



CALIFORNIA STATE UNIVERSITY, FRESNO

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, FRESNO

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KPMG LLP
Suite 800
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Sacramento, CA 95814

Independent Auditors' Report

Dr. John Welty, President
California State University, Fresno:

We have audited the accompanying financial statements of California State University, Fresno (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2011, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University. 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 discretely presented component units, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2, the financial statements of the University are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2011, the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with U.S. generally accepted accounting principles.



Management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 27, 2012

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

This section of California State University, Fresno's (the University) annual financial report presents the University's discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities.

The financial statements include the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These statements are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the University.

Statement of Net Assets – The statement of net assets includes all assets and liabilities. Assets and liabilities are generally reported at their book value, on an accrual basis, as of the statement date, except investments, which are reported at their fair market value. It also identifies major categories of restrictions on the net assets of the University.

Statement of Revenues, Expenses, and Changes in Net Assets – The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year on an accrual basis.

Statement of Cash Flows – The statement of cash flows presents the inflows and outflows of cash for the year and is summarized by operating, noncapital financing, capital and related financing, and investing activities. The statement is prepared using the direct method of cash flows and, therefore, presents gross rather than net amounts for the year's activities.

The statement of cash flows for the discretely presented component units is not included in the University's financial statements.

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities. Included is an analysis of current year activities and balances; a discussion of restrictions of University net assets; a discussion of capital assets and long-term debt; and factors impacting future reporting periods.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

The University's condensed summary of net assets as of June 30, 2011 and 2010 is as follows:

Condensed Summary of Net Assets

| | June 30 | |
|--|-----------------------|--------------------|
| | <u>2011</u> | <u>2010</u> |
| Assets: | | |
| Current assets | \$ 103,547,127 | 109,389,933 |
| Capital assets | 225,527,179 | 229,046,323 |
| Other noncurrent assets | 74,257,258 | 80,855,988 |
| | <u>403,331,564</u> | <u>419,292,244</u> |
| Liabilities: | | |
| Current liabilities | 26,216,006 | 21,726,590 |
| Long-term debt obligations, net of current portion | 94,964,876 | 95,837,411 |
| Other noncurrent liabilities | 11,360,249 | 13,142,708 |
| | <u>132,541,131</u> | <u>130,706,709</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 196,987,801 | 199,113,233 |
| Restricted, nonexpendable | 957,102 | 1,002,043 |
| Restricted, expendable | 4,239,443 | 6,702,381 |
| Unrestricted | 68,606,087 | 81,767,878 |
| | <u>270,790,433</u> | <u>288,585,535</u> |
| Total net assets | <u>\$ 270,790,433</u> | <u>288,585,535</u> |

Assets

Total assets decreased \$16.0 million from prior year due to a \$5.8 million decrease in current assets, a \$3.5 million decrease in capital assets, and a \$6.6 million decrease in other noncurrent assets. Total current assets decreased \$5.8 million primarily due to a decrease in accounts receivable of \$27.3 million, an increase in short-term investments of \$22.7 million, and a \$1.4 million decrease in cash and cash equivalents. The reason for the decrease in cash and cash equivalents was timing differences between cash receipts and cash payments. The increase in short-term investments was primarily due to additional funds being available as a result of timing differences related to the collection of accounts receivable and additions to accounts payable. In addition, the decrease in accounts receivable was due to the elimination of the majority of the trust funds held with the California State University, Fresno Foundation (the Foundation) on behalf of the University. Based upon Executive Order 1052 and subsequent Executive Order 1059, the University and the Foundation analyzed all trust funds shown in the financial statements of the University but held by the Foundation. Based on a determination of the entity retaining risk of loss, the trust funds were divided between the Foundation and the University. The Foundation accepted approximately \$25.6 million as the amount subject to its ownership. As the balance was previously recorded as a receivable by the University and as a payable by the Foundation, the balance was removed from the University's financial statements in fiscal year 2011 by reducing accounts receivable and recording the change in net assets as nonoperating expense.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

Capital assets, net, decreased \$3.5 million primarily due to \$12.7 million of current year additions, which were offset by \$15.7 million in current year depreciation expense and \$0.5 million in capital assets retirements, net of accumulated depreciation. Current year additions primarily related to HVAC replacement and construction on the North Gym Pool. Also, equipment totaling \$0.3 million was received from the Cal State University, Fresno Foundation (the Foundation) as a gift in-kind.

Other noncurrent assets decreased \$6.6 million primarily due to a \$5.7 million decrease in accounts receivable, net, and a \$0.7 million decrease in other long-term investments. The decrease in long-term investments is primarily due to timing of payments for the Student Revenue Bonds. The decrease in accounts receivable is related to state appropriations, capital received by the campus on state-funded projects. In the current year, the University completed several capital projects that were in process as of last year-end.

Liabilities

Total current liabilities increased \$4.5 million primarily due to a \$1.0 million increase in accounts payable, a \$1.1 million increase in accrued salaries and benefits payable, a \$1.7 million increase in accrued compensated absences, and a \$0.8 million increase in other liabilities.

The \$1.0 million increase in accounts payable is primarily due to timing of payments. The current year balance includes cash overdraft amounts for outstanding checks as of June 30, 2011. The \$1.1 million increase in accrued salaries and benefits payable is primarily in the program of instruction. This correlates with increased salary expenditures in the program of instruction resulting from cancellation of furloughs in the fiscal year. The \$1.7 million increase in accrued compensated absences is caused by individuals taking less personal time during the course of the current year in order to compensate for increased individual workloads caused by a decrease in staff headcount during the year due to layoffs and retirements. Fewer employees used vacation in the current year than in prior years, which results in an increased liability as the University calculates their current portion of accrued compensated absences based on historical usage. The increase in other liabilities comprises increases in interest payable as well as an increase in unapplied student payments received.

Total noncurrent liabilities decreased \$2.6 million primarily due to a \$1.8 million decrease in other noncurrent liabilities and a \$0.9 million decrease in long-term debt obligations, net of current portion. The noncurrent liabilities decrease is caused by an accrued compensated absences decrease of \$2.1 million as a result of the decrease in staff headcount during the year. This was partially offset by the current year accrual of a liability due to the Western Athletic Conference for the withdrawal of the University from the conference. The decrease in long-term debt obligations is the result of current year payments.

Net Assets

Total net assets decreased \$17.8 million from the prior year. A significant portion, \$197.0 million, of net assets at the end of the year is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt decreased \$2.1 million from prior year primarily due to depreciation expense of \$15.7 million, partially offset by asset additions of \$12.7 million and current year debt payments of \$.8 million. \$4.2 million of net assets at the end of the year is restricted for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which decreased \$2.5 million from prior year as discussed below. \$68.6 million of net assets at the end of the year is unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

Restricted Resources

Net assets of the University include funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction, and the amount:

Restricted Net Assets

| | June 30 | |
|--|---------------------|------------------|
| | 2011 | 2010 |
| Expendable: | | |
| Loans | \$ 440,321 | 439,082 |
| Capital projects | <u>3,799,122</u> | <u>6,263,299</u> |
| Total restricted net assets – expendable | <u>\$ 4,239,443</u> | <u>6,702,381</u> |

Total restricted net assets – expendable decreased \$2.5 million. This is primarily due to a \$2.5 million decrease in net assets restricted for capital projects. The net assets were reduced by current year capital expenditures for HVAC replacement and construction on the North Gym Pool.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010 is as follows:

