



CALIFORNIA STATE UNIVERSITY, STANISLAUS

Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, STANISLAUS

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

Dr. Ham Shirvani
President
California State University, Stanislaus:

We have audited the accompanying financial statements of the business-type activities of the California State University, Stanislaus (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2005, which collectively comprise the University's basic 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 upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2, the financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and of its aggregate discretely presented component units as of June 30, 2005, 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 9 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

October 20, 2005

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2005

This section of California State University, Stanislaus' (the University) annual financial report presents our discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2005. 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) Statements No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 35, *Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities which best represents the activities of the University.

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 reported at their book value, on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net assets of the University.

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

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

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, 2005

The University's condensed summary of net assets as of June 30, 2005 and 2004 is as follows:

**Condensed Summary of Net Assets
June 30, 2005 and 2004**

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|--------------------|
| Assets: | | |
| Current assets | \$ 22,299,022 | 24,355,933 |
| Capital assets | 99,289,995 | 91,309,494 |
| Other noncurrent assets | 40,773,400 | 52,217,254 |
| Total assets | <u>162,362,417</u> | <u>167,882,681</u> |
| Liabilities: | | |
| Current liabilities | 19,288,996 | 22,191,260 |
| Long-term debt obligations, net of current portion | 17,760,000 | 19,697,577 |
| Other noncurrent liabilities | 2,535,413 | 1,009,226 |
| Total liabilities | <u>39,584,409</u> | <u>42,898,063</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 80,098,537 | 77,637,652 |
| Restricted, expendable | 35,626,127 | 40,268,350 |
| Unrestricted | 7,053,344 | 7,078,616 |
| Total net assets | <u>\$ 122,778,008</u> | <u>124,984,618</u> |

Assets

Total assets decreased \$5.5 million from the prior year and is primarily due to an \$8.6 million decrease in state appropriations receivable as a result of lower current year state appropriations due to state budget reductions, an \$11 million decrease in noncurrent accounts receivable due to decreased state capital appropriations received in the current year, and the completion of the Residence Life Village III construction project. These decreases were offset by a \$0.2 million increase in prepaid assets and an \$8.0 million increase in capital assets.

The \$8.0 million increase in capital assets is due to the beginning of construction of a new science building. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the state of California and the California State University System, which are not reflected in the accompanying financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2005

Liabilities

Total liabilities decreased \$3.3 million from the prior year and is primarily due to a \$4.4 million decrease in accounts payable as a result of fewer accruals due to the completion of the Residential Life Village, Phase III construction project. Additionally, there was a decrease in accrued salaries, benefits, and accrued compensated absences of \$0.8 million. Offsetting these decreases was an increase in other liabilities of \$2.2 million primarily as a result of the University receiving an advance of Fall State University Grant Funds.

Net Assets

The University's net assets totaled \$122.8 million at June 30, 2005. More than 65% of net assets as the end of the year are invested in capital assets.

Restricted Resources

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

**Restricted Net Assets
June 30, 2005 and 2004**

| | <u>2005</u> | <u>2004</u> |
|------------------------------|----------------------|-------------------|
| Expendable: | | |
| Scholarships and fellowships | \$ 21 | 52,555 |
| Capital projects | 35,614,888 | 39,806,973 |
| Debt service | 11,218 | 408,822 |
| Total expendable | <u>\$ 35,626,127</u> | <u>40,268,350</u> |

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2005

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2005 and 2004 is as follows:

