



CALIFORNIA STATE UNIVERSITY

Basic Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)



CALIFORNIA STATE UNIVERSITY

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CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2003

The following discussion and analysis provides an overview of the financial position and activities of the California State University (the University) for the year ended June 30, 2003 in its entirety, including 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.

The financial statements of the University for the years ended June 30, 2003 and 2002 have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

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

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

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

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

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

The **Statement of Cash Flows** presents the changes in the University's cash and cash equivalents during the most recent fiscal year. It 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

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

FINANCIAL HIGHLIGHTS

The state budget situation presented significant financial challenges to the University in fiscal year 2003. In an effort to find solutions to the state's budget deficit, the University's budget was reduced by \$102.6 million, and \$22.8 million was redistributed to fund health care and compensation costs for a total of unfunded costs and reductions of \$125.4 million. Despite the significant funding pressures, the University was committed to serve total budgeted enrollment for the 2002-03 fiscal year and maintain funding for instruction and student services. To achieve its goals, the University reduced funding for technology equipment, scheduled maintenance, and academic and administrative support. Additionally, the undergraduate student fee was increased at mid-year by 10%, and graduate student fee by 15%.

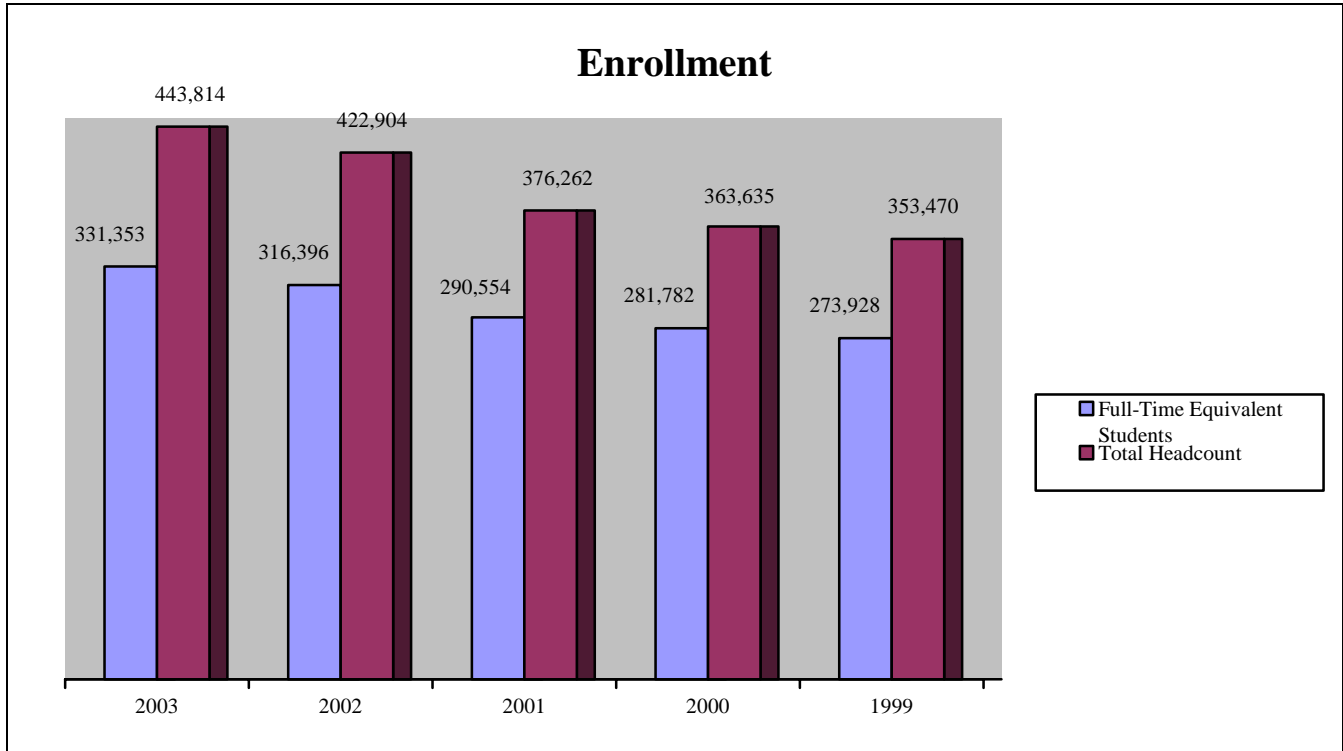
Despite the significant reductions in budget, the University's overall financial strength remains sound. Total net assets increased \$578.9 million, primarily in the invested in capital assets, net of related debt, and restricted expendable net assets categories.

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Management's Discussion and Analysis (Unaudited)

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In addition, there continues to be significant enrollment demand. Head count enrollment increased from 422,904 in fiscal year 2002 to 443,814 in fiscal year 2003. The following graph displays the University's historical head count enrollment data by fiscal year:



FINANCIAL ANALYSIS

The following sections provide additional details on the University's financial position and activities for fiscal year 2003 and 2002 and a look ahead at significant economic conditions that are expected to affect the University in the future.

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

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Management's Discussion and Analysis (Unaudited)

June 30, 2003

I. SCHEDULE OF NET ASSETS

Schedule of Net Assets

June 30, 2003 and 2002

(In thousands)

	University		Auxiliary Organizations	
	2003	2002	2003	2002
Current assets	\$ 1,467,112	1,496,540	753,270	692,034
Capital assets, net	4,007,450	3,623,783	560,969	448,514
Other noncurrent assets	1,283,805	744,759	831,106	876,223
Total assets	6,758,367	5,865,082	2,145,345	2,016,771
Current liabilities	856,699	823,211	341,942	280,169
Noncurrent liabilities	2,037,561	1,756,619	635,914	637,614
Total liabilities	2,894,260	2,579,830	977,856	917,783
Net assets:				
Invested in capital assets, net of related debt	2,560,332	2,253,961	140,893	133,816
Restricted	681,391	460,663	744,105	690,711
Unrestricted	622,384	570,628	282,491	274,461
Total net assets	\$ 3,864,107	3,285,252	1,167,489	1,098,988

Current and Other Noncurrent Assets

Current and other noncurrent assets are assets that are used to meet the University's current and noncurrent obligations. These assets consist of cash and cash equivalents, restricted cash, investments, accounts receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets totaling \$2.7 billion and \$2.2 billion at June 30, 2003 and 2002, respectively. The net increase of \$510 million in current and other noncurrent assets is mainly attributable to the increase in investments and accounts receivable. Investments increased by \$305.6 million primarily resulting from the proceeds of the issuance of the Systemwide Revenue Bonds, Series 2003A. During fiscal year 2003, the state allocated \$482 million in capital outlay appropriations to the University. At June 30, 2003, the unexpended portion of the capital outlay appropriations totaled \$293.4 million compared with \$55.9 million at June 30, 2002, which accounted for the increase in accounts receivable.

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Management's Discussion and Analysis (Unaudited)

June 30, 2003

Capital Assets

The University's investment in capital assets (net of accumulated depreciation) as of June 30, 2003 and 2002, amounted to \$4.0 billion and \$3.6 billion, respectively. During the fiscal year ended June 30, 2003, major capital asset additions included the following:

- Construction on the \$215 million San Jose Campus Village project
- Construction on the \$142 million San Jose Joint Library project
- Construction on the \$116 million Fresno Save Mart Center Complex project
- Construction on the \$48 million San Marcos Library Information Center project
- Construction on the \$45 million San Luis Obispo Student Housing project
- Construction on the \$36 million Sonoma Student Housing project
- Construction on the \$34 million Long Beach Peterson Hall Addition project
- Completion of the \$32 million Dominguez Hills Technology Center/Administration Building project

The University's capital assets, net of accumulated depreciation, as of June 30, 2003 and 2002 are comprised of the following:

Capital Assets

June 30, 2003 and 2002

(At historical cost, net of accumulated depreciation)

(In thousands)

	<u>2003</u>	<u>2002</u>
Land and land improvements	\$ 180,417	161,317
Buildings and building improvements	2,607,948	2,367,616
Infrastructure	267,786	195,431
Improvements other than buildings	55,338	46,874
Equipment	163,995	180,618
Library books and materials	66,870	75,900
Works of art and historical treasures	17,704	17,129
Intangible assets	73,043	66,401
Construction work in progress	<u>574,349</u>	<u>512,497</u>
Total	<u>\$ 4,007,450</u>	<u>3,623,783</u>

Current and Noncurrent Liabilities

Current liabilities (liabilities due within one year) and noncurrent liabilities (liabilities due in more than one year) include accounts payable, accrued salaries and benefits payable, accrued compensated absences, grants refundable, deferred revenue, capitalized lease obligations, long-term debt obligations, self-insurance claims liability, depository accounts, and other liabilities. The net increase of \$314.4 million in current and noncurrent liabilities was primarily associated with the issuance of new systemwide revenue bonds, offset by the pay down in liabilities and capital lease obligations.