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

| | Year ended June 30 | |
|--|---------------------------|----------------------|
| | 2011 | 2010 |
| Operating revenues: | | |
| Student tuition and fees, net | \$ 58,797,655 | 71,188,996 |
| Sales and services of auxiliary enterprises, net | 4,314,208 | 10,992,688 |
| Other operating revenues | 14,095,166 | 13,878,157 |
| Total operating revenues | <u>77,207,029</u> | <u>96,059,841</u> |
| Operating expenses | <u>(282,218,044)</u> | <u>(284,992,841)</u> |
| Operating loss | <u>(205,011,015)</u> | <u>(188,933,000)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations, noncapital | 128,202,130 | 117,296,992 |
| Federal financial aid grants, noncapital | 48,498,936 | 41,626,660 |
| State financial aid grants, noncapital | 21,443,959 | 19,402,754 |
| Other federal nonoperating grants, noncapital | 6,514,000 | 24,564,550 |
| Gifts, noncapital | 3,047,821 | 4,077,492 |
| Investment income, net | 3,629,760 | 4,731,869 |
| Interest expense | (4,604,792) | (4,626,670) |
| Other nonoperating revenues, net | (21,814,455) | 861,007 |
| Total nonoperating revenues | <u>184,917,359</u> | <u>207,934,654</u> |
| Income (loss) before other additions | (20,093,656) | 19,001,654 |
| State appropriations, capital | 2,002,069 | 7,853,847 |
| Grants and gifts, capital | 296,485 | 2,101,219 |
| Increase (decrease) in net assets | <u>(17,795,102)</u> | <u>28,956,720</u> |
| Beginning net assets | <u>288,585,535</u> | <u>259,628,815</u> |
| Ending net assets | <u>\$ 270,790,433</u> | <u>288,585,535</u> |

Operating Revenues and Expenses

Operating revenues and expenses come from sources that are connected directly to the University's primary business function. This includes revenues from categories such as tuition and fees, certain grants and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises. Expenses include categories such as salaries, benefits, supplies and other services, scholarships and fellowships, and depreciation and amortization. In this discussion and analysis, expenses are reported by functional program such as instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, student grants and scholarships, auxiliary enterprise expenses, and depreciation and amortization.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

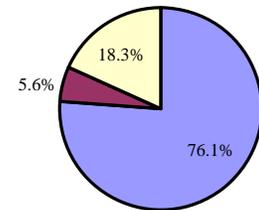
Operating Revenues

Total operating revenues decreased \$18.9 million primarily due to a \$12.4 million decrease in student tuition and fees, net and a \$6.7 million decrease in sales and services of auxiliary enterprises, net.

The state university fee increased 10.3% from the prior year for the regular session and 10.3% for the summer session. Student tuition and fees, net, decreased \$12.4 million (17.4%) from prior year primarily due to the state university fee increase, offset by a 1.3% decrease in student enrollment and a \$18.4 million increase in scholarship allowances (tuition discount).

The decrease in sales and services of auxiliary enterprises, net is primarily the result of amounts recorded in prior years from trust funds held by the California State University, Fresno Foundation. As the related funds are now being held by the auxiliary and they have taken responsibility for their risks/losses, no such amount is subject to recording by the University in the current year.

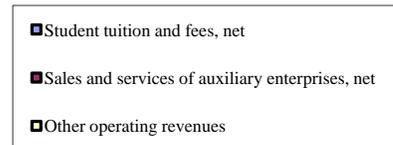
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2011 and 2010:



Operating Revenues

Year ended June 30, 2011

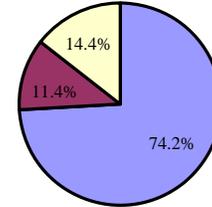
| | | |
|--|-----------------------------|----------------------|
| Student tuition and fees, net | \$ 58,797,655 | 76.1% |
| Sales and services of auxiliary enterprises, net | 4,314,208 | 5.6 |
| Other operating revenues | <u>14,095,166</u> | <u>18.3</u> |
| Total operating revenues | \$ <u><u>77,207,029</u></u> | <u><u>100.0%</u></u> |



CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

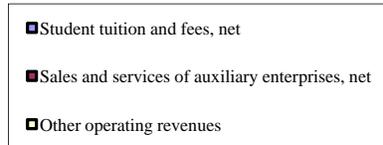
June 30, 2011



Operating Revenues

Year ended June 30, 2010

| | | |
|--|-----------------------------|----------------------|
| Student tuition and fees, net | \$ 71,188,996 | 74.2% |
| Sales and services of auxiliary enterprises, net | 10,992,688 | 11.4 |
| Other operating revenues | <u>13,878,157</u> | <u>14.4</u> |
| Total operating revenues | \$ <u><u>96,059,841</u></u> | <u><u>100.0%</u></u> |



Operating Expenses

Total operating expenses decreased by \$2.8 million, or 1.0%, primarily due to a \$7.2 million increase in instruction, a \$2.9 million increase in operation and maintenance of plant, and a \$1.9 million increase in institutional support, offset by a \$1.7 million decrease in public service, a \$5.4 million decrease in academic support, and a \$7.3 million decrease in student grants and scholarships.

Salaries and benefits costs within each of these functions increased by \$9.7 million due to the cancellation of furloughs in fiscal year 2011, offset by nonrenewal of contracts, layoffs, and vacancies brought about by budget cuts in the California State University System. Supplies and other services expense within each of these functions decreased by \$5.2 million overall due to a decrease of \$0.8 million in instruction, a decrease of \$0.8 million in research, a decrease of \$1.8 million in public services, a decrease of \$4.1 million in academic support, and decrease of \$1.3 million in student services, all caused by budget constraints and the Foundation trust fund activity. This was offset partially by an increase of \$3.5 million in operation and maintenance of plant.

In addition to budget constraints, additional factors for the changes are as follows:

- Within research, there was a \$0.8 million decrease to supplies and services for the Agricultural Research Institute.
- Within public service, there was a decrease to supplies and services due to budget cuts and a decrease in Foundation trust funds activity.
- Within academic support, supplies and services decreased due to \$4.2 million in Foundation trust funds activity, which was recorded in prior year financials but is recorded by the Foundation in the current year. This is offset by other increases in the functional category including items such as overhead, contractual services, general subscriptions, noncontractual services, and automobile.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

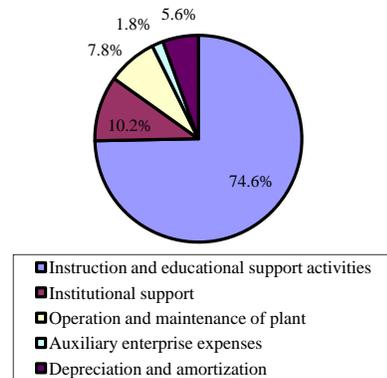
- Within operation and maintenance of plant, the increase in supplies and services comprises primarily increases in electricity, noncapitalized equipment purchases, overhead, a \$1.3 million transaction recorded in the prior year related to a services agreement payment in the police department, an increase in contractual services, and an increase in plant maintenance supplies and noncontractual services.

The following charts present the distribution of resources in support of the University's mission for fiscal years 2011 and 2010:

Operating Expenses

Year ended June 30, 2011

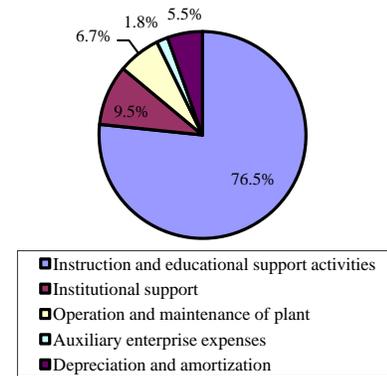
| | | |
|--|-----------------------|---------------|
| Instruction | \$ 98,495,238 | 34.8% |
| Research | 1,719,920 | 0.6 |
| Public service | 3,834,488 | 1.4 |
| Academic support | 28,734,755 | 10.2 |
| Student services | 28,209,866 | 10.0 |
| Student grants and scholarships | <u>49,746,550</u> | <u>17.6</u> |
| Total instruction and educational support activities | 210,740,817 | 74.6 |
| Institutional support | 28,808,233 | 10.2 |
| Operation and maintenance of plant | 21,952,659 | 7.8 |
| Auxiliary enterprises expenses | 5,035,603 | 1.8 |
| Depreciation and amortization | <u>15,680,732</u> | <u>5.6</u> |
| Total operating expenses | <u>\$ 282,218,044</u> | <u>100.0%</u> |



