



CALIFORNIA STATE UNIVERSITY, STANISLAUS

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, STANISLAUS

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

Dr. Hamid Shirvani
President
California State University, Stanislaus:

We have audited the accompanying financial statements of California State University, Stanislaus (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, 2010, 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 to the financial statements, 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 the California or the California State University System as of June 30, 2010, 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 California State University, Stanislaus and of its aggregate discretely presented component units as of June 30, 2010, 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 12 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

March 18, 2011

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2010

This section of California State University, Stanislaus (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2010. 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.

The statement of cash flows for the discretely presented auxiliary organizations 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, STANISLAUS

Management's Discussion and Analysis

June 30, 2010

The University's condensed summary of net assets as of June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Assets:		
Current assets	\$ 32,280,980	32,102,355
Capital assets	140,948,572	144,064,799
Other noncurrent assets	<u>6,759,734</u>	<u>12,722,797</u>
Total assets	<u>179,989,286</u>	<u>188,889,951</u>
Liabilities:		
Current liabilities	14,025,704	32,420,968
Long-term debt obligations, net of current portion	36,892,529	37,616,207
Other noncurrent liabilities	<u>8,849,781</u>	<u>9,140,449</u>
Total liabilities	<u>59,768,014</u>	<u>79,177,624</u>
Net assets:		
Invested in capital assets, net of related debt	106,218,858	110,961,272
Restricted, expendable	2,239,185	4,164,341
Unrestricted	<u>11,763,229</u>	<u>(5,413,286)</u>
Total net assets	<u>\$ 120,221,272</u>	<u>109,712,327</u>

Assets

Total assets decreased \$9 million from prior year due to a \$3.1 million decrease in capital assets, and a \$5.9 million decrease in other noncurrent assets. Total current assets increased \$0.2 million primarily due to an increase in cash and cash equivalents of \$0.7 million and an increase in accounts receivable, current of \$0.2 million. This was offset by a reduction in short-term investments of \$0.6 million and a reduction in prepaid expenses and other assets of \$0.1 million. The primary reason for the increase in cash and cash equivalents and the reduction in short-term investments was due to the implementation of a disenrollment policy for nonpayment and fewer deposits in transit at year-end. The increase in accounts receivable, current, was primarily due to \$1 million owed by the California Student Aid Commission for Spring 2010 Cal Grant financial aid awards, and a \$0.8 million decrease in government grants and contracts receivable, a result of reduced funding levels in the current fiscal year.

Capital assets, net, decreased \$3.1 million primarily due to \$4.9 million of current year additions, which were partially offset by \$1.5 million in current year deletions, and \$7.3 million in current year depreciation expense. The \$4.9 million in current year additions is primarily related to various campus construction projects and final costs related to the Student Recreation Complex project.

Other noncurrent assets decreased \$5.9 million primarily due to a \$3.9 million decrease in other long-term investments, representing unspent bond proceeds for the Student Recreation project, and a \$2 million decrease in accounts receivable, noncurrent related to general obligation bond funds held by the State of California (the State) for various campus construction projects.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2010

Liabilities

Total current liabilities decreased \$18.4 million primarily due to an \$18.2 million decrease in accounts payable. The decrease in accounts payable was primarily associated with a \$16.2 million payment related to the State 2008-09 General Fund appropriation refund. The refund to the State was a retroactive reduction of California State University's fiscal 2009 state appropriation revenue. The refund (return) allocation to the University through the Office of the Chancellor was \$16.2 million and was recorded as a reduction in state appropriation revenue, noncapital, in the accompanying statement of revenues, expenses, and changes in net assets for the year ended June 30, 2009 and was included in accounts payable in the accompanying statement of net assets as of June 30, 2009.

Net Assets

Total net assets increased \$10.5 million from the prior year. A significant portion, \$106 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 \$4.7 million from prior year primarily due to a decrease in construction-related projects, which were partially offset by asset deletions, annual depreciation, and annual debt payments. \$2.2 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 \$1.9 million from prior year as discussed below. \$11.8 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.

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 restrictions, and the amounts:

Restricted Net Assets

	June 30	
	2010	2009
Expendable:		
Scholarships and fellowships	\$ 1,617,905	1,769,691
Loans		
Capital projects	11,284	1,195,735
Debt service	105,676	116,067
Other	504,320	1,082,848
Total restricted net assets – expendable	\$ 2,239,185	4,164,341

Total restricted net assets expendable decreased \$1.9 million. This is primarily due to a \$1.1 million decrease in net assets restricted for capital projects as a result of spending state appropriations, capital for the Student Recreation Center Complex project. The \$1.9 million decrease in restricted net assets expendable also includes a \$0.5 million decrease in other net assets, which is related to reduced operating grant revenue.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2010

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2010 and 2009 is as follows:

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

	Year ended June 30	
	2010	2009
Operating revenues:		
Student tuition and fees, net	\$ 22,601,752	22,546,071
Grants and contracts, noncapital	5,311,068	5,913,228
Sales and services of auxiliary enterprises, net	4,296,139	5,169,137
Other operating revenues	3,582,486	4,951,687
Total operating revenues	35,791,445	38,580,123
Operating expenses	(113,025,271)	(123,116,739)
Operating loss	(77,233,826)	(84,536,616)
Nonoperating revenues (expenses):		
State appropriations, noncapital	51,811,781	45,210,777
Federal financial aid grants, noncapital	15,736,363	11,377,070
State financial aid grants, noncapital	7,087,699	5,375,691
Other federal nonoperating grants, noncapital	10,211,650	6,075,300
Gifts, noncapital	261,944	1,545,720
Investment income (loss), net	291,171	705,457
Interest expense	(2,193,753)	(2,171,852)
Other nonoperating revenues, net	4,294,641	3,166,094
Total nonoperating revenues	87,501,496	71,284,257
Income (loss) before other additions	10,267,670	(13,252,359)
State appropriations, capital	8,006	584,000
Grants and gifts, capital	233,269	17,025
Increase (decrease) in net assets	10,508,945	(12,651,334)
Beginning net assets	109,712,327	122,363,661
Ending net assets	\$ 120,221,272	109,712,327

Certain reclassifications have been made to the 2009 condensed financial information to conform to the 2010 financial information presented. There was no impact on the previously reported changes in net assets or total net assets of the University.