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Management's Discussion and Analysis (Unaudited)

June 30, 2003

Long-Term Debt

As of June 30, 2003 and 2002, the University's outstanding long-term debt obligations totaled \$1.2 billion and \$831 million, respectively, and are summarized as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Systemwide Revenue Bonds	\$ 517,155	174,750
Housing System Revenue Bonds	249,647	258,449
Student Union Revenue Bonds	175,305	180,115
Headquarters Building Authority Revenue Bonds	28,285	29,115
Deferred Maintenance Projects Agreement	24,515	27,360
Parking Revenue Bonds	25,780	26,400
Financing Authority Revenue Bonds	96,275	96,275
Bond Anticipation Notes	72,161	28,254
Other	8,009	10,696
	<hr/>	<hr/>
Total long-term debt	1,197,132	831,414
Less current portion	(94,315)	(48,438)
	<hr/>	<hr/>
Long-term debt, net of current portion	\$ <u>1,102,817</u>	<u>782,976</u>

In addition, the State General Obligation Bond program has provided capital funding for various projects of the University. The debt related to these projects has not been allocated to the University by the State of California and thus is not recorded in the University's financial statements. Total General Obligation Bond debt carried by the state related to University projects is approximately \$447 million and \$456 million at June 30, 2003 and 2002, respectively.

The University's total debt (net of repayments) increased more than \$365 million in 2003. The major factor accounting for this increase was the issuance of Systemwide Revenue Bonds, Series 2003A, in the amount of \$342,725,000 in 2003. The proceeds were used to provide new funding for multiple campus housing and auxiliary organization projects.

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2003. Repayment of bonds is legally limited to the sources of revenue from operation of the projects including specific mandatory fees pledged to the revenue bond program. However, the changing financial condition of the State of California precipitated reevaluation by bond rating agencies of the Trustees revenue bond ratings. During the year bond ratings were changed by Moody's Investors Service: from Aa3 to A1 for the Housing System and the Systemwide Revenue Bonds; and from A1 to A2 for the Student Union, the Parking and the Headquarters Building Authority Revenue Bonds. Bond ratings were also changed by Standard and Poor's Rating Service: from A+ to A for the Housing System and the Systemwide Revenue Bonds; and from A to A- for the Student Union, the Parking and the Headquarters Building Authority Revenue Bonds. Moody's and Standard and Poor's currently rate the Housing System and Systemwide Revenue Bonds three rating grades above the State's General Obligation Bonds, the Student Union and Parking Revenue Bonds two grades above the State's General Obligation Bonds, and the Headquarters Building Authority Revenue Bonds one grade above the State's General Obligation Bonds.

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Management's Discussion and Analysis (Unaudited)

June 30, 2003

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the University's financial position. In the case of the California State University, assets exceeded liabilities by over \$3.8 billion in 2003.

The net asset category "Invested in capital assets, net of related debt", represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The University uses these capital assets in its day-to-day operations. This category by far is the largest portion of the University's net assets (66%). The increase of \$306.4 million in the current year directly related to the \$383.7 million net capital assets increase during the year.

The restricted net asset category consists of two subcategories: "Restricted nonexpendable" and "Restricted expendable". The restricted nonexpendable net assets are made up of the permanent endowment funds. In the current year, the majority of the increase in restricted nonexpendable net assets is from the auxiliary organizations. Restricted expendable net assets represent resources that are subject to external restrictions on how they may be used. Such restrictions are primarily related to scholarships, capital projects, loans, and debt services. The University's restricted expendable net assets increased by \$219 million in 2003 and consist primarily of the unspent capital outlay appropriation.

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

The University's net assets increased by nearly \$578.9 million in the current fiscal year, as reflected on the following page.

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Management's Discussion and Analysis (Unaudited)

June 30, 2003

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

Schedule of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

(In thousands)

	University		Auxiliary Organizations	
	2003	2002	2003	2002
Operating revenues:				
Student tuition and fees, net	\$ 795,557	732,833	92,340	85,266
Grants and contracts, noncapital	552,307	527,165	481,094	457,071
Sales and services of educational activities	42,603	35,155	40,474	29,910
Sales and services of auxiliary enterprises, net	183,777	159,583	420,416	409,154
Other operating revenues	112,969	64,291	75,184	82,260
Total operating revenues	<u>1,687,213</u>	<u>1,519,027</u>	<u>1,109,508</u>	<u>1,063,661</u>
Operating expenses	<u>4,399,794</u>	<u>4,237,126</u>	<u>1,196,769</u>	<u>1,141,568</u>
Operating loss	<u>(2,712,581)</u>	<u>(2,718,099)</u>	<u>(87,261)</u>	<u>(77,907)</u>
Nonoperating revenue, net:				
State appropriations, noncapital	2,674,075	2,670,565	—	—
Gifts, noncapital	24,258	17,797	113,647	93,523
Investment income, net	41,796	39,961	20,756	1,268
Endowment income (loss)	1,039	1,131	10,067	(5,226)
Interest on capital-related debt	(86,183)	(68,852)	(12,011)	(10,867)
Other nonoperating revenues (expenses)	70,892	37,266	(3,799)	(73,187)
Net nonoperating revenues	<u>2,725,877</u>	<u>2,697,868</u>	<u>128,660</u>	<u>5,511</u>
State appropriations, capital	521,668	177,780	—	—
Grants and gifts, capital	42,920	102,282	11,318	64,989
Additions to permanent endowments	971	94	20,409	30,560
Increase in net assets	<u>578,855</u>	<u>259,925</u>	<u>73,126</u>	<u>23,153</u>
Net assets – beginning of year	3,285,252	3,025,327	1,098,988	1,075,835
Restatements	—	—	(4,625)	—
Net assets – beginning of year, as restated	<u>3,285,252</u>	<u>3,025,327</u>	<u>1,094,363</u>	<u>1,075,835</u>
Net assets – end of year	<u>\$ 3,864,107</u>	<u>3,285,252</u>	<u>1,167,489</u>	<u>1,098,988</u>

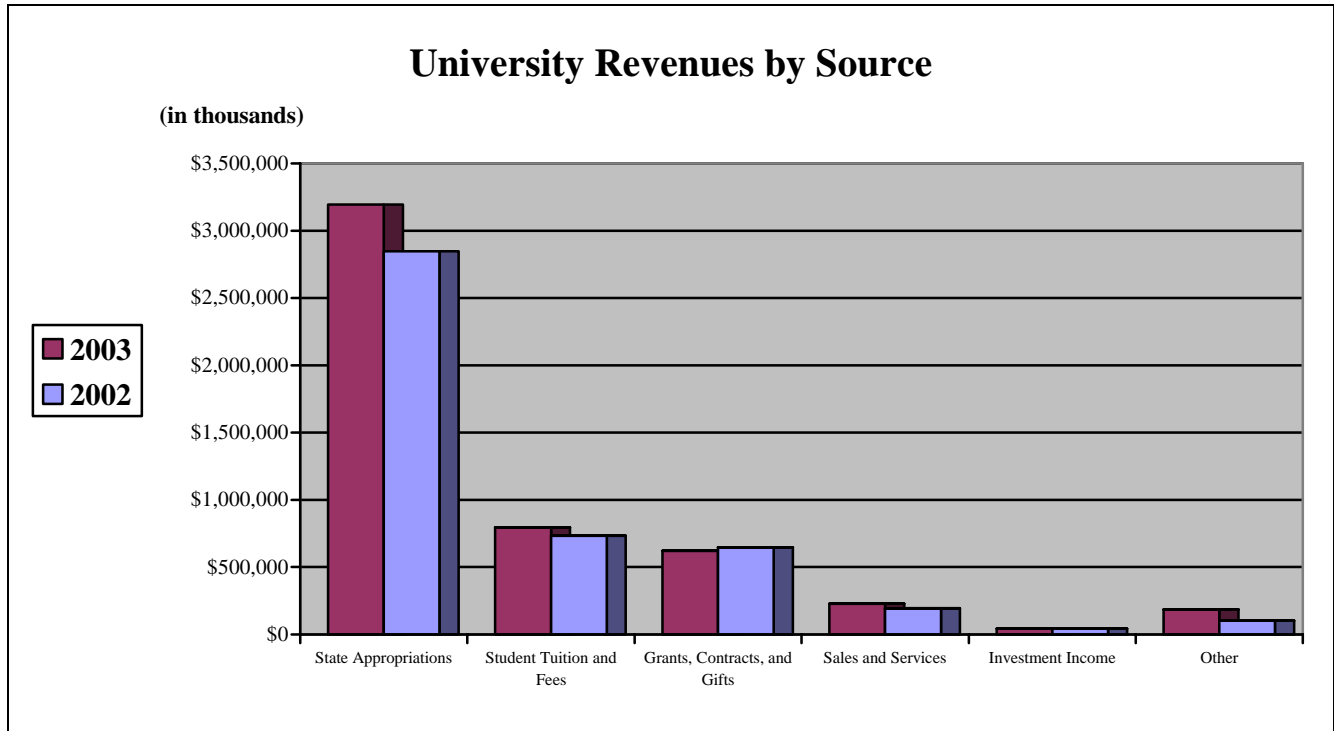
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Management's Discussion and Analysis (Unaudited)