Operating Expenses

Year ended June 30, 2010

| | | |
|--|-----------------------|---------------|
| Instruction | \$ 91,277,327 | 32.0% |
| Research | 2,369,839 | 0.8 |
| Public service | 5,529,853 | 1.9 |
| Academic support | 34,121,501 | 12.0 |
| Student services | 28,041,697 | 9.8 |
| Student grants and scholarships | <u>57,089,276</u> | <u>20.0</u> |
| Total instruction and educational support activities | 218,429,493 | 76.5 |
| Institutional support | 26,883,879 | 9.5 |
| Operation and maintenance of plant | 19,020,930 | 6.7 |
| Auxiliary enterprises expenses | 5,000,882 | 1.8 |
| Depreciation and amortization | <u>15,657,657</u> | <u>5.5</u> |
| Total operating expenses | <u>\$ 284,992,841</u> | <u>100.0%</u> |



Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations, federal grants, certain financial aid grants, noncapital, grants and gifts, capital, investment income, and interest expense.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

As the University is part of the California State University System, which is an agency of the State of California (the State), the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$2.0 million for the fiscal year ended June 30, 2011, down from \$7.9 million for the fiscal year ended June 30, 2010. Capital state appropriations in the prior year included nonrecurring appropriations for the North Gym Pool project. General (noncapital) appropriation revenues totaled \$128.2 million, an increase of \$10.9 million from the prior year, due to an increase in the state budget allocation. Federal financial aid grants, noncapital increased by \$6.9 million due to an increase in Pell grant recipients. State financial aid grants, noncapital increased by \$2.0 million as a result of increases in Cal Grant A and Cal Grant B fee awards by the California Student Aid Commission to match the CSU State University fee increase. Other federal nonoperating grants, noncapital decreased by \$18.1 million due to a decrease in funds received from the American Recovery & Reinvestment Act (ARRA) grant. Investment income decreased by \$1.1 million primarily relating to lower interest received from Systemwide Investment Fund Trust (SWIFT) and California State University's strategy of keeping investment maturities shorter than normal. Other nonoperating expenses, net, increased by \$22.7 million primarily related to the Foundation's \$25.6 million transfer of custodial trust accounts. The nature of this transaction and the corresponding change in accounts receivable is further discussed above at page 4. Grants and gifts, capital, decreased by \$1.8 million due to revenue received in the prior year from trust funds held by the California State University, Fresno Foundation of \$2.0 million.

Capital Assets and Long-Term Debt Obligations

Capital Assets

Capital assets, net of accumulated depreciation, are shown below:

| | June 30 | |
|---|-----------------------|--------------------|
| | 2011 | 2010 |
| Land and land improvements | \$ 2,502,292 | 2,502,292 |
| Buildings and building improvements | 166,935,584 | 171,150,821 |
| Improvements, other than buildings | 5,129,275 | 6,068,394 |
| Infrastructure | 28,572,962 | 29,972,649 |
| Personal property | 14,276,981 | 16,958,919 |
| Intangible assets | 376,608 | 352,611 |
| Construction work in progress | 7,733,477 | 2,040,637 |
| Total capital assets, net of accumulated depreciation | \$ <u>225,527,179</u> | <u>229,046,323</u> |

Capital assets decreased by \$3.5 million primarily due to \$12.7 million of current year additions, which was partially offset by \$15.7 million in current year depreciation and amortization expense. Current year additions are primarily related to HVAC Renewal and the North Gym Pool. Other capital projects were funded through capital state appropriations and Systemwide Revenue Bonds.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

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Major capital projects additions during fiscal year 2011 are as follows (in millions):

| | | |
|----------------------------|----|-----|
| North Gym Pool replacement | \$ | 2.8 |
| HVAC Renewal | | 2.0 |
| Nursing facility | | 0.8 |
| Special projects funds | | 3.4 |

There were no major capital assets commitments at June 30, 2011.

Long-Term Debt Obligations

Debt outstanding at June 30, 2011 and 2010 is summarized below by type of debt instrument:

| | June 30 | |
|--|----------------------|-------------------|
| | 2011 | 2010 |
| Systemwide Revenue Bonds: | | |
| Series 2004A Union | \$ 3,325,000 | 3,480,000 |
| Series 2005A Union | 15,950,000 | 16,270,000 |
| Series 2005A Aux Org | 68,835,000 | 68,835,000 |
| Swimming Pool Loan – CSURMA | 3,881,250 | 4,106,250 |
| Koch Financial – Parking Lot – Photo Voltaic Project | 3,403,412 | 3,536,384 |
| Total | <u>95,394,662</u> | <u>96,227,634</u> |
| Unamortized bond premium | <u>425,273</u> | <u>442,750</u> |
| Total long-term debt | 95,819,935 | 96,670,384 |
| Less current portion | <u>(855,059)</u> | <u>(832,973)</u> |
| Long-term debt, net of current portion | <u>\$ 94,964,876</u> | <u>95,837,411</u> |

The University did not issue Systemwide Revenue Bonds in fiscal year 2011.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, Series 2008A, Series 2009A, and all maturities of Series 2010A and 2010B, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 9 and 10 to the financial statements for further information on long-term debt obligations.

CALIFORNIA STATE UNIVERSITY, FRESNO

Management's Discussion and Analysis

June 30, 2011

Factors Impacting Future Periods

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

To mitigate the impact of the appropriation reductions, the System increased tuition fee rates, including a 10% increase approved by the Board of Trustees (the Board) in November 2010 and an additional 12% increase approved by the Board in July 2011, both effective for fiscal year 2012, which together will yield approximately \$265 million in new tuition fee revenue after discounting for financial aid. Moreover, the System reduced its base resident student enrollment target for fiscal year 2012 by roughly 10,000 full-time equivalent students (FTE) to approximately 332,000, and reduces expense measures of approximately \$292 million.

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

The University's state noncapital appropriations budget enacted for fiscal year 2012 approved by the legislative process is \$105.9 million, a decrease of \$27.9 million over the fiscal year 2011 funding level of \$133.8 million. In addition, an increase in student fees in fiscal year 2012 is expected to generate \$14.8 million during fiscal year 2012 in new revenue, net of financial aid.