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

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Management's Discussion and Analysis

June 30, 2010

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.

Operating Revenues

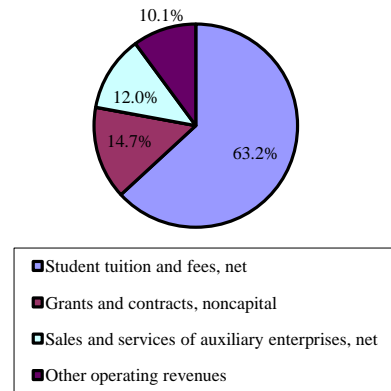
Total operating revenues decreased \$2.8 million primarily due to a \$1.4 million decrease in other operating revenues, a \$ 0.9 million decrease in sales and services of auxiliary enterprise revenue, a \$0.6 million decrease in grants and contracts revenue, offset by a \$0.1 million increase in student tuition and fees. The \$1.4 million decrease in other operating revenue was primarily due to a current year reclassification of operating lease revenues to the nonoperating revenue category. The system wide reclassification of campus student union recreation complex fees from auxiliary sales and services to student tuition and fee revenue resulted in a \$0.9 million decrease. Grants and contracts, noncapital decreased \$0.6 million from the prior year due to reduced levels of funding for grants and contracts in the current fiscal year, primarily related to federal sources (\$0.6 million). The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2010 and 2009:

Operating Revenues

Year ended June 30, 2010

(In thousands)

Student tuition and fees, net	\$ 22,601,752	63.2%
Grants and contracts, net	5,275,913	14.7
Sales and services of auxiliary enterprises, net	4,296,139	12.0
Other operating revenues	<u>3,617,641</u>	<u>10.1</u>
Total operating revenues	\$ <u><u>35,791,445</u></u>	<u><u>100.0%</u></u>



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Management's Discussion and Analysis

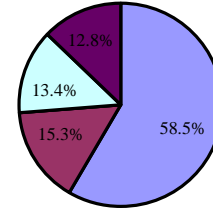
June 30, 2010

Operating Revenues

Year ended June 30, 2009

(In thousands)

Student tuition and fees, net	\$ 22,546,071	58.5%
Grants and contracts, net	5,913,228	15.3
Sales and services of auxiliary enterprises, net	5,169,137	13.4
Other operating revenues	<u>4,951,687</u>	<u>12.8</u>
 Total operating revenues	 \$ <u><u>38,580,123</u></u>	 <u><u>100.0%</u></u>



■ Student tuition and fees, net
■ Grants and contracts, noncapital
■ Sales and services of auxiliary enterprises, net
■ Other operating revenues

Operating Expenses

The University's operating expenses consist of salaries and benefits of \$73.3 million, supplies and services of \$15.4 million, scholarships and fellowships of \$17.1 million, and depreciation of \$7.3 million. Total operating expenses decreased by \$10.1 million, or 8.1%, primarily due to a \$6 million decrease in instruction, a \$1 million decrease in academic support, a \$2.5 million decrease in institutional support, a \$1.3 million decrease in operation and maintenance of plant, a \$2.2 million decrease in auxiliary enterprises, which was partially offset by a \$3.3 million increase in student grants and scholarships and a \$0.9 million increase in depreciation. Salaries and benefits costs within each of these functions decreased by \$10.4 million primarily due to the California State University systemwide employee furlough program and campus budget reductions. Supplies and other services expense, within each of these functions, decreased by \$4 million due to campus budget reductions. Student grants and scholarships increased by \$3.3 million. Increases in tuition and economic factors contributed to an increased number of students receiving aid. The increase in depreciation and amortization expense of \$0.9 million relates to current year capital asset additions primarily due to the capitalization of the Student Recreation Center.

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Management's Discussion and Analysis

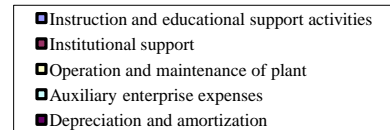
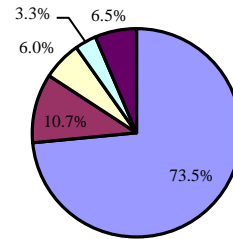
June 30, 2010

The following charts present the distribution of resources in support of the University's mission for fiscal years 2010 and 2009:

Operating Expenses

Year ended June 30, 2010

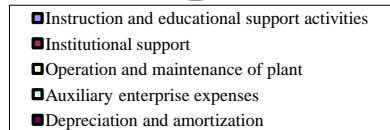
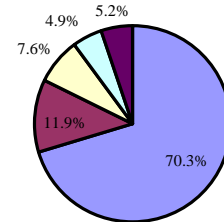
Instruction	\$ 38,080,127	33.7%
Research	1,999,082	1.8
Public service	1,059,111	0.9
Academic support	13,009,546	11.5
Student services	11,849,058	10.5
Student grants and scholarships	<u>17,062,262</u>	<u>15.1</u>
Total instruction and educational support activities	83,059,186	73.5
Institutional support	12,110,684	10.7
Operation and maintenance of plant	6,791,020	6.0
Auxiliary enterprises expenses	3,763,677	3.3
Depreciation and amortization	<u>7,300,704</u>	<u>6.5</u>
Total operating expenses	\$ <u>113,025,271</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2009

Instruction	\$ 44,152,962	35.9%
Research	1,345,566	1.1
Public service	1,261,732	1.0
Academic support	14,051,929	11.4
Student services	12,035,660	9.8
Student grants and scholarships	<u>13,761,595</u>	<u>11.2</u>
Total instruction and educational support activities	86,609,444	70.4
Institutional support	14,703,801	11.9
Operation and maintenance of plant	9,355,042	7.6
Auxiliary enterprises expenses	6,069,897	4.9
Depreciation and amortization	<u>6,378,555</u>	<u>5.2</u>
Total operating expenses	\$ <u>123,116,739</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, the federal American Recovery and Reinvestment Act (ARRA) grant to restore state appropriations, certain financial aid grants, noncapital, grants and gifts, capital, investment income, and interest expense.