June 30, 2003

Revenues (Operating and Nonoperating)

The following graph displays the components of the University's revenues for fiscal years 2003 and 2002:



The largest component of revenues continues to be state appropriations, which accounted for 63% of the University's revenues. State appropriations are received for both operating and capital purposes. The University experienced a 12% increase in these appropriations over the prior year. Virtually all of the increase was to support capital related projects. The operating appropriations remained level, while enrollment rose by approximately 5%.

Student tuition and fees are up by \$62.7 million or over 8% from fiscal year 2002 due to the increase in student enrollment and in the fee structure.

A significant portion of the University's contracts and grants are managed through its auxiliary organizations. Of the total reporting entity's operating contracts and grants revenue (over \$1 billion), more than 46% is managed by these related organizations. Operating contracts and grants revenue for the total reporting entity has increased 5% in fiscal year 2003.

Total gift income for the University and the auxiliary organizations (which includes operating and capital gifts, as well as gifts to the permanent endowment) reached \$213.5 million, or approximately 3% of the reporting entity's total revenues in the current year, compared to \$309.2 million, or approximately 5% of the reporting entity's total revenues in fiscal year 2002. Gifts are used to support a variety of projects, including capital

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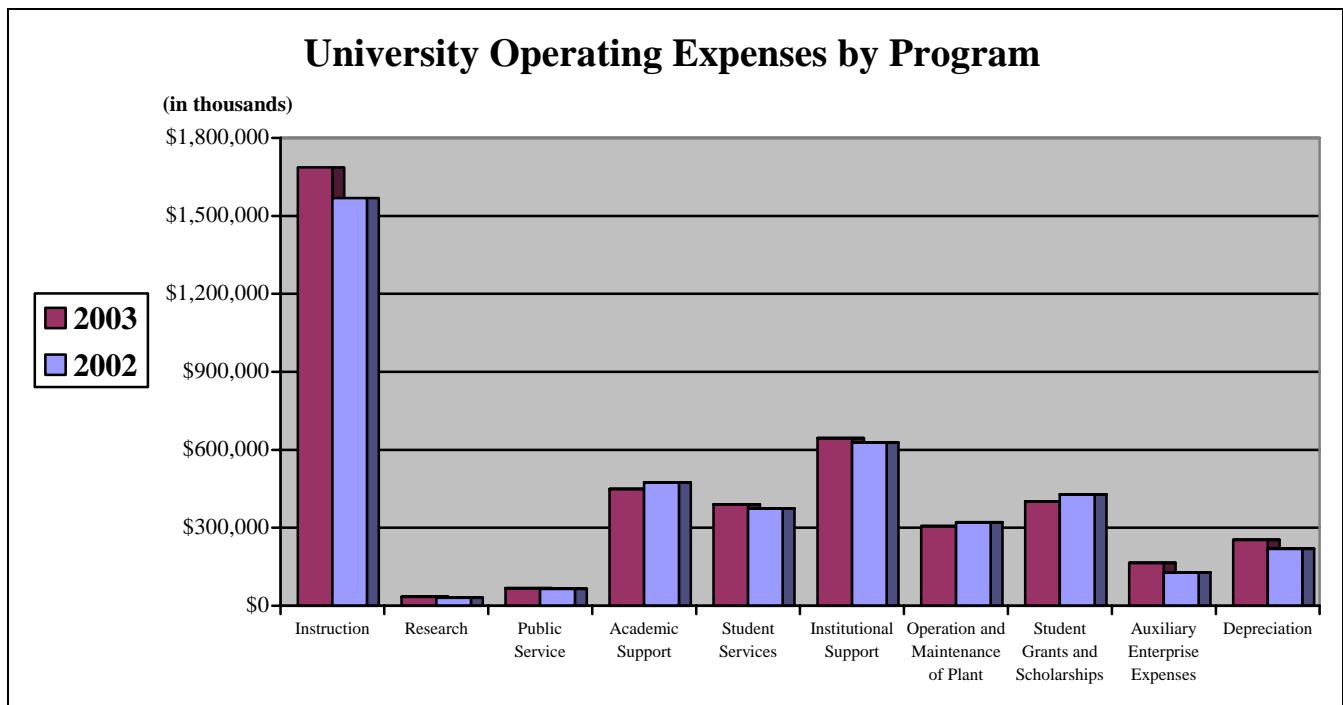
improvements, scholarships, and endowments for various academic and research programs. The drop in gift income is largely due to a decrease in one-time donations during fiscal year 2003 as compared to the previous year.

Other revenues consist of operating and net nonoperating activities. The University's total net other revenues increased by \$82.3 million from \$101.6 million in 2002 to \$183.9 million in 2003. The increase is primarily made up of recognition of legal settlement proceeds in the current fiscal year and one-time expenditures in other nonoperating expenses in the prior fiscal year.

Operating Expenses

Nearly 40% of the University's total operating expenses from all revenue sources directly support the primary function of the University: instruction. These direct expenses only include faculty and instructional support staff salaries, benefits, and their direct expenses. Instructional expenses increased by \$117.8 million in the current fiscal year to support enrollment growth. Adding the mission-critical educational support activities of student services, academic support, grants and scholarships, public service and research to direct classroom instruction accounts for just short of 70% of the total operating expenses of the University. Increase in depreciation expense of \$34.7 million is the result of capital asset additions. The following chart presents the operating expenses by program. Again, these expenses are reported from all sources of funding, excluding auxiliaries.

The following graph displays the University's operating expenses by program for fiscal years 2003 and 2002:



CALIFORNIA STATE UNIVERSITY

Management's Discussion and Analysis (Unaudited)

June 30, 2003

Economic Factors

The University is highly dependent on state appropriations as a primary revenue source. The State of California's continued budget crisis is expected to affect the University's appropriations in 2004 and beyond. The 2004 state budget was passed with a total fiscal impact to the University of \$531 million (19.8%) in General Fund budget reductions and unfunded costs. The \$531 million reduction was offset by a fee revenue increase of \$227 million for a net fiscal loss of \$304 million in state support to the California State University System. The University had to impose a 30% fee increase for students and was forced to limit this year's enrollment growth from a projected 7% to 4.3%, which will be further reduced to 3.3% to conform to the cutbacks. Additionally, the University took other measures to address the budget reduction. Such actions included: 1) increased financial aid to cover fee increases for students with need, 2) identified 2,300 vacant or frozen positions that will remain unfilled before any layoff action is taken, 3) cut Chancellor's Office administrative budget by 15.1% over two fiscal years, and 4) delayed progress of the systemwide technology initiative (CMS) where possible for one-time deferment of expenditures.

The Governor has proposed a mid-year budget reduction of \$23.8 million in General Fund support from unallocated reductions and academic preparation and outreach funding. The University will decide how to implement these reductions after legislative action has been taken.

Certain campuses of the University are currently undergoing a tax audit by the Internal Revenue Service, primarily relating to compliance with rules governing taxation of nonresident aliens. Any amounts owed as a result of such audit can not be determined at this time. Accordingly, as of June 30, 2003, no taxes have been provided for any assessments that may result from such audit. Management believes that any amounts owed would not have a material effect on the financial position of the University.

