24,000,000 per occurrence. The University also maintains excess workers' compensation insurance provided by SELF for individual claims over \$350,000 per occurrence. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

(10) Commitments and Contingencies

(a) *Litigation*

The State of California is a defendant in multiple lawsuits involving University matters not included in the risk pool discussed in note 9. An accrual has been made for certain liabilities considered probable of assertion. Management of the University is of the opinion that the remaining liability, if any, arising from litigation will not have a material effect on the financial position of the University.

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

(b) *Construction Commitments*

Authorized expenditures for construction projects unexpended as of June 30, 2000 totaled \$262,262,000. These expenditures will be funded primarily through state appropriations.

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(11) Transactions with Related Entities

The California State University is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations allocated to the University aggregated approximately \$2.5 billion for the year ended June 30, 2000. State appropriations receivable aggregated \$500,137,000 at June 30, 2000.

(12) Auxiliary Organizations – Accounting Changes

Certain adjustments have been made to the beginning fund balances/net assets of the Auxiliary Organizations to adjust for the adoption of new accounting pronouncements and the approval of existing organizations as recognized Auxiliary Organizations. The restatements are summarized as follows:

	<u>Auxiliary organizations</u>
Fund balance/net assets as of June 30, 1999, as previously reported	\$ 807,543,000
Restatements	<u>9,917,000</u>
Fund balance/net assets as of June 30, 1999, restated	<u>\$ 817,460,000</u>