General (noncapital) appropriation revenues totaled \$51.8 million, an increase of \$6.6 million from the prior year primarily due to the prior year inclusion of the State appropriation refund of \$16.2 million, net of the current year appropriation decrease of \$10.7 million.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2010

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$4.9 million for the fiscal year ended June 30, 2010, down from \$2.2 million for the fiscal year ended June 30, 2009. Capital state appropriations in the prior year included one-time appropriations of \$0.6 million for minor capital outlay projects. The decrease in capital state appropriations was due to the State budget situation and delay of campus projects. General (noncapital) appropriation revenues totaled \$51.8 million, an increase of \$6.6 million from the prior year due to the prior year inclusion of the State appropriation return of \$16.2 million, net of the current year appropriation decrease of \$10.7 million. It is offset by a reimbursement of \$10.2 from the federal ARRA grant to restore the State appropriation. Investment income was \$0.3 million, a decrease of \$0.4 million from prior year primarily due to poor market conditions and significantly lower than average interest rates.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2010	2009
Land and land improvements	\$ 714,150	714,150
Works of art and historical treasures	226,715	226,715
Buildings and building improvements	108,888,477	105,149,957
Improvements, other than buildings	8,679,940	1,941,809
Infrastructure	15,613,913	15,553,132
Personal property	4,010,425	5,111,855
Intangible assets	1,186,079	1,189,994
Construction work in progress	1,628,873	14,177,187
Total capital assets, net of accumulated depreciation	<u>\$ 140,948,572</u>	<u>144,064,799</u>

Capital assets decreased \$3.1 million primarily due to \$5.0 million of current year additions, which was partially offset by \$1.5 million in current year deletions, and \$7.3 million of depreciation and amortization expense. The \$5.0 million in current year additions is primarily due to various campus construction projects. The projects were funded through private donations, capital state appropriations, and Systemwide Revenue Bonds.

Capital assets commitments at June 30, 2010 totaled \$262,000.

Due to the State's budget crisis and its difficulty issuing bonds in the financial market, the State suspended funding for most State funded capital projects, including General Obligation and Lease Revenue Bond projects, and froze disbursements on these projects starting in December 2008. The State later lifted the suspension of the General Obligation bond projects in April 2009. In October 2009, the State was able to resume bond sales for the General Obligation and Lease Revenue Bonds to support near term construction finance needs for new and previously approved projects through the Federal Build America Bonds program under the American Recovery

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Management's Discussion and Analysis

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and Reinvestment Act (ARRA). All previously suspended projects have been restarted. See note 7 of the notes to the financial statements for further information on capital assets.

Long-Term Debt Obligations

Debt outstanding at June 30, 2010 and 2009 is summarized below by type of debt instrument:

	June 30	
	2010	2009
Systemwide Revenue Bonds:		
Series 2002A Union	\$ 545,000	580,000
Series 2003A Housing	15,830,000	16,155,000
Series 2008A Aux Org	4,925,000	5,005,000
Series 2008A Other (Student Recreation Complex)	16,355,000	16,615,000
Total	37,655,000	38,355,000
Unamortized bond discount	(37,471)	(38,793)
Total long-term debt	37,617,529	38,316,207
Less current portion	(725,000)	(700,000)
Long-term debt, net of current portion	\$ 36,892,529	37,616,207

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 8 and 9 to the financial statements for further information on long-term debt obligations.

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Management's Discussion and Analysis

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Factors Impacting Future Periods

The University's state noncapital appropriations budget enacted for fiscal year 2011 approved by the legislative process is \$56,514,337. This increase of \$4,702,556 over the fiscal year 2010 funding level of \$51,811,781 marks the first partial restoration of state funding since 2007. However, it is still below the fiscal year 2008 funding level of \$63,449,830. Moreover, the University will receive \$552,000 of ARRA funds in fiscal year 2011.

The State included \$106 million in federal funds in the allocation to the CSU. The CSU is currently holding these funds in a systemwide provisions line item to be used as one time enrollment funding to those campuses that meet the unfunded additional enrollment targets.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Statement of Net Assets