Another factor impacting the University is the 2004 School Bond (Proposition 55), a statewide bond package to repair, upgrade, modernize, and build new facilities and schools. The first half of the 2004 School Bond (Proposition 47) was passed by 59% of California voters in November 2002. The second half will be put before voters on the March 2004 ballot. If approved by voters, the bond will authorize the sale of statewide general obligation bonds in the amount of \$12.3 billion to repair, upgrade, and build new facilities for the state's educational systems. The \$690 million earmarked for the California State University will fund capital projects in fiscal years 2004-2005 and 2005-2006 to build new classrooms and upgrade older buildings to accommodate the nearly 150,000 new students expected to enroll at the University campuses by 2010, as more than half of the University's facilities are over 28 years old. The University plans are also to upgrade and modernize aging laboratories, construct libraries, and support facilities; equip new and remodeled buildings; and make safety and seismic improvements.



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Independent Auditors' Report

The Board of Trustees
California State University:

We have audited the accompanying basic financial statements of the California State University (the University) (a component unit of the State of California) and its aggregate discretely presented auxiliary organizations as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of 71 of the 85 aggregate discretely presented auxiliary organizations, which statements reflect total assets constituting 73% and total revenues constituting 73% of the discretely presented totals. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 71 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 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 other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its aggregate discretely presented auxiliary organizations as of June 30, 2003, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (MD&A) on pages 1 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2003 on our consideration of the 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 audits.

KPMG LLP

Orange County, California
November 19, 2003

CALIFORNIA STATE UNIVERSITY

Statement of Net Assets

June 30, 2003

Assets	Discretely presented component units		Total
	University	Auxiliary organizations	
Current assets:			
Cash and cash equivalents	\$ 214,065,000	139,584,000	353,649,000
Short-term investments	823,885,000	298,097,000	1,121,982,000
Accounts receivable, net	382,586,000	241,232,000	623,818,000
Pledges receivable, net	932,000	28,560,000	29,492,000
Prepaid expenses and other assets	45,644,000	45,797,000	91,441,000
Total current assets	1,467,112,000	753,270,000	2,220,382,000
Noncurrent assets:			
Restricted cash and cash equivalents	21,296,000	41,303,000	62,599,000
Accounts receivable, net	654,742,000	37,388,000	692,130,000
Student loans receivable, net	112,064,000	864,000	112,928,000
Pledges receivable, net	824,000	65,042,000	65,866,000
Endowment investments	18,647,000	389,961,000	408,608,000
Other long-term investments	467,503,000	170,272,000	637,775,000
Capital assets, net	4,007,450,000	560,969,000	4,568,419,000
Other assets	8,729,000	126,276,000	135,005,000
Total noncurrent assets	5,291,255,000	1,392,075,000	6,683,330,000
Total assets	6,758,367,000	2,145,345,000	8,903,712,000
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	214,392,000	83,216,000	297,608,000
Accrued salaries and benefits payable	204,270,000	24,390,000	228,660,000
Accrued compensated absences – current portion	82,464,000	10,007,000	92,471,000
Deferred revenue	134,559,000	53,615,000	188,174,000
Capitalized lease obligations – current portion	43,986,000	344,000	44,330,000
Long-term debt obligations – current portion	94,315,000	89,288,000	183,603,000
Self-insurance claims liability – current portion	32,620,000	70,000	32,690,000
Other liabilities	50,093,000	81,012,000	131,105,000
Total current liabilities	856,699,000	341,942,000	1,198,641,000
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	69,992,000	1,560,000	71,552,000
Grants refundable	105,437,000	—	105,437,000
Deferred revenue	9,596,000	17,944,000	27,540,000
Capitalized lease obligations, net of current portion	657,825,000	2,745,000	660,570,000
Long-term debt obligations, net of current portion	1,102,817,000	508,626,000	1,611,443,000
Self-insurance claims liability, net of current portion	71,851,000	1,235,000	73,086,000
Depository accounts	17,544,000	43,410,000	60,954,000
Other liabilities	2,499,000	60,394,000	62,893,000
Total noncurrent liabilities	2,037,561,000	635,914,000	2,673,475,000
Total liabilities	2,894,260,000	977,856,000	3,872,116,000
Net assets:			
Invested in capital assets, net of related debt	2,560,332,000	140,893,000	2,701,225,000
Restricted for:			
Nonexpendable – endowments	25,690,000	395,947,000	421,637,000
Expendable:			
Scholarships and fellowships	12,588,000	38,712,000	51,300,000
Research	3,332,000	3,660,000	6,992,000
Loans	24,846,000	7,194,000	32,040,000
Capital projects	573,948,000	93,978,000	667,926,000
Debt service	31,412,000	2,296,000	33,708,000
Other	9,575,000	202,318,000	211,893,000
Unrestricted	622,384,000	282,491,000	904,875,000
Total net assets	\$ 3,864,107,000	1,167,489,000	5,031,596,000

See accompanying notes to basic financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

	<u>University</u>	<u>Discretely presented component units Auxiliary organizations</u>	<u>Total</u>
Revenues:			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of \$239,062,000)	\$ 795,557,000	92,340,000	887,897,000
Grants and contracts, noncapital:			
Federal	398,344,000	268,433,000	666,777,000
State and local	130,339,000	138,449,000	268,788,000
Nongovernmental	23,624,000	74,212,000	97,836,000
Sales and services of educational activities	42,603,000	40,474,000	83,077,000
Sales and services of auxiliary enterprises (net of scholarship allowances of \$13,321,000)	183,777,000	420,416,000	604,193,000
Other operating revenues	112,969,000	75,184,000	188,153,000
Total operating revenues	<u>1,687,213,000</u>	<u>1,109,508,000</u>	<u>2,796,721,000</u>
Expenses:			
Operating expenses:			
Instruction	1,686,748,000	136,187,000	1,822,935,000
Research	33,810,000	199,904,000	233,714,000
Public service	67,276,000	157,598,000	224,874,000
Academic support	449,720,000	47,670,000	497,390,000
Student services	390,537,000	55,745,000	446,282,000
Institutional support	644,642,000	96,317,000	740,959,000
Operation and maintenance of plant	306,598,000	26,055,000	332,653,000
Student grants and scholarships	401,544,000	27,027,000	428,571,000
Auxiliary enterprise expenses	164,982,000	420,566,000	585,548,000
Depreciation	253,937,000	29,700,000	283,637,000
Total operating expenses	<u>4,399,794,000</u>	<u>1,196,769,000</u>	<u>5,596,563,000</u>
Operating loss	<u>(2,712,581,000)</u>	<u>(87,261,000)</u>	<u>(2,799,842,000)</u>
Nonoperating revenues (expenses):			
State appropriations, noncapital	2,674,075,000	—	2,674,075,000
Gifts, noncapital	24,258,000	113,647,000	137,905,000
Investment income, net	41,796,000	20,756,000	62,552,000
Endowment income (loss)	1,039,000	10,067,000	11,106,000
Interest on capital-related debt	(86,183,000)	(12,011,000)	(98,194,000)
Other nonoperating revenues (expenses)	70,892,000	(3,799,000)	67,093,000
Net nonoperating revenues	<u>2,725,877,000</u>	<u>128,660,000</u>	<u>2,854,537,000</u>
Loss before other revenues and expenses	13,296,000	41,399,000	54,695,000
State appropriations, capital	521,668,000	—	521,668,000
Grants and gifts, capital	42,920,000	11,318,000	54,238,000
Additions to permanent endowments	971,000	20,409,000	21,380,000
Increase in net assets	<u>578,855,000</u>	<u>73,126,000</u>	<u>651,981,000</u>
Net assets:			
Net assets at beginning of year	3,285,252,000	1,094,363,000	4,379,615,000
Net assets at end of year	<u>\$ 3,864,107,000</u>	<u>1,167,489,000</u>	<u>5,031,596,000</u>

See accompanying notes to basic financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2003