CALIFORNIA STATE UNIVERSITY, FRESNO

Statement of Net Assets

June 30, 2011

| Assets | University | Discretely presented component units FASB Auxiliary Organizations | Total |
|---|-----------------------|--|--------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 13,930 | 21,549,181 | 21,563,111 |
| Short-term investments | 98,262,130 | 57,848,370 | 156,110,500 |
| Accounts receivable, net | 4,371,139 | 25,883,514 | 30,254,653 |
| Pledges receivable, net | — | 6,684,943 | 6,684,943 |
| Prepaid expenses and other assets | 899,928 | 3,742,504 | 4,642,432 |
| Total current assets | <u>103,547,127</u> | <u>115,708,512</u> | <u>219,255,639</u> |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | — | 69,197,010 | 69,197,010 |
| Accounts receivable, net | 79,577 | 34,037 | 113,614 |
| Leases receivable, net of current portion | 68,835,000 | — | 68,835,000 |
| Notes receivable, net of current portion | — | 10,800 | 10,800 |
| Student loans receivable, net | 3,917,387 | — | 3,917,387 |
| Pledges receivable, net | — | 22,436,383 | 22,436,383 |
| Endowment investments | 957,102 | 118,904,277 | 119,861,379 |
| Other long-term investments | 468,192 | 5,648,014 | 6,116,206 |
| Capital assets, net | 225,527,179 | 109,655,908 | 335,183,087 |
| Other assets | — | 5,830,291 | 5,830,291 |
| Total noncurrent assets | <u>299,784,437</u> | <u>331,716,720</u> | <u>631,501,157</u> |
| Total assets | <u>403,331,564</u> | <u>447,425,232</u> | <u>850,756,796</u> |
| Liabilities and Net Assets | | | |
| Current liabilities: | | | |
| Accounts payable | 2,081,481 | 5,844,115 | 7,925,596 |
| Accrued salaries and benefits payable | 13,375,130 | 2,907,330 | 16,282,460 |
| Accrued compensated absences – current portion | 6,042,690 | 340,162 | 6,382,852 |
| Deferred revenue | 1,017,567 | 16,066,676 | 17,084,243 |
| Capitalized lease obligations – current portion | 824,246 | — | 824,246 |
| Long-term debt obligations – current portion | 855,059 | 1,768,314 | 2,623,373 |
| Other liabilities | 2,019,833 | 4,472,279 | 6,492,112 |
| Total current liabilities | <u>26,216,006</u> | <u>31,398,876</u> | <u>57,614,882</u> |
| Noncurrent liabilities: | | | |
| Accrued compensated absences, net of current portion | 4,113,411 | 1,020,488 | 5,133,899 |
| Grants refundable | 4,860,741 | — | 4,860,741 |
| Capitalized lease obligations, net of current portion | 730,197 | 68,835,000 | 69,565,197 |
| Long-term debt obligations, net of current portion | 94,964,876 | 71,727,490 | 166,692,366 |
| Depository accounts | 356 | 2,304,444 | 2,304,800 |
| Other postemployment benefits obligation | 935,544 | — | 935,544 |
| Other liabilities | 720,000 | 3,860,630 | 4,580,630 |
| Total noncurrent liabilities | <u>106,325,125</u> | <u>147,748,052</u> | <u>254,073,177</u> |
| Total liabilities | <u>132,541,131</u> | <u>179,146,928</u> | <u>311,688,059</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 196,987,801 | 33,017,293 | 230,005,094 |
| Restricted for: | | | |
| Nonexpendable – endowments | 957,102 | 119,003,691 | 119,960,793 |
| Expendable: | | | |
| Scholarships and fellowships | — | 3,296,752 | 3,296,752 |
| Loans | 440,321 | 919,383 | 1,359,704 |
| Capital projects | 3,799,122 | 227,364 | 4,026,486 |
| Debt service | — | 3,384,601 | 3,384,601 |
| Other | — | 30,667,522 | 30,667,522 |
| Unrestricted | 68,606,087 | 77,761,698 | 146,367,785 |
| Total net assets | <u>\$ 270,790,433</u> | <u>268,278,304</u> | <u>539,068,737</u> |

See accompanying notes to financial statements.

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

| | University | Discretely presented component units FASB Auxiliary Organizations | Eliminations | Total |
|--|----------------------|--|---------------------|----------------------|
| Revenues: | | | | |
| Operating revenues: | | | | |
| Student tuition and fees (net of scholarship allowances of \$52,069,015) | \$ 58,797,655 | 4,976,371 | (1,620,713) | 62,153,313 |
| Grants and contracts, noncapital: | | | | |
| Federal | 112,236 | 19,107,602 | — | 19,219,838 |
| State | 26,600 | 6,004,235 | — | 6,030,835 |
| Nongovernmental | — | 5,312,931 | — | 5,312,931 |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$0) | 4,314,208 | 50,627,895 | (7,215,207) | 47,726,896 |
| Other operating revenues | 13,956,330 | 2,606,274 | — | 16,562,604 |
| Total operating revenues | 77,207,029 | 88,635,308 | (8,835,920) | 157,006,417 |
| Expenses: | | | | |
| Operating expenses: | | | | |
| Instruction | 98,495,238 | 13,072,300 | — | 111,567,538 |
| Research | 1,719,920 | 7,037,158 | — | 8,757,078 |
| Public service | 3,834,488 | 11,964,137 | — | 15,798,625 |
| Academic support | 28,734,755 | 56,317 | — | 28,791,072 |
| Student services | 28,209,866 | 9,233,110 | (7,215,207) | 30,227,769 |
| Institutional support | 28,808,233 | 1,039,483 | (1,620,713) | 28,227,003 |
| Operation and maintenance of plant | 21,952,659 | 776,717 | — | 22,729,376 |
| Student grants and scholarships | 49,746,550 | 7,973,460 | (2,420,068) | 55,299,942 |
| Auxiliary enterprise expenses | 5,035,603 | 63,855,222 | (910,215) | 67,980,610 |
| Depreciation and amortization | 15,680,732 | 5,434,567 | — | 21,115,299 |
| Total operating expenses | 282,218,044 | 120,442,471 | (12,166,203) | 390,494,312 |
| Operating income (loss) | (205,011,015) | (31,807,163) | 3,330,283 | (233,487,895) |
| Nonoperating revenues (expenses): | | | | |
| State appropriations, noncapital | 128,202,130 | — | — | 128,202,130 |
| Federal financial aid grants, noncapital | 48,498,936 | — | — | 48,498,936 |
| State financial aid grants, noncapital | 21,443,959 | — | — | 21,443,959 |
| Other federal nonoperating grants, noncapital | 6,514,000 | — | — | 6,514,000 |
| Gifts, noncapital | 3,047,821 | 15,969,508 | (3,033,798) | 15,983,531 |
| Investment income, net | 3,625,326 | 4,298,324 | — | 7,923,650 |
| Endowment income, net | 4,434 | 18,792,772 | — | 18,797,206 |
| Interest expense | (4,604,792) | (4,285,585) | — | (8,890,377) |
| Other nonoperating revenues (expenses), net | (21,814,455) | 25,692,008 | — | 3,877,553 |
| Net nonoperating revenues (expenses) | 184,917,359 | 60,467,027 | (3,033,798) | 242,350,588 |
| Income (loss) before other additions | (20,093,656) | 28,659,864 | 296,485 | 8,862,693 |
| State appropriations, capital | 2,002,069 | — | — | 2,002,069 |
| Grants and gifts, capital | 296,485 | 2,334,160 | (296,485) | 2,334,160 |
| Additions to permanent endowments | — | 3,064,420 | — | 3,064,420 |
| Increase (decrease) in net assets | (17,795,102) | 34,058,444 | — | 16,263,342 |
| Net assets: | | | | |
| Net assets at beginning of year | 288,585,535 | 234,219,860 | — | 522,805,395 |
| Net assets at end of year | \$ 270,790,433 | 268,278,304 | — | 539,068,737 |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, FRESNO

Statement of Cash Flows

Year ended June 30, 2011

| | <u>University</u> |
|---|-------------------|
| Cash flows from operating activities: | |
| Student tuition and fees | \$ 58,828,633 |
| Federal grants and contracts | 112,236 |
| State grants and contracts | 6,600 |
| Payments to suppliers | (42,351,384) |
| Payments to employees | (171,021,451) |
| Payments to students | (49,065,521) |
| Sales and services of auxiliary enterprises | 3,755,930 |
| Other receipts | 15,525,562 |
| | <hr/> |
| Net cash used in operating activities | (184,209,395) |
| | <hr/> |
| Cash flows from noncapital financing activities: | |
| State appropriations | 128,205,103 |
| Federal financial aid grants | 48,498,936 |
| State financial aid grants | 21,401,078 |
| Other federal nonoperating grants | 6,514,000 |
| Gifts and grants received for other than capital purposes | 3,047,821 |
| Federal loan program receipts | 61,380,544 |
| Federal loan program disbursements | (61,504,502) |
| Monies received on behalf of others | 1,237,835 |
| Monies disbursed on behalf of others | (1,338,513) |
| Other | 5,395,027 |
| | <hr/> |
| Net cash provided by noncapital financing activities | 212,837,329 |
| | <hr/> |
| Cash flows from capital and related financing activities: | |
| Proceeds from capital debt | |
| State appropriations | 7,731,556 |
| Capital grants and gifts | 296,485 |
| Proceeds from sale of capital assets | 24,105 |
| Acquisition of capital assets | (13,061,075) |
| Principal paid on capital debt and leases | (1,941,841) |
| Interest paid on capital debt and leases | (4,641,348) |
| | <hr/> |
| Net cash used in capital and related financing activities | (11,592,118) |
| | <hr/> |
| Cash flows from investing activities: | |
| Proceeds from sales and maturities of investments | 362,193,872 |
| Purchases of investments | (384,155,780) |
| Investment income received | 3,543,549 |
| | <hr/> |
| Net cash used in investing activities | (18,418,359) |
| | <hr/> |
| Net decrease in cash and cash equivalents | (1,382,543) |
| | <hr/> |
| Cash and cash equivalents at beginning of year | 1,396,473 |
| | <hr/> |
| Cash and cash equivalents at end of year | \$ 13,930 |
| | <hr/> <hr/> |