June 30, 2010

	University	Discretely presented component units FASB Auxiliary Organizations	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 968,880	1,367,298	2,336,178
Short-term investments	26,092,507	8,083,490	34,175,997
Accounts receivable, net	4,871,741	509,283	5,381,024
Leases receivable, current portion	72,042	—	72,042
Pledges receivable, net	—	333,761	333,761
Prepaid expenses and other assets	275,810	—	275,810
Total current assets	<u>32,280,980</u>	<u>10,293,832</u>	<u>42,574,812</u>
Noncurrent assets:			
Restricted cash and cash equivalents	—	66,744	66,744
Accounts receivable, net	283,293	—	283,293
Leases receivable, net of current portion	4,672,557	—	4,672,557
Student loans receivable, net	931,828	—	931,828
Pledges receivable, net	—	2,373,903	2,373,903
Endowment investments	—	8,837,972	8,837,972
Other long-term investments	872,056	12,959	885,015
Capital assets, net	140,948,572	9,279,425	150,227,997
Other assets	—	119,131	119,131
Total noncurrent assets	<u>147,708,306</u>	<u>20,690,134</u>	<u>168,398,440</u>
Total assets	<u>179,989,286</u>	<u>30,983,966</u>	<u>210,973,252</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	2,177,046	614,160	2,791,206
Accrued salaries and benefits payable	5,115,356	7,980	5,123,336
Accrued compensated absences – current portion	1,931,955	45,496	1,977,451
Deferred revenue	1,407,198	—	1,407,198
Capitalized lease obligations – current portion	730,916	72,042	802,958
Long-term debt obligations – current portion	725,000	205,000	930,000
Other liabilities	1,938,233	2,873,163	4,811,396
Total current liabilities	<u>14,025,704</u>	<u>3,817,841</u>	<u>17,843,545</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,073,612	—	2,073,612
Grants refundable	962,976	—	962,976
Capitalized lease obligations, net of current portion	2,798,872	4,672,557	7,471,429
Long-term debt obligations, net of current portion	36,892,529	3,467,857	40,360,386
Depository accounts	16,298	—	16,298
Other postemployment benefits obligation	577,189	616,369	1,193,558
Other liabilities	2,420,834	—	2,420,834
Total noncurrent liabilities	<u>45,742,310</u>	<u>8,756,783</u>	<u>54,499,093</u>
Total liabilities	<u>59,768,014</u>	<u>12,574,624</u>	<u>72,342,638</u>
Net assets:			
Invested in capital assets, net of related debt	106,218,858	861,969	107,080,827
Restricted for:			
Nonexpendable – endowments	—	6,359,370	6,359,370
Expendable:			
Scholarships and fellowships	1,617,905	4,798,290	6,416,195
Capital projects	11,284	—	11,284
Debt service	105,676	—	105,676
Other	504,320	573,793	1,078,113
Unrestricted	11,763,229	5,815,920	17,579,149
Total net assets	<u>\$ 120,221,272</u>	<u>18,409,342</u>	<u>138,630,614</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2010

	University	Discretely presented component units FASB Auxiliary Organizations	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$18,265,854)	\$ 22,601,752	1,946,278	(1,086,760)	23,461,270
Grants and contracts, noncapital:				
Federal	1,932,686	—	—	1,932,686
State	2,357,782	—	—	2,357,782
Local	1,020,600	—	—	1,020,600
Sales and services of auxiliary enterprises (net of scholarship allowances of \$2,218,126)	4,296,139	1,270,057	—	5,566,196
Other operating revenues	3,582,486	631,698	—	4,214,184
Total operating revenues	<u>35,791,445</u>	<u>3,848,033</u>	<u>(1,086,760)</u>	<u>38,552,718</u>
Expenses:				
Operating expenses:				
Instruction	38,080,127	—	—	38,080,127
Research	1,999,082	—	—	1,999,082
Public service	1,059,111	—	—	1,059,111
Academic support	13,009,546	—	—	13,009,546
Student services	11,849,058	1,368,305	(1,086,760)	12,130,603
Institutional support	12,110,684	1,677,080	—	13,787,764
Operation and maintenance of plant	6,791,020	142,817	—	6,933,837
Student grants and scholarships	17,062,262	1,413,239	—	18,475,501
Auxiliary enterprise expenses	3,763,677	1,191,913	(630,437)	4,325,153
Depreciation and amortization	7,300,704	417,847	—	7,718,551
Total operating expenses	<u>113,025,271</u>	<u>6,211,201</u>	<u>(1,717,197)</u>	<u>117,519,275</u>
Operating loss	<u>(77,233,826)</u>	<u>(2,363,168)</u>	<u>630,437</u>	<u>(78,966,557)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	51,811,781	—	—	51,811,781
Federal financial aid grants, noncapital	15,736,363	—	—	15,736,363
State financial aid grants, noncapital	7,087,699	—	—	7,087,699
Other federal nonoperating grants, noncapital	10,211,650	—	—	10,211,650
Gifts, noncapital	261,944	3,438,725	—	3,700,669
Investment income, net	291,171	2,064	—	293,235
Endowment loss	—	(156,233)	—	(156,233)
Interest expense	(2,193,753)	(395,273)	—	(2,589,026)
Other nonoperating revenues (expenses), net	4,294,641	(774,763)	(432,054)	3,087,824
Net nonoperating revenues (expenses)	<u>87,501,496</u>	<u>2,114,520</u>	<u>(432,054)</u>	<u>89,183,962</u>
Income (loss) before other additions	10,267,670	(248,648)	198,383	10,217,405
State appropriations, capital	8,006	—	—	8,006
Grants and gifts, capital	233,269	—	(198,383)	34,886
Additions to permanent endowments	—	179,477	—	179,477
Increase (decrease) in net assets	<u>10,508,945</u>	<u>(69,171)</u>	<u>—</u>	<u>10,439,774</u>
Net assets:				
Net assets at beginning of year	109,712,327	18,478,513	—	128,190,840
Net assets at end of year	<u>\$ 120,221,272</u>	<u>18,409,342</u>	<u>—</u>	<u>138,630,614</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Statement of Cash Flows