	<u>University</u>	<u>Discretely presented component unit GASB auxiliary organizations</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 813,234,000	15,115,000
Federal grants and contracts	401,459,000	91,018,000
State and local grants and contracts	126,707,000	66,215,000
Nongovernmental grants and contracts	22,794,000	16,278,000
Payments to suppliers	(1,073,482,000)	(174,328,000)
Payments to employees	(2,764,814,000)	(132,466,000)
Payments to students	(426,352,000)	(7,031,000)
Collections of student loans	12,977,000	—
Sales and services of auxiliary enterprises	184,566,000	87,001,000
Sales and services of educational activities	42,593,000	2,570,000
Other receipts	117,620,000	24,536,000
Net cash used in operating activities	<u>(2,542,698,000)</u>	<u>(11,092,000)</u>
Cash flows from noncapital financing activities:		
State appropriations	2,767,300,000	—
Gifts and grants received for other than capital purposes	22,327,000	30,027,000
Federal loan program receipts	427,763,000	—
Federal loan program disbursements	(420,960,000)	—
Monies received on behalf of others	90,937,000	3,219,000
Monies disbursed on behalf of others	(89,493,000)	(3,717,000)
Other noncapital financing activities	35,685,000	(59,000)
Net cash provided by noncapital financing activities	<u>2,833,559,000</u>	<u>29,470,000</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	421,599,000	260,124,000
State appropriations	258,031,000	—
Capital grants and gifts	29,601,000	237,000
Proceeds from sale of capital assets	164,000	(1,778,000)
Acquisition of capital assets	(552,531,000)	(17,547,000)
Principal paid on capital debt and leases	(83,525,000)	(183,062,000)
Interest paid on capital debt and leases	(87,965,000)	(5,200,000)
Net cash provided by (used in) capital and related financing activities	<u>(14,626,000)</u>	<u>52,774,000</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,466,250,000	265,640,000
Investment income proceeds	24,062,000	6,997,000
Purchase of investments	(1,765,773,000)	(344,613,000)
Net cash used in investing activities	<u>(275,461,000)</u>	<u>(71,976,000)</u>
Net increase in cash and cash equivalents	774,000	(824,000)
Cash and cash equivalents at beginning of year	<u>234,587,000</u>	<u>57,423,000</u>
Cash and cash equivalents at end of year	<u>\$ 235,361,000</u>	<u>56,599,000</u>

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2003

	<u>University</u>	<u>Discretely presented component unit GASB auxiliary organizations</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (2,712,581,000)	(13,126,000)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	253,937,000	6,653,000
Noncash contributions	2,077,000	—
Change in assets and liabilities:		
Accounts receivable, net	(6,690,000)	(6,437,000)
Student loans receivable, net	1,378,000	—
Pledges receivable, net	—	(712,000)
Prepaid expenses and other assets	(12,529,000)	(769,000)
Accounts payable	(118,100,000)	4,059,000
Accrued salaries and benefits	16,321,000	(381,000)
Accrued compensated absences	8,720,000	(301,000)
Deferred revenue	50,391,000	(337,000)
Self-insurance claims liability	(23,449,000)	—
Depository accounts	419,000	850,000
Other liabilities	(2,592,000)	(591,000)
Net cash used in operating activities	\$ <u>(2,542,698,000)</u>	<u>(11,092,000)</u>
Supplemental schedule of noncash transactions:		
Capital lease payments to State	\$ 33,274,000	—
Contributed capital	42,920,000	—

See accompanying notes to basic financial statements.

CALIFORNIA STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2003

	Discretely presented component unit
	<u>FASB auxiliary organizations</u>
Cash flows from operating activities:	
Change in net assets	\$ 56,512,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for doubtful receivables	325,000
Depreciation	23,047,000
Contributions restricted for long-term investment	(34,357,000)
Net realized and unrealized losses on investments	(7,503,000)
Loss on the disposal of assets	4,171,000
Changes in assets and liabilities:	
Accounts receivable	(754,000)
Pledges receivable	20,083,000
Prepaid expenses and other assets	46,219,000
Accounts payable	3,975,000
Accrued salaries and benefits	2,412,000
Accrued compensated absences	215,000
Deferred revenue	(964,000)
Depository accounts	(14,917,000)
Other liabilities	14,505,000
Net cash provided by operating activities	<u>112,969,000</u>
Cash flows from investing activities:	
Purchases of investments	(267,327,000)
Proceeds from sales and maturities of investments	258,624,000
Acquisition of capital assets	(121,736,000)
Proceeds from the sale of capital assets	(535,000)
Net cash used in investing activities	<u>(130,974,000)</u>
Cash flows from financing activities:	
Proceeds from capital debt	7,639,000
Principal and interest payments on capital debt	(8,281,000)
Contributions received for long-term investment	18,688,000
Net cash provided by financing activities	<u>18,046,000</u>
Net increase in cash	41,000
Cash and cash equivalents at beginning of year	<u>124,247,000</u>
Cash and cash equivalents at end of year	\$ <u><u>124,288,000</u></u>
Supplemental information:	
Interest paid	\$ 10,737,000

See accompanying notes to basic financial statements.

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

(1) Organization

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California, the University is also included in the State of California's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, and the University Presidents, the chief executive officers of the respective campuses. In addition to the Office of the Chancellor, the following 23 campuses comprise the California State University at June 30, 2003:

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and 35, *Basic Financial Statements – and Management's Discussion and Analysis –*

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

for Public Colleges and Universities, the accompanying basic financial statements present the statement of net assets, statement of revenues, expenses, and changes in net assets, and statements of cash flows of the 23 campuses and the Office of the Chancellor of the California State University.

In addition, the accompanying basic financial statements include the accounts of 85 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 net assets comprise approximately 77% of the discretely presented totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research, as well as soliciting and accepting donations, gifts, and bequests for University-related use. Separate financial statements are issued for each of the recognized auxiliary organizations 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, Fresno Athletic Corporation
- California State University Foundation
- California State University, Fresno Foundation
- California State University Bakersfield Foundation
- Fresno State Programs for Children, Inc.
- California State University, Bakersfield Student Union
- California State University, Fullerton, Foundation
- Associated Students, Inc. California State University, Bakersfield
- Associated Students, California State University, Fullerton, Inc.
- California State University, Bakersfield Foundation for Research
- University Advancement Foundation (Fullerton)
- California State University, Channel Islands Foundation
- CSU Fullerton Housing Authority
- University Glen Corporation (Channel Islands)
- California State University, Hayward Foundation, Inc.
- The CSU, Chico Research Foundation
- University Union, Inc. of California State University, Hayward
- Associated Students, California State University, Chico
- Associated Students, Inc. of California State University, Hayward
- The University Foundation, California State University, Chico
- Cal State Hayward Educational Foundation, Inc.
- Associated Students, Inc. California State University, Dominguez Hills
- Associated Students of Humboldt State University

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

- California State University, Dominguez Hills Foundation
- The Donald P. and Katherine B. Loker University Student Union, Inc., California State University, Dominguez Hills
- Associated Students, California State University, Fresno
- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Association, Inc.
- Cal State L.A. University Auxiliary Services, Inc.
- The CSLA 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, Inc., California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- Associated Students, California State University, Northridge, Inc.
- Humboldt State University Center Board of Directors
- Humboldt State University Foundation and College Improvement Foundation
- California State University, Long Beach Foundation
- Forty-Niner Shops, Inc. (Long Beach)
- Associated Students Inc., California State University, Long Beach
- 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, Incorporated, California State University, San Bernardino
- Student Union of California State University, San Bernardino
- The Foundation for California State University, San Bernardino
- Associated Students of San Diego State University
- Aztec Shops, Ltd. (San Diego)
- San Diego State University Foundation
- The Campanile Foundation (San Diego)

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Notes to Basic Financial Statements

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

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

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Notes to Basic Financial Statements

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All significant intercampus transactions have been eliminated.

The accompanying basic financial statements also include the *California State University Risk Management Authority*, the *California State University Headquarters Authority*, the *CSUCI Financing Authority*, *CSUCI Site Authority* and *Stockton Center Site 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.

(b) Basis of Presentation

As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement 35. The University records revenue in part from fees and other charges for services to external users, and accordingly has chosen to present its basic 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 basic financial statements, accompanied by aggregated financial information for the auxiliary organizations. The effect of internal activity between funds or groups of funds has been eliminated from these financial statements.

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

(c) Auxiliary Organization Restatements

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

Net assets as of June 30, 2002, as previously reported	\$ 1,098,988,000
Liability related to charitable remainder trust of Sonoma State University Academic Foundation, Inc.	(6,266,000)
Net assets of CSU Fullerton Housing Authority as of July 1, 2002	1,900,000
Other adjustments, net	<u>(259,000)</u>
Net assets at beginning of year	<u><u>\$ 1,094,363,000</u></u>

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Notes to Basic Financial Statements

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In order to present statements of cash flows for the auxiliary organizations in accordance with the reporting standards that apply to each entity, the University has chosen to present these statements on separate pages, separating those who report under GASB standards and those who report under FASB standards. The following schedule is provided to help map the inter-relationships between the cash flow statements and other financial statements:

	<u>Cash and cash equivalents</u>	<u>Operating loss</u>	<u>Increase in net assets</u>
GASB reporting Auxiliary Organizations	\$ 56,599,000	(13,126,000)	16,614,000
FASB reporting Auxiliary Organizations	<u>124,288,000</u>	<u>(74,135,000)</u>	<u>56,512,000</u>
Total	<u>\$ 180,887,000</u>	<u>(87,261,000)</u>	<u>73,126,000</u>

(d) Election of Applicable FASB Statements

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

(e) Classification of Current and Noncurrent Assets and Liabilities

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

(f) Cash Equivalents

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

(g) 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 statement of revenues, expenses, and changes in net assets as investment income, net.