CALIFORNIA STATE UNIVERSITY, FRESNO

Statement of Cash Flows

Year ended June 30, 2011

| | <u>University</u> |
|---|-------------------------|
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (205,011,015) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation and amortization | 15,680,732 |
| Change in assets and liabilities: | |
| Accounts receivable, net | 245,567 |
| Student loans receivable, net | 5,575 |
| Prepaid expenses and other assets | (145,237) |
| Accounts payable | 1,925,179 |
| Accrued salaries and benefits | 1,090,736 |
| Accrued compensated absences | (351,843) |
| Deferred revenue | 30,978 |
| Other postemployment benefits obligation | 260,505 |
| Other liabilities | 2,059,428 |
| Net cash used in operating activities | <u>\$ (184,209,395)</u> |
| Supplemental schedule of noncash transactions: | |
| Contributed capital assets | \$ 296,485 |
| Acquisition of capital asset through capital lease | 165,521 |
| Change in accrued capital asset costs (purchased but unpaid at year-end) | (842,035) |
| Gifts in-kind | 613,730 |
| Amortization of bond premium | 17,477 |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, FRESNO

Notes to Financial Statements

June 30, 2011

(1) Organization

California State University, Fresno (the University), an agency of the State of California (the State), was established as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As one of 23 campuses in the California State University System (the System), the University is included in the financial statements of the System. Responsibility for the University is vested in the Trustees of the System (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the System, and the University president, the chief executive officer of the University.

The University provides instruction for baccalaureate and masters' degrees and certificate programs and operates various auxiliary enterprises such as student dormitories, student unions, 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 No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's seven recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The recognized auxiliary organizations are as follows:

- California State University, Fresno Foundation (Foundation)
- Associated Students, California State University, Fresno
- California State University, Fresno Association, Inc. (Association)
- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Athletic Corporation (Athletic Corporation)
- The Bulldog Foundation
- Fresno State Programs for Children, Inc.

CALIFORNIA STATE UNIVERSITY, FRESNO

Notes to Financial Statements

June 30, 2011

Summary information for the discretely presented auxiliary organizations is as follows:

| <u>June 30, 2011</u> | <u>Foundation</u> | <u>Association</u> | <u>Athletic Corporation</u> | <u>Other Auxiliary Organizations</u> | <u>Total</u> |
|--|------------------------------|--------------------------|-----------------------------|--------------------------------------|---------------------------|
| Current assets | \$ 62,917,503 | 37,616,187 | 4,535,986 | 10,638,836 | 115,708,512 |
| Capital assets, net | 104,060 | 95,230,528 | 12,929,210 | 1,392,110 | 109,655,908 |
| Other noncurrent assets | <u>119,560,600</u> | <u>91,070,995</u> | <u>1,194,271</u> | <u>10,234,946</u> | <u>222,060,812</u> |
| Total assets | <u>182,582,163</u> | <u>223,917,710</u> | <u>18,659,467</u> | <u>22,265,892</u> | <u>447,425,232</u> |
| Current liabilities | 6,480,856 | 18,776,737 | 5,556,258 | 585,025 | 31,398,876 |
| Noncurrent liabilities | <u>3,989,186</u> | <u>141,846,180</u> | <u>1,353,512</u> | <u>559,174</u> | <u>147,748,052</u> |
| Total liabilities | <u>10,470,042</u> | <u>160,622,917</u> | <u>6,909,770</u> | <u>1,144,199</u> | <u>179,146,928</u> |
| Invested in capital assets, net of related debt | 104,060 | 19,122,072 | — | 13,791,161 | 33,017,293 |
| Restricted | 147,182,819 | 3,384,601 | 12,636,695 | (5,704,802) | 157,499,313 |
| Unrestricted | <u>24,825,242</u> | <u>40,788,120</u> | <u>(885,998)</u> | <u>13,034,334</u> | <u>77,761,698</u> |
| Total net assets | \$ <u><u>172,112,121</u></u> | <u><u>63,294,793</u></u> | <u><u>11,750,697</u></u> | <u><u>21,120,693</u></u> | <u><u>268,278,304</u></u> |

| <u>Year ended June 30, 2011</u> | <u>Foundation</u> | <u>Association</u> | <u>Athletic Corporation</u> | <u>Other Auxiliary Organizations</u> | <u>Total</u> |
|--|-------------------|--------------------|-----------------------------|--------------------------------------|-------------------|
| Operating revenues: | | | | | |
| Student tuition and fees, net | \$ — | 2,414,000 | 1,620,713 | 941,658 | 4,976,371 |
| Grants and contracts, noncapital | 29,541,575 | — | — | 883,193 | 30,424,768 |
| Sales and services of auxiliary enterprises, net | 4,729,927 | 25,613,211 | 15,553,785 | 4,730,972 | 50,627,895 |
| Other | <u>—</u> | <u>1,420,066</u> | <u>—</u> | <u>1,186,208</u> | <u>2,606,274</u> |
| Total operating revenues | <u>34,271,502</u> | <u>29,447,277</u> | <u>17,174,498</u> | <u>7,742,031</u> | <u>88,635,308</u> |

CALIFORNIA STATE UNIVERSITY, FRESNO

Notes to Financial Statements

June 30, 2011

| <u>Year ended June 30, 2011</u> | <u>Foundation</u> | <u>Association</u> | <u>Athletic Corporation</u> | <u>Other Auxiliary Organizations</u> | <u>Total</u> |
|--------------------------------------|-----------------------|--------------------|-----------------------------|--------------------------------------|--------------------|
| Operating expenses: | | | | | |
| Instruction | \$ 13,072,300 | — | — | — | 13,072,300 |
| Research | 7,037,158 | — | — | — | 7,037,158 |
| Public service | 11,964,137 | — | — | — | 11,964,137 |
| Academic support | — | — | — | 56,317 | 56,317 |
| Student services | — | — | — | 9,233,110 | 9,233,110 |
| Institutional support | 1,039,483 | — | — | — | 1,039,483 |
| Operation and maintenance of plant | — | — | 776,717 | — | 776,717 |
| Student grants and scholarships | 3,198,319 | — | 4,775,141 | — | 7,973,460 |
| Auxiliary enterprise expenses | 4,918,433 | 31,939,649 | 20,433,090 | 6,564,050 | 63,855,222 |
| Depreciation and amortization | 17,655 | 4,203,134 | 936,184 | 277,594 | 5,434,567 |
| Total operating expenses | <u>41,247,485</u> | <u>36,142,783</u> | <u>26,921,132</u> | <u>16,131,071</u> | <u>120,442,471</u> |
| Operating income (loss) | (6,975,983) | (6,695,506) | (9,746,634) | (8,389,040) | (31,807,163) |
| Net nonoperating revenues (expenses) | <u>43,760,010</u> | <u>(639,340)</u> | <u>9,860,672</u> | <u>7,485,685</u> | <u>60,467,027</u> |
| Income (loss) before other additions | 36,784,027 | (7,334,846) | 114,038 | (903,355) | 28,659,864 |
| Grants and gifts, capital | — | 1,334,160 | 1,000,000 | — | 2,334,160 |
| Additions to permanent endowments | <u>3,064,420</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>3,064,420</u> |
| Increase (decrease) in net assets | 39,848,447 | (6,000,686) | 1,114,038 | (903,355) | 34,058,444 |
| Beginning net assets, July 1, 2010 | <u>132,263,674</u> | <u>69,295,479</u> | <u>10,636,659</u> | <u>22,024,048</u> | <u>234,219,860</u> |
| Ending net assets, June 30, 2011 | <u>\$ 172,112,121</u> | <u>63,294,793</u> | <u>11,750,697</u> | <u>21,120,693</u> | <u>268,278,304</u> |

The auxiliary organizations are presented in the accompanying financial statements as discretely presented component units 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 the activities that the organizations carry out on behalf of the University, such as research, grant administration,

CALIFORNIA STATE UNIVERSITY, FRESNO

Notes to Financial Statements

June 30, 2011

foodservice, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the University and the financial statements do not purport to, and do not, present fairly the financial position of the State or the System as of June 30, 2011 and the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

(b) *Basis of Presentation*

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

The financial statements required by GASB Statement Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement No. 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the University to be reported in a single column in each of the financial statements, accompanied by aggregated financial information for the auxiliary organizations. In accordance with the business-type activities reporting model, the University prepares its statement of cash flows using the direct method.