Year ended June 30, 2010

	University
Cash flows from operating activities:	
Student tuition and fees	\$ 23,237,480
Federal grants and contracts	3,019,604
State grants and contracts	2,070,428
Local grants and contracts	923,893
Payments to suppliers	(14,911,729)
Payments to employees	(73,424,456)
Payments to students	(17,164,024)
Sales and services of auxiliary enterprises	4,237,224
Other receipts	3,953,547
Net cash used in operating activities	(68,058,033)
Cash flows from noncapital financing activities:	
State appropriations	37,662,759
Federal financial aid grants	15,736,363
State financial aid grants	6,057,208
Other federal nonoperating grants	10,211,650
Gifts and grants received for other than capital purposes	261,944
Federal loan program receipts	27,805,635
Federal loan program disbursements	(27,886,526)
Monies received on behalf of others	2,608,996
Monies disbursed on behalf of others	(2,992,995)
Other	4,677,112
Net cash provided by noncapital financing activities	74,142,146
Cash flows from capital and related financing activities:	
State appropriations	8,006
Proceeds from sale of capital assets	18,750
Acquisition of capital assets	(6,109,853)
Principal paid on capital debt and leases	(1,412,563)
Interest paid on capital debt and leases	(2,789,075)
Net cash used in capital and related financing activities	(10,284,735)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	186,179,630
Purchases of investments	(181,606,157)
Investment income received	318,287
Net cash provided by investing activities	4,891,760
Net increase in cash and cash equivalents	691,138
Cash and cash equivalents at beginning of year	277,742
Cash and cash equivalents at end of year	\$ 968,880

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Statement of Cash Flows

Year ended June 30, 2010

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (77,233,826)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	7,300,704
Change in assets and liabilities:	
Accounts receivable, net	834,164
Prepaid expenses and other assets	92,584
Accounts payable	358,040
Accrued salaries and benefits	(514,049)
Accrued compensated absences	141,147
Deferred revenue	540,614
Other postemployment benefits obligation	234,053
Other liabilities	188,536
Net cash used in operating activities	\$ <u>(68,058,033)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 233,269
Acquisition of capital asset through capital lease	15,660
Change in accrued capital asset costs (purchased but unpaid at year-end)	(1,991,225)
Amortization of bond premium (discount)	(1,322)

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

(1) Organization

California State University, Stanislaus (the University), an agency of the State of California, 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) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB 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 four 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 (CSU), Stanislaus Foundation
- Associated Students Incorporated of California State University (CSU), Stanislaus
- California State University (CSU), Stanislaus Auxiliary and Business Services
- University Student Union of California State University (CSU), Stanislaus

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

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

	CSU Stanislaus Foundation	CSU Stanislaus Associated Students	CSU Stanislaus Auxiliary and Business Services	CSU Stanislaus University Student Union	Total
Current assets	\$ 5,008,636	1,039,870	2,779,992	1,465,334	10,293,832
Capital assets, net	—	1,438	9,130,075	147,912	9,279,425
Other noncurrent assets	11,321,574	47,516	41,619	—	11,410,709
Total assets	16,330,210	1,088,824	11,951,686	1,613,246	30,983,966
Current liabilities	2,959,148	135,237	618,228	105,228	3,817,841
Noncurrent liabilities	—	189,666	8,312,020	255,097	8,756,783
Total liabilities	2,959,148	324,903	8,930,248	360,325	12,574,624
Invested in capital assets, net of related debt	—	1,438	712,619	147,912	861,969
Restricted	11,731,453	—	—	—	11,731,453
Unrestricted	1,639,609	762,483	2,308,819	1,105,009	5,815,920
Total net assets	\$ 13,371,062	763,921	3,021,438	1,252,921	18,409,342

	California State University, Stanislaus Foundation	Associated Students Inc. of California State University Stanislaus	California State University Stanislaus, Auxiliary and Business Services	University Student Union of California State University Stanislaus	Total
Operating revenues:					
Student tuition and fees, net	\$ —	859,518	—	1,086,760	1,946,278
Sales and services of auxiliary enterprises, net	—	46,665	1,125,722	97,670	1,270,057
Other	433,812	16,729	186,568	(5,411)	631,698
Total operating revenues	433,812	922,912	1,312,290	1,179,019	3,848,033

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

	California State University, Stanislaus Foundation	Associated Students Inc. of California State University Stanislaus	California State University Stanislaus, Auxiliary and Business Services	University Student Union of California State University Stanislaus	Total
Operating expenses:					
Student services	\$ —	444,494	—	923,811	1,368,305
Institutional support	1,430,081	—	246,999	—	1,677,080
Operation and maintenance of plant	—	—	59,548	83,269	142,817
Student grants and scholarships	1,413,239	—	—	—	1,413,239
Auxiliary enterprise expenses	289,228	453,691	448,994	—	1,191,913
Depreciation and amortization	—	1,490	395,315	21,042	417,847
Total operating expenses	<u>3,132,548</u>	<u>899,675</u>	<u>1,150,856</u>	<u>1,028,122</u>	<u>6,211,201</u>
Operating income (loss)	(2,698,736)	23,237	161,434	150,897	(2,363,168)
Net nonoperating revenues (expenses)	<u>3,000,171</u>	<u>4,545</u>	<u>(894,894)</u>	<u>4,698</u>	<u>2,114,520</u>
Income (loss) before other additions	301,435	27,782	(733,460)	155,595	(248,648)
Additions to permanent endowments	<u>179,477</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>179,477</u>
Increase (decrease) in net assets	480,912	27,782	(733,460)	155,595	(69,171)
Beginning net assets, July 1, 2009	<u>12,890,150</u>	<u>736,139</u>	<u>3,754,898</u>	<u>1,097,326</u>	<u>18,478,513</u>
Ending net assets, June 30, 2010	<u>\$ 13,371,062</u>	<u>763,921</u>	<u>3,021,438</u>	<u>1,252,921</u>	<u>18,409,342</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, foodservice, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

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 of California 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 of California or the System as of June 30, 2010 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 discretely presented 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.

The 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 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).