(h) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or if donated at estimated fair value at date of donation. Personal property with a value of less than \$5,000 is not capitalized. The University is required to capitalize all infrastructure assets that have been acquired, or that have received major improvements. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the

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University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying basic financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a ten-year period. Periodicals and subscriptions are expensed as purchased. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

(i) Deferred Revenue

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

(j) Compensated Absences

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

(k) Grants Refundable

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

(l) Net Assets

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

Invested in Capital Assets, Net of Related Debt: Capital assets, net of accumulated depreciation, amortization, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted – Nonexpendable: Net assets subject to externally imposed conditions that the University retain them in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.

Restricted – Expendable: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

Unrestricted: All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the University or have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

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which expenditures of net assets may be made, and require that unrestricted net assets be designated to support future operations in these areas. University housing programs are a primary example of operations that have unrestricted net assets with designated uses.

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

(m) *Classification of Revenues and Expenses*

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

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

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

(n) *Income Taxes*

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

Certain campuses of the University are currently undergoing a tax audit by the Internal Revenue Service, primarily relating to compliance with rules governing taxation of nonresident aliens. Any amounts owed as a result of such audit can not be determined at this time. Accordingly, as of June 30, 2003, no taxes have been provided for any assessments that may result from such audit. Management believes that any amounts owed would not have a material effect on the financial position of the University.

The University has not undergone any recent 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 basic financial statements taken as a whole.

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Notes to Basic Financial Statements

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(o) *Estimates*

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

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

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

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

At June 30, 2003, the investment portfolio consists primarily of investments held in the California State University investment pool, as well as interest-bearing accounts held in the State Treasury.

None of the University's investments are represented by specific identifiable investment securities and, accordingly, are not subject to custodial risk categorization as prescribed by the Governmental Accounting Standards Board's Statement No. 3.

At June 30, 2003 University investments are pooled at both the campus and systemwide levels; however, separate accounting is maintained as to the amounts allocable to the various campuses, funds, and programs. The University's investments at fair value consisted of the following at June 30, 2003:

	2003		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State of California Surplus Money			
Investment Fund	\$ 367,625,000	419,710,000	787,335,000
Metropolitan West Total Return Fund	162,307,000	15,195,000	177,502,000
Metropolitan West Short Term Fund	197,447,000	5,650,000	203,097,000
Metropolitan West Long Term Fund	58,800,000	9,440,000	68,240,000
Collateralized mortgage obligations:			
Agency and private pass-through	3,930,000	—	3,930,000
State of California Local Agency			
Investment Fund	27,740,000	—	27,740,000
Other	6,036,000	36,155,000	42,191,000
Total	<u>\$ 823,885,000</u>	<u>486,150,000</u>	<u>1,310,035,000</u>

As noted above, the University's investment portfolio includes investments in collateralized mortgage obligations, which consist of agency and private pass-through securities. Agency and private pass-through securities are securities in which the investor receives a pro rata share of principal and interest payments passed through from the underlying mortgages which are issued primarily by FNMA and FHLMC.

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

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Investments of the discretely presented auxiliary organizations of the University consisted of the following:

	<u>Fair value</u>
State of California Local Agency Investment Fund	\$ 87,648,000
Debt and equity securities	417,378,000
Fixed income funds	119,541,000
Real estate	12,320,000
Notes receivable	20,203,000
Short-term marketable securities	15,073,000
Other investments	186,167,000
	<hr/>
Total	\$ <u>858,330,000</u>

Approximately \$11,810,000 of the investments reported by the University in the statement of net assets at June 30, 2003, is invested under contractual agreements on behalf of the auxiliary organizations of the University.

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

(4) Accounts Receivable

Accounts receivable of the University at June 30, 2003 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 255,574,000	583,590,000	839,164,000
Auxiliary organizations	30,976,000	—	30,976,000
Student accounts	20,235,000	25,018,000	45,253,000
Government grants and contracts	33,244,000	503,000	33,747,000
Other	53,395,000	59,203,000	112,598,000
	<hr/>	<hr/>	<hr/>
	393,424,000	668,314,000	1,061,738,000
Less allowance for doubtful accounts	<u>(10,838,000)</u>	<u>(13,572,000)</u>	<u>(24,410,000)</u>
Total	\$ <u>382,586,000</u>	<u>654,742,000</u>	<u>1,037,328,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

(5) Capital Assets

Capital assets activity for the year ended June 30, 2003 consisted of the following:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Non depreciable capital assets:				
Land and land improvements	\$ 161,317,000	19,100,000	—	180,417,000
Works of art and historical treasures	17,129,000	682,000	(107,000)	17,704,000
Construction work in progress	<u>512,497,000</u>	<u>410,236,000</u>	<u>(348,384,000)</u>	<u>574,349,000</u>
Total non depreciable capital assets	<u>690,943,000</u>	<u>430,018,000</u>	<u>(348,491,000)</u>	<u>772,470,000</u>
Depreciable capital assets:				
Buildings and building improvements	4,520,501,000	373,715,000	(81,184,000)	4,813,032,000
Improvements other than buildings	280,189,000	20,580,000	(315,000)	300,454,000
Infrastructure	305,564,000	78,298,000	—	383,862,000
Personal property:				
Equipment	531,486,000	51,897,000	(33,155,000)	550,228,000
Library books and materials	324,991,000	16,033,000	(2,164,000)	338,860,000
Intangible assets	<u>157,980,000</u>	<u>36,140,000</u>	<u>(1,187,000)</u>	<u>192,933,000</u>
Total depreciable capital assets	<u>6,120,711,000</u>	<u>576,663,000</u>	<u>(118,005,000)</u>	<u>6,579,369,000</u>
Total cost	<u>6,811,654,000</u>	<u>1,006,681,000</u>	<u>(466,496,000)</u>	<u>7,351,839,000</u>
Less accumulated depreciation:				
Buildings and building improvements	2,152,885,000	127,760,000	(75,561,000)	2,205,084,000
Improvements other than buildings	233,315,000	12,244,000	(443,000)	245,116,000
Infrastructure	110,133,000	5,943,000	—	116,076,000
Personal property:				
Equipment	350,868,000	55,294,000	(19,929,000)	386,233,000
Library books and materials	249,091,000	24,223,000	(1,324,000)	271,990,000
Intangible assets	<u>91,579,000</u>	<u>28,473,000</u>	<u>(162,000)</u>	<u>119,890,000</u>
Total accumulated depreciation	<u>3,187,871,000</u>	<u>253,937,000</u>	<u>(97,419,000)</u>	<u>3,344,389,000</u>
Net capital assets	<u>\$ 3,623,783,000</u>	<u>752,744,000</u>	<u>(369,077,000)</u>	<u>4,007,450,000</u>

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

Capital assets activity of the discretely presented auxiliary organizations of the University for the year ended June 30, 2003 consisted of the following:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Non depreciable capital assets:				
Land and land improvements	\$ 49,190,000	3,765,000	—	52,955,000
Works of art and historical treasures	4,601,000	142,000	—	4,743,000
Construction work in progress	<u>67,920,000</u>	<u>113,446,000</u>	<u>(24,620,000)</u>	<u>156,746,000</u>
Total non depreciable capital assets	<u>121,711,000</u>	<u>117,353,000</u>	<u>(24,620,000)</u>	<u>214,444,000</u>
Depreciable capital assets:				
Buildings and building improvements	272,369,000	35,680,000	(2,353,000)	305,696,000
Improvements other than buildings	73,116,000	1,829,000	(1,957,000)	72,988,000
Infrastructure	112,000	2,586,000	—	2,698,000
Personal property:				
Equipment	155,758,000	11,955,000	(11,867,000)	155,846,000
Library books and materials	17,000	—	—	17,000
Intangible assets	<u>2,811,000</u>	<u>460,000</u>	<u>(968,000)</u>	<u>2,303,000</u>
Total depreciable capital assets	<u>504,183,000</u>	<u>52,510,000</u>	<u>(17,145,000)</u>	<u>539,548,000</u>
Total cost	<u>625,894,000</u>	<u>169,863,000</u>	<u>(41,765,000)</u>	<u>753,992,000</u>
Less:				
Accumulated depreciation	<u>177,380,000</u>	<u>29,700,000</u>	<u>(14,057,000)</u>	<u>193,023,000</u>
Net capital assets	<u>\$ 448,514,000</u>	<u>140,163,000</u>	<u>(27,708,000)</u>	<u>560,969,000</u>

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

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

(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.