All seven auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB).

(c) *Election of Applicable FASB Statements*

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

(d) *Classification of Current and Noncurrent Assets (Other Than Investments) and Liabilities*

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

CALIFORNIA STATE UNIVERSITY, FRESNO

Notes to Financial Statements

June 30, 2011

net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent. For classification of current and noncurrent investments, refer to note 2(f).

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

The University considers highly liquid investments with an original maturity date of three months or less to be cash equivalents. The University considers amounts included in the California State University Investment Pool to be investments. The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

(f) *Investments*

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net assets as investment income, net.

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

(g) *Capital Assets*

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure and intangible assets, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such costs include, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the the State. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, construction work in progress, and certain intangible assets, are depreciated or amortized on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

CALIFORNIA STATE UNIVERSITY, FRESNO

Notes to Financial Statements

June 30, 2011

Capitalized interest, net of related investment income at June 30, 2011 is \$18,305.

(h) *Deferred Revenue*

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

(i) *Compensated Absences*

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

(j) *Grants Refundable*

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

(k) *Net Assets*

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

Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted – nonexpendable – Net assets subject to externally imposed conditions that the University retains 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 which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas. Campus housing programs are a primary example of operations that have unrestricted net assets with designated uses.

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(l) 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. Moreover, the Office of the Chancellor administers and charges campuses for centralized expenses such as State pro rata and management of capital projects and pooled investments, which are included in operating expenses by function in the accompanying statement of revenues, expenses, and changes in net assets.

Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, financial aid and ARRA grants, net investment income, noncapital gifts, interest expense, and capital gifts and grants.

The State appropriates funds to the System 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.

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

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

(m) Internal Services Activities

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

(n) Income Taxes

The System was established under the State of California Education Code as an agency of the State. As a campus of the System, the University is generally not subject to federal or state income taxes. However, the University remains subject to income taxes on any net income that is derived from a

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trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(o) Eliminations

All significant nonexchange transactions between the University and the discretely presented auxiliary organizations have been eliminated from the total column and are separately presented in the eliminations column in the accompanying statement of revenues, expenses, and changes in net assets.

(p) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

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

| | | |
|---|----|--------------------------|
| Cash and cash equivalents | \$ | 13,930 |
| Short-term investments | | 98,262,130 |
| Other long-term investments | | <u>1,425,294</u> |
| Total investments | | <u>99,687,424</u> |
| Total cash, cash equivalents and investments | \$ | <u><u>99,701,354</u></u> |

(a) Cash and Cash Equivalents

At June 30, 2011, cash and cash equivalents consisted of demand deposits held at commercial banks and petty cash. Total cash and cash equivalents of \$13,930 had a corresponding carrying balance with the commercial banks of \$295,516 at June 30, 2011. The differences related primarily to deposits in transit and outstanding checks.

Custodial Credit Risk for Deposits

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

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

(b) Investments

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

Investment Policy

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

Interest Rate Risk

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

Credit Risk

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

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

| Investment type | Fair value | Weighted average maturity (in years) | Rating as of year-end | | | | |
|---------------------------------------|---------------|--------------------------------------|-----------------------|-----------|------------|--------|------------|
| | | | AAA | AA | A | BBB | Not rated |
| Money market | \$ 174,531 | — | \$ 174,531 | — | — | — | — |
| Commercial paper | 7,440,877 | 0.075 | — | — | 7,440,877 | — | — |
| Certificates of deposit | 13,913,297 | 0.410 | — | 931,997 | 9,062,208 | — | 3,919,092 |
| Repurchase agreements | 237,021 | 0.003 | — | — | 237,021 | — | — |
| U.S. agency securities | 31,125,201 | 1.204 | 21,402,302 | — | 9,722,899 | — | — |
| Corporate and fixed income securities | 32,874,514 | 1.700 | 12,377,626 | 8,560,993 | 11,879,986 | 55,909 | — |
| U.S. Treasury securities | 13,341,589 | 1.445 | — | — | — | — | 13,341,589 |
| State of California SMIF | 3,022 | 0.640 | — | — | — | — | 3,022 |
| Mortgage-backed securities | 533,779 | 7.550 | 451,377 | 82,402 | — | — | — |
| Total investments | \$ 99,643,831 | | \$ 34,405,836 | 9,575,392 | 38,342,991 | 55,909 | 17,263,703 |

Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2011, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank notes guaranteed by the federal government \$11,640,724 (11.7%), Federal Home Loan Mortgage Corporation notes \$11,610,034 (11.7%), and Federal National Mortgage Association notes guaranteed by the federal government \$6,470,295 (6.5%).

Risk and Uncertainties

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

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

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

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(4) Accounts Receivable

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

| | <u>Current</u> | <u>Noncurrent</u> | <u>Total</u> |
|--------------------------------------|----------------------------|----------------------|-------------------------|
| State appropriations | \$ — | 79,577 | 79,577 |
| Auxiliary organizations | 2,565,548 | — | 2,565,548 |
| Student accounts | 1,234,272 | — | 1,234,272 |
| Government grants and contracts | 969,729 | — | 969,729 |
| Other | 929,394 | — | 929,394 |
| | <u>5,698,943</u> | <u>79,577</u> | <u>5,778,520</u> |
| Less allowance for doubtful accounts | <u>(1,327,804)</u> | <u>—</u> | <u>(1,327,804)</u> |
| Total | \$ <u><u>4,371,139</u></u> | <u><u>79,577</u></u> | <u><u>4,450,716</u></u> |

(5) Lease Receivable

The University entered into a 30-year capital lease agreement with the Association to lease the Savemart Center to the auxiliary organization effective April 2005. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A was used to finance such facilities. Lease payments are due twice a year on May 1 and November 1. Interest is calculated at 4.91%. The University is currently receiving payments of interest only and principal payments on the lease due not commence until 2013. During the year ended June 30, 2011, the University recorded interest income in the amount of \$3,384,169 from the Association. As of June 30, 2011, a balance in the amount of \$1,692,085 is reflected as accounts receivable from this auxiliary organization.