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

(e) Cash and Cash Equivalents

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

Capitalized interest, net of related investment income at June 30, 2010 is as follows:

Interest expense capitalized for construction projects	\$ 1,095,967
Investment income related to unspent bond proceeds for construction	<u>(503,225)</u>
Capitalized interest, net of related investment income	<u><u>\$ 592,742</u></u>

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

(h) *Deferred Revenue*

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

(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 1st of the current year to calculate the liability for accrued compensated absences. The University employees pay rates are based on length of service and job classification.

(j) *Grants Refundable*

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins, Nursing Loan programs, and approved Title IV loan programs. The federal government has the ability to terminate its support of these programs at any time and to request the University to return those contributions that it has made on a cumulative basis. Accordingly, 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 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.

(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

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

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, ARRA grants, net investment income, 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 2010, the State received federal education grants that were passed on to school districts and the state's universities to restore state appropriations. The Governor had filed an application with the federal government to receive California's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The federal education grants have been appropriated to the 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 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.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

(o) New Accounting Pronouncements

On July 1, 2009, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. To provide governments with better accounting guidance and consistency, GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. This statement also fosters greater comparability and results in a more faithful representation of the service capacity of intangible assets – and, therefore, the financial position of governments – and of the periodic cost associated with the usage of such service capacity in governmental financial statements. The provisions of this statement generally are required to be applied retroactively. The adoption of this statement did not have a material impact on the accompanying financial statements.

On July 1, 2009, the University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires governments to measure derivative instruments not specifically excluded by its scope provisions, at fair value in their economic resources measurement focus financial statements, and to provide disclosures of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The adoption of this Statement did not impact the accompanying financial statements.

(p) Eliminations

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

(q) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2010 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 968,880
Total cash and cash equivalents	<u>968,880</u>
Short-term investments	26,092,507
Other long-term investments	<u>872,056</u>
Total investments	<u>26,964,563</u>
Total cash and cash equivalents and investments	<u>\$ 27,933,443</u>

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2010

(a) ***Cash and Cash Equivalents***

At June 30, 2010, cash and cash equivalents consisted of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$968,880 had a corresponding carrying balance with the State Treasury and commercial banks of \$1,110,640 at June 30, 2010. The differences related primarily to 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 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, 2010, 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. 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 monitors 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

CALIFORNIA STATE UNIVERSITY, STANISLAUS

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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, 2010 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.

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 State of California Surplus Money Investment Fund as of June 30, 2010:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 57,073	—	57,073	—	—	—	—
Commercial paper	3,774,515	0.066	—	—	3,774,515	—	—
Certificates of deposit	2,074,142	0.052	—	—	2,074,142	—	—
Repurchase agreements	3,284,422	0.003	—	—	3,284,422	—	—
U.S. Treasury	3,998,580	0.126	3,035,771	485,517	337,798	105,425	34,069
U.S. agency securities	11,275,705	0.163	1,248,164	—	9,667,676	—	359,865
Mortgage-backed securities	297,572	8.740	267,652	29,920	—	—	—
State of California Surplus Money Investment Fund	<u>2,202,554</u>	0.560	—	—	—	—	<u>2,202,554</u>
Total investments	\$ <u>26,964,563</u>		\$ <u>4,608,660</u>	<u>515,437</u>	<u>19,138,553</u>	<u>105,425</u>	<u>2,596,488</u>

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, 2010, 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: Freddie Mac notes guaranteed by the federal government \$3,937,307, (15.9%), Federal Home Loan Bank bonds and notes \$3,680,274, (14.8%), and Fannie Mae notes guaranteed by the federal government \$3,397,307, (13.7%).

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,

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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.

(4) Accounts Receivable

Accounts receivable at June 30, 2010 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	283,293	283,293
Auxiliary organizations	405,815	—	405,815
Student accounts	885,543	—	885,543
Government grants and contracts	2,021,940	—	2,021,940
Other	1,924,302	—	1,924,302
	<u>5,237,600</u>	<u>283,293</u>	<u>5,520,893</u>
Less allowance for doubtful accounts	<u>(365,859)</u>	<u>—</u>	<u>(365,859)</u>
Total	<u>\$ 4,871,741</u>	<u>283,293</u>	<u>5,155,034</u>

(5) Lease Receivable

The University has entered into a capital lease agreement with California State University Stanislaus Auxiliary and Business Services to lease newly constructed facilities to the auxiliary organization effective September 2009. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series A was used to finance such facilities. Lease payments are due twice a year on May 1 and November 1.

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Lease payments are due to the University as follows:

Fiscal year ending:		
2011		\$ 317,950
2012		319,650
2013		321,150
2014		321,975
2015		317,700
2016 – 2020		1,595,225
2021 – 2025		1,600,500
2026 – 2030		1,602,625
2031 – 2035		1,600,750
2036 – 2040		<u>1,279,250</u>
Total minimum lease payments to be received		9,276,775
Less amounts representing interest		<u>(4,532,176)</u>
Present value of future minimum lease payments to be received		4,744,599
Less current portion		<u>(72,042)</u>
Long-term lease receivable, net of current portion		\$ <u><u>9,417,156</u></u>

(6) Student Loans Receivable

Student loans receivable, net at June 30, 2010 consisted of the following:

Perkins loans	\$ <u>1,287,604</u>
Total student loans receivable, gross	1,287,604
Less allowance for doubtful accounts	<u>(355,776)</u>
Total student loans receivable, net	\$ <u><u>931,828</u></u>

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(7) Capital Assets

Capital assets activity for the year ended June 30, 2010 consisted of the following:

	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2010</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements \$	714,150	—	—	—	714,150
Works of art and historical treasures	226,715	—	—	—	226,715
Construction work in progress	14,177,187	787,271	—	(13,335,585)	1,628,873
Intangible assets	—	15,605	—	—	15,605
Total nondepreciable/ amortizable capital assets	<u>15,118,052</u>	<u>802,876</u>	<u>—</u>	<u>(13,335,585)</u>	<u>2,585,343</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	158,834,953	2,196,769	—	6,285,225	167,316,947
Improvements, other than buildings	23,912,033	268,211	—	7,050,360	31,230,604
Infrastructure	23,049,178	692,647	—	—	23,741,825
Personal property:					
Equipment	13,890,034	562,793	(951,138)	—	13,501,689
Library books and materials	6,803,305	152,847	(125,319)	—	6,830,833
Intangible assets	2,797,621	284,156	(434,347)	—	2,647,430
Total depreciable/ amortizable capital assets	<u>229,287,124</u>	<u>4,157,423</u>	<u>(1,510,804)</u>	<u>13,335,585</u>	<u>245,269,328</u>
Total cost	<u>244,405,176</u>	<u>4,960,299</u>	<u>(1,510,804)</u>	<u>—</u>	<u>247,854,671</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(53,684,996)	(4,743,474)	—	—	(58,428,470)
Improvements, other than buildings	(21,970,224)	(580,440)	—	—	(22,550,664)
Infrastructure	(7,496,046)	(631,866)	—	—	(8,127,912)
Personal property:					
Equipment	(9,682,332)	(868,149)	257,840	—	(10,292,641)
Library books and materials	(5,899,152)	(173,099)	42,795	—	(6,029,456)
Intangible assets	(1,607,627)	(303,676)	434,347	—	(1,476,956)
Total accumulated depreciation/ amortization	<u>(100,340,377)</u>	<u>(7,300,704)</u>	<u>734,982</u>	<u>—</u>	<u>(106,906,099)</u>
Net capital assets \$	<u><u>144,064,799</u></u>	<u><u>(2,340,405)</u></u>	<u><u>(775,822)</u></u>	<u><u>—</u></u>	<u><u>140,948,572</u></u>

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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 \$892,441 at June 30, 2010. Substantially, all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.6% to 12.0% and have terms expiring in various years through 2016.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2026. The leases can be canceled if the State does not provide adequate funding.

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2011	\$ 872,129	521,346
2012	877,148	4,200
2013	872,643	4,284
2014	703,218	4,370
2015	451,118	4,458
2016 – 2020	134,068	23,755
2021 – 2025	—	26,114
2026 – 2030	—	10,975
Total minimum lease payments	<u>3,910,324</u>	\$ <u>599,502</u>
Less amount representing interest	<u>(380,536)</u>	
Present value of future minimum lease payments	3,529,788	
Less current portion	<u>(730,916)</u>	
Capital lease obligations, net of current portion	\$ <u><u>2,798,872</u></u>	

Rent expense under operating leases for the year ended June 30, 2010 totaled \$531,446.

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

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is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2010 totaled \$842,607,000.

(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 \$2,751,972,000 as of June 30, 2010.

(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.

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

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

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, 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, 2010 was \$37,617,529, which has been used to finance campus 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 \$3,621,493,000 in Systemwide Revenue Bonds issued through fiscal year 2010. 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 \$6,275,454,000. In fiscal year 2010, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$201,371,000 and \$249,822,000, respectively.

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Long-term debt obligations of the University as of June 30, 2010 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding at June 30</u>
Systemwide revenue bonds:				
SRB 2002A Union	4.10-5.50%	2020/21	780,000	\$ 545,000
SRB 2003A Housing	3.10-5.38%	2034/35	17,370,000	15,830,000
SRB 2008A Aux Org	3.50-5.00%	2038/39	5,005,000	4,925,000
SRB 2008A Other	3.50-5.00%	2038/39	16,615,000	16,355,000
Total				37,655,000
Unamortized bond discount				(37,471)
Total long-term debt				37,617,529
Less current portion				(725,000)
Long-term debt, net of current portion				<u>\$ 36,892,529</u>

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:			
2011	\$ 725,000	1,833,306	2,558,306
2012	750,000	1,806,326	2,556,326
2013	785,000	1,774,808	2,559,808
2014	830,000	1,736,508	2,566,508
2015	855,000	1,695,633	2,550,633
2016 – 2020	4,960,000	7,817,086	12,777,086
2021 – 2025	6,090,000	6,431,777	12,521,777
2026 – 2030	7,740,000	4,730,470	12,470,470
2031 – 2035	9,915,000	2,540,125	12,455,125
2036 – 2040	5,005,000	515,875	5,520,875
	<u>\$ 37,655,000</u>	<u>30,881,914</u>	<u>68,536,914</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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Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2010 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 3,864,420	2,073,102	(1,931,955)	4,005,567	1,931,955
Capitalized lease obligations (note 8)	4,233,882	8,469	(712,563)	3,529,788	730,916
Total capitalized lease obligations	4,233,882	8,469	(712,563)	3,529,788	730,916
Long-term debt obligations (note 9):					
Systemwide Revenue Bonds	38,355,000	—	(700,000)	37,655,000	725,000
Total	38,355,000	—	(700,000)	37,655,000	725,000
Unamortized bond premium (discount)	(38,793)	—	1,322	(37,471)	—
Total long-term debt obligations	38,316,207	—	(698,678)	37,617,529	725,000
Total long-term liabilities	\$ 46,414,509	2,081,571	(3,343,196)	45,152,884	3,387,871

(10) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

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

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

Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 19.9% 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.

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

2007	\$	8,632,981
2008		8,833,634
2009		7,940,192

(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.

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

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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 June 30, 2010:

Billable accounts only:		
Annual required contribution (ARC)	\$	368,337
Contributions during the year		<u>(134,284)</u>
Increase in net OPEB obligation (NOO)		234,053
NOO – beginning of year		<u>343,136</u>
NOO – end of year	\$	<u><u>577,189</u></u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2010		36%

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.