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 \$728,942,000 at June 30, 2003. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.5% to 14.1% and have terms expiring in various years through 2030.

Operating leases consist primarily of leases for the use of real property. The University's operating leases having remaining terms of more than one year expire in various fiscal years through 2017. 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, 2003 were \$18,021,000, of which \$2,470,000 was paid to related auxiliary organizations.

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Notes to Basic Financial Statements

June 30, 2003

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2003 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2004	\$ 80,863,000	16,256,000
2005	78,183,000	11,053,000
2006	75,770,000	7,054,000
2007	69,040,000	6,704,000
2008	64,161,000	5,867,000
2009 – 2013	300,173,000	14,149,000
2014 – 2018	277,997,000	4,030,000
2019 – 2023	96,529,000	2,850,000
2024 – 2028	11,577,000	2,693,000
2029 – 2033	6,990,000	2,693,000
Total minimum lease payments	1,061,283,000	\$ <u>73,349,000</u>
Less amount representing interest	<u>(359,472,000)</u>	
Present value of future minimum lease payments	\$ <u>701,811,000</u>	

(7) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the California State University, the University of California and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the University by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying basic financial statements. Total General Obligation Bond debt carried by the state related to California State University projects is approximately \$447,038,000.

(b) Revenue Bond Programs

The Revenue Bond Act of 1947 provides the board of trustees with the ability to issue revenue bonds to fund six specific self-supporting programs. The statute has enabled the trustees to finance student housing, parking facilities, student unions, health facilities, continuing education and auxiliary organizations. Outstanding bonds at June 30, 2003 consist of campus student housing, parking, student union, continuing education and auxiliary organizations.

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

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Notes to Basic Financial Statements

June 30, 2003

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

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

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

The net revenues from the housing, parking, student union, health facilities, continuing education, and auxiliary organization programs are recorded as student tuition and fees and sales and services of auxiliary enterprises on the statement of revenue, expenses, and changes in net assets and are pledged to retire the related revenue bonds. Amounts outstanding under these programs total \$450,732,000 at June 30, 2003.

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Notes to Basic Financial Statements

June 30, 2003

During fiscal year 2003, the Trustees approved a policy that introduced a new long-term debt financing program, referred to as the Systemwide Revenue Bond program. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, and health facilities at designated campuses within the system as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects in the University. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. Amounts outstanding under this program total \$517,155,000 at June 30, 2003.

(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, 2003 total \$28,285,000.

(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 \$24,515,000 at June 30, 2003.

(e) *Financing Authority*

The Channel Islands Financing Authority was formed to provide financing for public capital improvements at the Channel Islands campus. Revenue bonds outstanding at June 30, 2003 relating to the Channel Islands Financing Authority totaled \$96,275,000.

(f) *Bond Anticipation Notes*

The University has issued Revenue Bond Anticipation Notes to finance the development and construction of housing and student union facilities. The Revenue Bond Anticipation Note are issued for a 1 to 3 year period in anticipation of issuing permanent revenue bonds at a future date. Amounts outstanding under the Revenue Bond Anticipation Notes totaled \$72,161,000 at June 30, 2003.

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Notes to Basic Financial Statements

June 30, 2003

Long-term debt obligations of the University as of June 30, 2003 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>
<u>Housing System Revenue Bonds:</u>				
Series B (Chico, Humboldt, Long Beach, Northridge, Pomona, San Diego, San Francisco, San Jose, and San Luis Obispo campuses)	3%	2006/07	\$ 30,856,000	5,934,000
Series J – Northridge campus	3	2019/20	3,838,000	2,283,000
Series K – Dominguez Hills campus	3	2019/20	3,730,000	2,680,000
Series L – San Diego campus	3	2020/21	4,930,000	3,020,000
Series M – San Francisco campus	3	2020/21	580,000	360,000
Series N – Chico campus	3	2021/22	4,320,000	3,220,000
Series P – San Francisco campus	3	2021/22	1,140,000	730,000
Series Q – San Diego campus	3	2021/22	555,000	350,000
Series U – San Jose campus	3	2012/13	3,500,000	1,600,000
Series Y – Long Beach campus	3	2013/14	2,000,000	980,000
Series AT – 1994 Refunding Bonds (Long Beach and Northridge campuses)	5.625 – 7.625	2018/19	16,510,000	14,275,000
Series AU – Humboldt campus	4.9 – 6.9	2016/17	4,000,000	3,235,000
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	127,470,000
Series AW – Chico campus	4.75 – 5	2017/18	4,580,000	4,050,000
Series AX – Sonoma campus	4.75 – 5.2	2030/31	29,095,000	28,175,000
Series AY – San Diego campus	4.5 – 5.75	2031/32	39,840,000	38,650,000
Series AZ – San Bernardino campus	4.5 – 7.5	2031/32	<u>12,810,000</u>	<u>12,635,000</u>
			<u>300,659,000</u>	<u>249,647,000</u>

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Notes to Basic Financial Statements

June 30, 2003

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
<u>Student Union Revenue Bonds:</u>				
Series A – Chico campus	3%	2006/07	\$ 1,100,000	185,000
Series B – Chico campus	4 – 12	2028/29	23,370,000	22,255,000
Series B – Fresno campus	4.9 – 6.9	2025/26	4,890,000	4,360,000
Series C – Fullerton campus – Refunding Bonds	5.25 – 5.4	2020/21	9,590,000	8,675,000
Series B – Long Beach campus	4.9 – 6.9	2026/27	13,130,000	12,080,000
Series B – Los Angeles campus	5.375 – 5.6	2026/27	6,580,000	5,950,000
Series B – Northridge campus	6 – 8	2022/23	14,200,000	1,705,000
Series C – Northridge campus	4 – 5.63	2022/23	11,325,000	11,060,000
Series B – Pomona campus	5 – 6	2019/20	2,065,000	1,825,000
Series C – Pomona campus	5 – 6.75	2030/31	20,980,000	20,715,000
Series C – Sacramento campus	5 – 7	2025/26	22,275,000	20,315,000
Series A – San Diego campus	3	2006/07	2,940,000	485,000
Series B – San Diego campus	5 – 6.125	2024/25	31,160,000	9,645,000
Series C – San Diego campus	4 – 5.63	2024/25	19,770,000	19,550,000
Series B – San Francisco campus	4 – 12	2023/24	12,950,000	12,005,000
Series A – San Jose campus	3	2006/07	3,240,000	530,000
Series D – San Jose campus	4.5 – 6.5	2019/20	23,070,000	19,095,000
Series A – San Luis Obispo campus	3	2007/08	3,000,000	600,000
Series B – San Luis Obispo campus	4 – 9.875	2025/26	4,650,000	4,270,000
			<u>230,285,000</u>	<u>175,305,000</u>

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Notes to Basic Financial Statements

June 30, 2003

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
<u>Systemwide Revenue Bonds:</u>				
Series 2002A – Bakersfield campus – Refunding Bonds	3 – 5.5%	2022/23	\$ 1,615,000	1,595,000
Series 2002A – Dominguez Hills campus – Refunding Bonds	3 – 5.5	2020/21	2,295,000	2,265,000
Series 2002A – Hayward campus – Refunding Bonds	3 – 5.5	2012/13	1,065,000	1,020,000
Series 2002A – Sacramento campus – Refunding Bonds	3 – 5.5	2021/22	800,000	785,000
Series 2002A – San Bernardino campus – Refunding Bonds	3 – 5.5	2021/22	2,905,000	2,865,000
Series 2002A – Stanislaus campus – Refunding Bonds	3 – 5.5	2020/21	780,000	765,000
Series 2002A – Humboldt campus (student union)	3 – 5.5	2030/31	3,490,000	3,460,000
Series 2002A – Northridge campus (parking)	3 – 5.5	2027/28	9,550,000	9,550,000
Series 2002A – Sacramento campus (parking)	3 – 5.5	2026/27	5,640,000	5,610,000
Series 2002A – San Marcos campus (student union)	3 – 5.5	2024/25	5,665,000	5,665,000
Series 2002A – Sonoma campus (parking)	3 – 5.5	2031/32	9,630,000	9,595,000
Series 2002A – Fullerton, San Luis Obispo, San Bernardino, and Sonoma campuses (housing)	3 – 5.5	2033/2034	131,315,000	131,255,000
Series 2003A – Monterey Bay, Northridge, Pomona, San Jose, Stanislaus, Sacramento, and San Diego campuses (housing and continuing education)	2.5– 5.25	2035/ 2036	<u>342,725,000</u>	<u>342,725,000</u>
			<u>517,475,000</u>	<u>517,155,000</u>