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Lease payments are due to the University as follows:

| | | |
|---|--|-----------------------------|
| Fiscal year ending: | | |
| 2012 | | \$ 5,076,252 |
| 2013 | | 6,700,835 |
| 2014 | | 7,709,390 |
| 2015 | | 7,377,500 |
| 2016 | | 4,494,917 |
| 2017 – 2021 | | 22,382,417 |
| 2022 – 2026 | | 30,590,833 |
| 2027 – 2031 | | 18,507,333 |
| 2032 – 2036 | | <u>7,381,000</u> |
| Total lease receivable | | 110,220,477 |
| Less amounts representing interest | | <u>(41,385,477)</u> |
| Present value of future minimum lease payments to be received | | 68,835,000 |
| Less current portion | | <u>—</u> |
| Long-term lease receivable, net of current portion | | <u><u>\$ 68,835,000</u></u> |

(6) Student Loans Receivable

Student loans receivable, net at June 30, 2011 consisted of the following:

| | |
|---------------------------------------|----------------------------|
| Perkins loans | \$ 3,772,263 |
| Nursing loans | <u>300,366</u> |
| Total student loans receivable, gross | 4,072,629 |
| Less allowance for doubtful accounts | <u>(155,242)</u> |
| Total student loans receivable, net | <u><u>\$ 3,917,387</u></u> |

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Notes to Financial Statements

June 30, 2011

(7) Capital Assets

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

| | <u>Balance, June 30, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance, June 30, 2011</u> |
|--|-----------------------------------|-------------------|--------------------|--------------------|-----------------------------------|
| Nondepreciable/nonamortizable capital assets: | | | | | |
| Land and land improvements | \$ 2,502,292 | — | — | — | 2,502,292 |
| Construction work in progress | <u>2,040,637</u> | <u>6,699,185</u> | <u>—</u> | <u>(1,006,345)</u> | <u>7,733,477</u> |
| Total nondepreciable/ nonamortizable capital assets | <u>4,542,929</u> | <u>6,699,185</u> | <u>—</u> | <u>(1,006,345)</u> | <u>10,235,769</u> |
| Depreciable/amortizable capital assets: | | | | | |
| Buildings and building improvements | 335,580,263 | 3,836,575 | — | 789,046 | 340,205,884 |
| Improvements, other than buildings | 25,098,293 | 35,606 | — | — | 25,133,899 |
| Infrastructure | 44,677,460 | 114,013 | — | — | 44,791,473 |
| Personal property: | | | | | |
| Equipment | 39,826,394 | 1,572,090 | (3,473,668) | 217,299 | 38,142,115 |
| Library books and materials | 16,524,660 | 217,750 | (30,000) | — | 16,712,410 |
| Intangible assets | <u>1,569,817</u> | <u>224,132</u> | <u>(681,208)</u> | <u>—</u> | <u>1,112,741</u> |
| Total depreciable/ amortizable capital assets | <u>463,276,887</u> | <u>6,000,166</u> | <u>(4,184,876)</u> | <u>1,006,345</u> | <u>466,098,522</u> |
| Total cost | <u>467,819,816</u> | <u>12,699,351</u> | <u>(4,184,876)</u> | <u>—</u> | <u>476,334,291</u> |

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June 30, 2011

| | <u>Balance, June 30, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance, June 30, 2011</u> |
|--|-----------------------------------|---------------------|--------------------|------------------|-----------------------------------|
| Less accumulated depreciation/ amortization: | | | | | |
| Buildings and building improvements | \$ (164,429,442) | (8,840,858) | — | — | (173,270,300) |
| Improvements, other than buildings | (19,029,899) | (974,725) | — | — | (20,004,624) |
| Infrastructure | (14,704,811) | (1,513,700) | — | — | (16,218,511) |
| Personal property: | | | | | |
| Equipment | (24,711,288) | (3,976,787) | 2,935,905 | — | (25,752,170) |
| Library books and materials | (14,680,847) | (174,527) | 30,000 | — | (14,825,374) |
| Intangible assets | <u>(1,217,206)</u> | <u>(200,135)</u> | <u>681,208</u> | <u>—</u> | <u>(736,133)</u> |
| Total accumulated depreciation/ amortization | <u>(238,773,493)</u> | <u>(15,680,732)</u> | <u>3,647,113</u> | <u>—</u> | <u>(250,807,112)</u> |
| Net capital assets | <u>\$ 229,046,323</u> | <u>(2,981,381)</u> | <u>(537,763)</u> | <u>—</u> | <u>225,527,179</u> |

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

(8) Lease Obligations

The University is obligated under various capital and operating leases and installment purchase agreements for the acquisition of equipment and facility rentals.

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$1,870,013 at June 30, 2011. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 1.5% to 9.9% and have terms expiring in various years through August 2013.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2012. The leases can be canceled if the State does not provide adequate funding.

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Notes to Financial Statements

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

| | Capital leases | Operating leases |
|---|---------------------------|-----------------------------|
| Year ending June 30: | | |
| 2012 | \$ 889,548 | 78,000 |
| 2013 | 665,870 | 39,000 |
| 2014 | 98,192 | — |
| Total minimum lease payments | 1,653,610 | \$ 117,000 |
| Less amount representing interest | (99,167) | |
| Present value of future minimum lease payments | 1,554,443 | |
| Less current portion | (824,246) | |
| Capital lease obligations, net of current portion | \$ 730,197 | |

Rent expense under operating leases for the year ended June 30, 2011 totaled \$181,408.

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the State in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2011 totaled \$804,745,000.

(9) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the System, and the Community Colleges. Financing provided to the University through State General Obligation Bonds is not allocated to the System by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the State related to System projects is approximately \$2,707,128,000 as of June 30, 2011.

(b) Revenue Bond Programs

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

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

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

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

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

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

Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay principal and interest payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings,

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student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue-producing projects.

The University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2011 was \$88,110,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,618,713,000 in Systemwide Revenue Bonds issued through fiscal year 2011. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$6,048,938,884. In fiscal year 2011, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$226,515,000 and \$309,165,000, respectively.

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

| Description | Interest rate | Fiscal year maturity date | Original issue amount | Amount outstanding at June 30 |
|---|---------------|---------------------------|-----------------------|-------------------------------|
| Systemwide revenue bonds: | | | | |
| Student Union Series 2004A | | | | |
| Union | 3.50 – 5.25% | 2025/26 | \$ 4,250,000 | 3,325,000 |
| Student Union Series 2005A | | | | |
| Union | 3.25 – 5.00 | 2035/36 | 17,440,000 | 15,950,000 |
| Student Union Series 2005A | | | | |
| Auxiliary Org | 3.50 – 5.00 | 2031/32 | 68,835,000 | 68,835,000 |
| Other: | | | | |
| Swimming Pool – CSURMA | 5.04 | 2028 | 4,500,000 | 3,881,250 |
| Koch Financial – Parking Lot – Photovoltaic Project | 5.26 | 2027 | 3,301,382 | 3,403,412 |
| Total | | | | 95,394,662 |
| Unamortized bond premium | | | | 425,273 |
| Total long-term debt | | | | 95,819,935 |
| Less current portion | | | | (855,059) |
| Long-term debt, net of current portion | | | | \$ 94,964,876 |

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Long-term debt principal obligations and related interest mature in the following fiscal years:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|-------------------|--------------------|
| Year ending June 30: | | | |
| 2012 | \$ 855,059 | 4,522,796 | 5,377,855 |
| 2013 | 4,282,523 | 4,431,098 | 8,713,621 |
| 2014 | 5,515,385 | 4,225,743 | 9,741,128 |
| 2015 | 5,433,666 | 3,969,207 | 9,402,873 |
| 2016 | 2,717,388 | 3,776,362 | 6,493,750 |
| 2017 – 2021 | 15,604,932 | 16,782,969 | 32,387,901 |
| 2022 – 2026 | 29,129,289 | 11,520,038 | 40,649,327 |
| 2027 – 2031 | 19,656,420 | 5,394,651 | 25,051,071 |
| 2032 – 2036 | 12,200,000 | 823,750 | 13,023,750 |
| | <u>\$ 95,394,662</u> | <u>55,446,614</u> | <u>150,841,276</u> |

Long-term debt obligations of the discretely presented auxiliary organizations have been issued to purchase or construct facilities for University-related uses. For information regarding the long-term debt obligations of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

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Notes to Financial Statements