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, 2009 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 2010 and 9.00% in 2011, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%.

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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, 2010.

(11) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, 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 System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2010.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2009 and 2010 are as follows:

Liability at June 30, 2008	\$ 103,997,000
Incurred claims and changes in estimates	17,019,000
Claim payments	<u>(50,268,000)</u>
Liability at June 30, 2009	70,748,000
Incurred claims and changes in estimates	43,097,000
Claim payments	<u>(26,536,000)</u>
Liability at June 30, 2010	87,309,000
Less current portion	<u>(14,032,000)</u>
Long-term liability at June 30, 2010, net of current portion	<u>\$ 73,277,000</u>

For the year ended June 30, 2010, the CSURMA purchased excess insurance to protect the Members from catastrophic losses. The CSURMA previously maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a joint powers authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of the \$2,500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

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Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF. The CSURMA remains liable for assessments from SELF in settlement claims incurred prior to July 1, 2004.

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, 2010 was approximately 1%, or \$1,059,000. 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, 2010. 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, 2010.

(12) 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.

Authorized but unexpended expenditures for construction projects as of June 30, 2010 totaled \$262,037. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

As of June 30, 2010, in order to secure access to natural gas and (or) electricity used for normal operation, the University participates in forward purchase contracts (the Programs) of natural gas and electricity operated by the Department of and General Services (DGS) and (or) Shell Energy North America (Shell), respectively. As a participant in the Programs, the University is required to purchase natural gas and (or) electricity used in its operations from DGS and (or) Shell, respectively. The University's obligation to purchase its natural gas and (or) electricity is from July 2010 through June 2014 and (or) from July 2010 through March 2014, respectively. Under the term of the Programs, the University has an option to enter special purchase arrangements. Under this option, the University can elect to fix or structure prices for certain quantities of natural gas and (or) electricity to be purchased in the future. This option provides the University the ability to reduce the variability of their cash flows related to future purchases of natural gas and (or) electricity.

In September 2010, the University amended its special purchase arrangements with DGS that were in place as of June 30, 2010. The amendment extended the University's commitment to purchase natural gas from DGS through June 30, 2017 and changed the fixed prices of such purchases.

The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$1,106,030 for natural gas at fixed prices through June 2017 and (or) March 2014. The University estimates that the special purchase contracts in place represent approximately 100% of its total annual natural gas expenses. The University's total natural gas expenses were \$247,643 for the year ended June 30, 2010.

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(13) 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, 2010, 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	\$ 26,238,219	9,109,887	—	2,732,021	—	38,080,127
Research	814,777	362,950	—	821,355	—	1,999,082
Public service	449,383	172,506	—	437,222	—	1,059,111
Academic support	7,513,183	2,809,402	—	2,686,961	—	13,009,546
Student services	6,133,749	2,546,159	—	3,169,150	—	11,849,058
Institutional support	6,663,305	2,781,192	—	2,666,187	—	12,110,684
Operation and maintenance of plant	4,214,603	2,001,004	—	575,413	—	6,791,020
Student grants and scholarships	—	—	17,062,262	—	—	17,062,262
Auxiliary enterprise expenses	881,077	594,211	—	2,288,389	—	3,763,677
Depreciation and amortization	—	—	—	—	7,300,704	7,300,704
Total	\$ <u>52,908,296</u>	<u>20,377,311</u>	<u>17,062,262</u>	<u>15,376,698</u>	<u>7,300,704</u>	<u>113,025,271</u>

As discussed in note 2(m), the internal services activities between the University departments and the sales and service units have been eliminated in the accompanying financial statements. As a result, salaries and benefits of those internal services activities and sales and service units are reported as supplies and other services in the University departments, which received the services.

(14) Transactions with Related Entities

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$51,819,787 for the year ended June 30, 2010. The University also received lottery fund distributions from the State in the amount of \$777,000 for the year ended June 30, 2010, which is included in nonoperating revenue (expense) in the accompanying statement of revenues, expenses, and change in net assets.

Moreover, the State recovers statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from the System. Central service agencies (e.g., Department of Finance, Office of the State Controller, State Personnel Board, and Legislature) and provides budgeting, accounting, auditing, payroll, and other services to all state agencies. The State's pro rata process apportions the costs of providing central administrative services to all state departments that benefit from the services. This apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund. The amount allocated to each fund is classified as "billable" accounts or "nonbillable" accounts. Billable accounts (1) have special revenue sources such as fees, licenses, penalties, assessments, interest, etc. and (2) support a state department.

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The State's indirect costs associated with the billable funds are allocated to the individual universities through the Office of the Chancellor of the System. As headquarters for the System, the Office of the Chancellor administers not only the State pro rata charges, but also management of capital projects, and pooled investments centrally for the individual campuses and charges the campuses administrative or overhead fees. These fees are included in the various functional categories of operating expenses in the accompanying statement of revenues, expenses, and changes in net assets. Other activities such as debt administration and risk pool administration associated with the operations of the Office of the Chancellor are not allocated to the individual universities' financial statements.

As discussed in notes 8 and 9, the University has recorded capital assets that have been financed by System or State of California obligations. These obligations are not reflected in the accompanying financial statements.

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, 2010:

Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	222,327
Payments from recognized auxiliary organizations for other than salaries of University employees		3,185,306
Payments to recognized auxiliary organizations for services, office space rental, and programs		2,319,446
Gifts (cash or assets) to the University from recognized auxiliary organizations		198,383
Payments to the Office of the Chancellor for State pro rata charges		155,588
Amounts receivable from the Office of the Chancellor		2,459
Amounts receivable from recognized auxiliary organizations		405,815
State lottery appropriations received		777,000