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Notes to Basic Financial Statements

June 30, 2003

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
<u>Headquarters Building Authority:</u>				
Lease Revenue Bonds, Series B	3.9 – 5.25%	2022/23	\$ 30,680,000	28,285,000
Deferred Maintenance Projects	3.73 – 4.107	2009/10	43,095,000	24,515,000
<u>Parking Revenue Bonds:</u>				
San Diego Campus, Series A	4.3 – 12	2023/ 24	13,100,000	12,170,000
San Diego Campus, Series B	4.3 – 12	2025/ 26	<u>14,095,000</u>	<u>13,610,000</u>
			<u>27,195,000</u>	<u>25,780,000</u>
<u>Financing Authority:</u>				
Channel Islands Rental Housing Bonds	3.375 – 4.08	2031/32	46,815,000	46,815,000
Channel Islands Revenue Bonds – Series 2001 A	3.85 – 5.25	2031/32	<u>49,460,000</u>	<u>49,460,000</u>
			<u>96,275,000</u>	<u>96,275,000</u>
<u>Bond Anticipation Notes:</u>				
Channel Islands	Variable	2003/ 04	17,555,000	17,555,000
Fullerton	Variable	2003/ 04	21,650,000	21,650,000
Los Angeles	Variable	2003/ 04	11,485,000	11,485,000
Pomona	Variable	2003/ 04	2,727,000	2,727,000
San Francisco	Variable	2003/ 04	3,265,000	3,265,000
Sonoma	Variable	2003/ 04	<u>15,479,000</u>	<u>15,479,000</u>
			72,161,000	72,161,000
Other	Various	Various	<u>14,582,000</u>	<u>8,009,000</u>
Total long-term debt			\$ <u>1,332,407,000</u>	1,197,132,000
Less current portion				<u>(94,315,000)</u>
Long-term debt, net of current portion				\$ <u><u>1,102,817,000</u></u>

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

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

	<u>Principal</u>	<u>Interest</u>
2004	\$ 94,315,000	54,810,000
2005	25,162,000	53,932,000
2006	27,222,000	52,917,000
2007	31,938,000	51,633,000
2008	32,388,000	50,214,000
2009 – 2013	171,302,000	228,116,000
2014 – 2018	190,902,000	184,133,000
2019 – 2023	209,748,000	131,430,000
2024 – 2028	185,860,000	81,088,000
2029 – 2033	176,445,000	34,278,000
2034 – 2036	51,850,000	3,704,000
	<u>\$ 1,197,132,000</u>	<u>926,255,000</u>

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

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Notes to Basic Financial Statements

June 30, 2003

(8) Long-Term Liabilities Activity

Long-term liability activity for the year ended June 30, 2003 was as follows:

	2003				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 142,614,000	56,014,000	(46,172,000)	152,456,000	82,464,000
Self-insurance claims liability	102,523,000	42,919,000	(40,971,000)	104,471,000	32,620,000
Capitalized lease obligations	742,593,000	20,136,000	(60,918,000)	701,811,000	43,986,000
Long-term debt obligations:					
Housing System Revenue Bonds	258,449,000	—	(8,802,000)	249,647,000	4,095,000
Student Union Revenue Bonds	180,115,000	—	(4,810,000)	175,305,000	5,172,000
Parking Revenue Bonds	26,400,000	—	(620,000)	25,780,000	675,000
Systemwide Revenue Bonds	174,750,000	342,725,000	(320,000)	517,155,000	7,504,000
Bond Anticipation Notes	28,254,000	78,699,000	(34,792,000)	72,161,000	72,095,000
Headquarters Building Authority Revenue Bonds	29,115,000	—	(830,000)	28,285,000	865,000
Deferred Maintenance Projects	27,360,000	—	(2,845,000)	24,515,000	3,000,000
Financing Authority Revenue Bonds	96,275,000	—	—	96,275,000	—
Other	10,696,000	175,000	(2,862,000)	8,009,000	909,000
Total long-term debt obligations	<u>831,414,000</u>	<u>421,599,000</u>	<u>(55,881,000)</u>	<u>1,197,132,000</u>	<u>94,315,000</u>
Total long-term liability	<u>\$ 1,819,144,000</u>	<u>540,668,000</u>	<u>(203,942,000)</u>	<u>2,155,870,000</u>	<u>253,385,000</u>

Long-term liability activity for the discretely presented auxiliary organizations of the University for the year ended June 30, 2003 was as follows:

	2003			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Capitalized lease obligations	\$ 2,822,000	534,000	(267,000)	3,089,000
Revenue bonds	483,839,000	50,025,000	(9,545,000)	524,319,000
Commercial paper	28,254,000	169,416,000	(169,761,000)	27,909,000
Other	45,980,000	6,125,000	(6,419,000)	45,686,000
Total long-term liability	<u>\$ 560,895,000</u>	<u>226,100,000</u>	<u>(185,992,000)</u>	<u>601,003,000</u>

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

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

(9) 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 4.1% 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:

2001	\$	1,829,000
2002		79,708,000
2003		140,640,000

(10) 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 basic financial statements reflects the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 2003. The liability includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is estimated through an actuarial calculation using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2003.

CALIFORNIA STATE UNIVERSITY

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Changes in the self-insurance claims liability for the two years ended June 30, 2003 are as follows:

Liability at June 30, 2001	\$ 72,151,000
Incurred claims and changes in estimates	60,204,000
Claim payments	<u>(29,832,000)</u>
Liability at June 30, 2002	102,523,000
Incurred claims and changes in estimates	42,919,000
Claim payments	<u>(40,971,000)</u>
Liability at June 30, 2003	104,471,000
Less current portion	<u>(32,620,000)</u>
Long-term liability at June 30, 2003, net of current portion	<u><u>\$ 71,851,000</u></u>

At June 30, 2003, approximately \$41,182,000, in unrestricted net 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 \$45,000,000 per occurrence. The University also maintains excess workers' compensation insurance provided by SELF for individual claims over \$1,000,000 per occurrence. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the System maintains excess policies with SELF, ultimate responsibility for payment of claims resides with the System.

(11) Commitments and Contingencies

(a) Litigation

The State of California is a defendant in multiple lawsuits involving University matters not covered by the risk pool discussed in note 10. 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, 2003 totaled \$333,057,000. These expenditures will be funded primarily through state appropriations and bond proceeds.

CALIFORNIA STATE UNIVERSITY

Notes to Basic Financial Statements

June 30, 2003

(12) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2003 operating expenses by natural classification consisted of the following:

	2003					
	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:						
Instruction	\$ 1,233,736,000	262,342,000	—	190,670,000	—	1,686,748,000
Research	11,614,000	1,691,000	—	20,505,000	—	33,810,000
Public service	20,593,000	3,838,000	—	42,845,000	—	67,276,000
Academic support	278,244,000	61,547,000	—	109,929,000	—	449,720,000
Student services	255,899,000	59,710,000	—	74,928,000	—	390,537,000
Institutional support	315,208,000	115,945,000	—	213,489,000	—	644,642,000
Operation and maintenance of plant	121,690,000	35,367,000	—	149,541,000	—	306,598,000
Student grants and scholarships	—	—	401,544,000	—	—	401,544,000
Auxiliary enterprise expenses	44,521,000	10,595,000	—	109,866,000	—	164,982,000
Depreciation and amortization	—	—	—	—	253,937,000	253,937,000
Total	\$ 2,281,505,000	551,035,000	401,544,000	911,773,000	253,937,000	4,399,794,000

(13) 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 \$3.2 billion for the year ended June 30, 2003. State appropriations receivable aggregated \$839,164,000 at June 30, 2003.

(14) Subsequent Events

The State of California continues to experience a budget crisis in fiscal year 2004. Subsequent to year-end, the 2004 state budget was passed with a total fiscal impact to the University of \$531 million (19.8%) in General Fund budget reductions and unfunded costs. The \$531 million reduction was offset by fee revenue of \$227 million for a net fiscal loss of \$304 million in state support to the California State University System.

Furthermore, the Governor has proposed a mid-year budget reduction of \$23.8 million in the University's General Fund support from unallocated reductions and academic preparation and outreach funding. The University will decide how to implement these reductions after legislative action has been taken.