June 30, 2011

(10) Long-Term Liabilities Activity

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

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Current portion</u> |
|---|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Accrued compensated absences | \$ 10,507,944 | 5,652,700 | (6,004,543) | 10,156,101 | 6,042,690 |
| Capitalized lease obligations (note 8) | 2,097,706 | 565,606 | (1,108,869) | 1,554,443 | 824,246 |
| Long-term debt obligations (note 9): | | | | | |
| Systemwide Revenue | | | | | |
| Bonds – 2004A Union | 3,480,000 | — | (155,000) | 3,325,000 | 160,000 |
| Systemwide Revenue | | | | | |
| Bonds – 2005A Union | 16,270,000 | — | (320,000) | 15,950,000 | 330,000 |
| Systemwide Revenue | | | | | |
| Bonds – 2005A Aux Org | 68,835,000 | — | — | 68,835,000 | — |
| Koch Financial -Parking Lot | | | | | |
| Photovoltaic Project | 3,536,384 | — | (132,972) | 3,403,412 | 140,059 |
| Swimming Pool Loan | | | | | |
| CSURMA | 4,106,250 | — | (225,000) | 3,881,250 | 225,000 |
| Total | 96,227,634 | — | (832,972) | 95,394,662 | 855,059 |
| Unamortized bond premium | 442,750 | — | (17,477) | 425,273 | — |
| Total long-term debt obligations | 96,670,384 | — | (850,449) | 95,819,935 | 855,059 |
| Total long-term liabilities | \$ 109,276,034 | 6,218,306 | (7,963,861) | 107,530,479 | 7,721,995 |

(11) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

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

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

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Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 18.2% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

| | | |
|------|----|------------|
| 2009 | \$ | 19,183,352 |
| 2010 | | 17,254,464 |
| 2011 | | 19,594,875 |

(b) Postretirement Healthcare Plan

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

Plan Description

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

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

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

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Funding Policy

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

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

The System is responsible for funding the cost of dental benefits for all University retirees. The System makes payments directly to Delta Dental for the retiree’s monthly dental premiums. The System is funding these benefits on a pay-as-you-go basis. The University does not pay the System for its share of dental premiums.

Annual OPEB Cost and Net OPEB Obligation

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

| | | |
|---|----|-----------------------|
| Billable accounts only: | | |
| Annual required contribution (ARC) | \$ | 427,556 |
| Contributions during the year | | <u>(167,050)</u> |
| Increase in net OPEB obligation (NOO) | | 260,506 |
| NOO – beginning of year | | <u>675,038</u> |
| NOO – end of year | \$ | <u><u>935,544</u></u> |
| Percentage of annual OPEB cost contributed during the year ended June 30, 2011 | | 39% |

Actuarial Methods and Assumptions and Plan Funding Information

As an agency of the State, the University was included in the State’s OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controller’s Office (SCO) and allocated to the System. The System allocates the ARC to the University, which only includes the health benefit portion for the billable accounts. The dental benefit portion is not allocated to the University because the System centrally funds the cost of dental benefits for all retirees for the System.

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Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2011 and 9.00% in 2012, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011.

(12) Self-Insurance Program

The System and certain auxiliary organizations have established California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The liability included in the accompanying financial statements reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2011. The liability includes estimated 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 also reduced by estimated amounts recoverable from the reinsurer that are related to the liabilities for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2011.

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

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

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For the year ended June 30, 2011, the CSURMA purchased excess insurance to protect the members from catastrophic losses. The CSURMA maintained excess public entity liability insurance coverage provided by School Excess Liability Fund (SELF), a Joint Power Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence until December 2009, Ironshore Specialty Insurance Company and other various insurers with coverage for individual claims above \$5,000,000 and up to \$200,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (Chartis) to statutory limits in excess of the \$2,500,000 self-insured retention. For the Auxiliary Organizations' Risk Management Authority (AORMA) Workers' Compensation Program, the CSURMA purchased excess workers' compensation insurance provided by Safety National to statutory limit in excess of \$500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2011 was approximately 4%, or \$3,277,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2011. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

There is no amount due to or from CSURMA as of June 30, 2011.

(13) Commitments and Contingencies

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 review would not have a material effect on the financial position of the University.

There were no authorized but unexpended expenditures for construction projects as of June 30, 2011.

As of June 30, 2011, in order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Services (DGS) and Shell Energy North America (Shell), respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$2,603,276 and \$5,976,756 of natural gas and electricity at fixed prices through 2017 and 2014, respectively. The University estimates that the special purchase contracts in place represent approximately 45.58% and 33.68% of its total annual natural gas and electricity expenses, respectively.

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(14) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2011, operating expenses by natural classification consisted of the following:

| | <u>Salaries</u> | <u>Benefits</u> | <u>Scholarships and fellowships</u> | <u>Supplies and other services</u> | <u>Depreciation and amortization</u> | <u>Total</u> |
|---------------------------------------|-----------------------|-------------------|---|--|--|--------------------|
| Functional classification: | | | | | | |
| Instruction | \$ 66,549,033 | 25,969,870 | — | 5,976,335 | — | 98,495,238 |
| Research | 158,547 | 1,951 | — | 1,559,422 | — | 1,719,920 |
| Public service | 3,645,104 | — | — | 189,384 | — | 3,834,488 |
| Academic support | 15,465,761 | 6,272,691 | — | 6,996,303 | — | 28,734,755 |
| Student services | 15,704,895 | 6,918,641 | — | 5,586,330 | — | 28,209,866 |
| Institutional support | 12,133,997 | 5,563,789 | — | 11,110,447 | — | 28,808,233 |
| Operation and maintenance of plant | 7,145,883 | 4,487,679 | — | 10,319,097 | — | 21,952,659 |
| Student grants and scholarships | — | — | 49,746,550 | — | — | 49,746,550 |
| Auxiliary enterprise expenses | 1,238,926 | 764,082 | — | 3,032,595 | — | 5,035,603 |
| Depreciation and amortization | — | — | — | — | 15,680,732 | 15,680,732 |
| Total | \$ 122,042,146 | 49,978,703 | 49,746,550 | 44,769,913 | 15,680,732 | 282,218,044 |

(15) Transactions with Related Entities

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$130,204,199 for the year ended June 30, 2011. The University also received lottery fund distributions from the State in the amount of \$2,512,000 for the year ended June 30, 2011, which is included in other nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net assets.

As discussed in notes 7 and 8, the University has recorded capital assets that have been financed by System or State obligations. These obligations are not reflected in the accompanying financial statements. For the year ended June 30, 2011, \$18,825,579 of capital assets are included in the accompanying financial statements.

Based upon Executive Order 1052 and subsequent Executive Order 1059, the University and the Foundation analyzed all trust funds shown in the financial statements of the University but held by the Foundation. Based on a determination of the entity retaining risk of loss, the trust funds were divided between the Foundation and the University. The Foundation accepted approximately \$25,600,000 as the amount subject to its ownership. As this balance was previously recorded as a receivable by the University and as a payable by the Foundation, the balance was removed from the University's financial statements in fiscal year 2011 by reducing accounts receivable and recording the change in net assets as nonoperating expense.

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The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2011:

| | |
|--|--------------|
| Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs | \$ 4,288,030 |
| Payments from recognized auxiliary organizations for other than salaries of University employees | 3,099,504 |
| Payments to recognized auxiliary organizations for services, office space rental, and programs | 87,810 |
| Gifts in kind to the University from recognized auxiliary organizations | 910,215 |
| Gifts (cash or assets) to the University from recognized auxiliary organizations | 31,126 |
| Payments to the Office of the Chancellor for administrative activities | 110,578 |
| Payments to the Office of the Chancellor for State pro rata charges | 218,038 |
| Amounts receivable from recognized auxiliary organizations | 2,565,548 |
| Amounts payable to recognized auxiliary organizations | (320,515) |
| State lottery appropriations received | 2,512,000 |

(16) Subsequent Events

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

In August 2011, Standard & Poor's Rating Services lowered the long-term debt rating of the U.S. government and federal agencies from AAA to AA+. The University has \$31,125,201 and \$13,341,589, or 31.2% and 13.4%, of total investment in U.S. agency securities and U.S. Treasury securities, respectively, as of June 30, 2011.

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

In September 2011, the System issued its Systemwide Revenue Bond Series 2011A in the amount of \$429,855,000. In addition to providing funding for projects around the System, proceeds of the Systemwide Revenue Bond Series 2011A were also used to pay off \$71,000,000 of BANs and refund \$80,710,000 of previously outstanding Systemwide Revenue Bond Series 2002A and \$112,350,000 of previously outstanding Systemwide Revenue Bond Series 2003A.