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

Years ended June 30, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|--------------------|
| Operating revenues: | | |
| Student tuition and fees, net | \$ 13,303,349 | 11,598,138 |
| Grants, contracts, and gifts | 12,777,201 | 13,416,549 |
| Sales and services of auxiliary enterprises, net | 2,662,400 | 2,613,840 |
| | <u>28,742,950</u> | <u>27,628,527</u> |
| Operating expenses | <u>88,397,471</u> | <u>90,502,737</u> |
| Nonoperating revenues: | | |
| State appropriations | 52,304,289 | 53,540,259 |
| Investment income | 328,290 | 255,266 |
| Other nonoperating revenues | 3,844,385 | 3,149,981 |
| Total nonoperating revenues | <u>56,476,964</u> | <u>56,945,506</u> |
| Other capital-related revenues: | | |
| State appropriations, capital | 232,000 | 45,809,000 |
| Grants and gifts, capital | 738,947 | 191,906 |
| Increase (decrease) in net assets | <u>(2,206,610)</u> | <u>40,072,202</u> |
| Beginning net assets | <u>124,984,618</u> | <u>84,912,416</u> |
| Ending net assets | <u>\$ 122,778,008</u> | <u>124,984,618</u> |

Operating Revenues and Expenses

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

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2005

Operating Revenues

The University recognized \$28.7 million in operating revenues during this fiscal year, as compared to \$27.6 million in the prior year, representing 34% of total revenues for the year ended June 30, 2005, compared to 33% of total revenues for the year ended June 30, 2004. Federal and state grants and contracts revenue decreased \$0.6 million from \$13.4 million in fiscal 2004 to \$12.8 million for the fiscal year ended June 30, 2005. Student tuition and fees increased by \$1.7 million primarily due to an 8% increase for undergraduate students and 10% for graduate students. The fee increase combined with enrollment decreases resulted in an overall increase in student tuition and fees in the current fiscal year over the prior fiscal year.

Operating Expenses

The University's operating expenses consist of salaries and fringe benefits of \$58.8 million, supplies and services of \$16.1 million, scholarships and fellowships of \$8.3 million, and depreciation of \$5.3 million. Total operating expenses, excluding depreciation, decreased by \$2.0 million, or 2%; however, this does not reflect the true operational changes due to budget reductions. Salaries and benefit costs decreased by \$1.6 million. Salary costs decreased primarily due to the campus' response to budget cuts and normal attrition. Benefits costs increased largely due to an increased percentage contribution to the State retirement fund and the rise in health benefit costs. Additionally, student assistant hours were reduced and no salary increases were funded during 2005. Student grants and scholarships increased by \$1.4 million. While the percentage of students receiving aid remained fairly consistent at approximately 58%, enrollment decreased by 3.3%. In anticipation of budget cuts, expenses related to supplies and other services were reduced by \$1.7 million. The decrease in depreciation expense of \$155 thousand relates to current year capital asset deletions. The academic support function decreased \$3.8 million due to campuswide budget reductions, program code reclassifications from the academic function to instruction based on the new definitions by the National Association of Colleges and University Business Officers (NACUBO), and a PeopleSoft conversion issue. The instruction function decreased \$1.5 million due to campuswide budget reductions and a PeopleSoft conversion issue. The student services function increased by \$0.7 million as a result of a partial restoration of 2004 budget reductions, program code reclass, and PeopleSoft conversions changes.

Nonoperating and Other Revenues

Nonoperating and other revenues come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations, gifts and grants, investment income, and interest on capital-related debt.

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 \$232 thousand for the fiscal year ended June 30, 2005, down from \$45.8 million for the fiscal year ended June 30, 2004. General (noncapital) appropriation revenues totaled \$52.3 million, a decrease of \$1.2 million from the prior year.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2005

Capital Assets and Long-Term Debt Obligations

Capital Assets

Capital assets, net of accumulated depreciation are shown below:

| | June 30 | |
|---|----------------|-------------|
| | 2005 | 2004 |
| Land and land improvements | \$ 714,150 | 714,150 |
| Works of art and historical treasures | 226,715 | 212,318 |
| Buildings and building improvements | 67,094,174 | 53,949,445 |
| Improvements, other than buildings | 3,143,091 | 4,123,148 |
| Infrastructure | 15,226,910 | 14,537,300 |
| Intangible assets | 221,292 | 214,713 |
| Leasehold improvements | 265,124 | 132,803 |
| Personal property | 2,971,544 | 2,982,665 |
| Construction work in progress | 9,426,995 | 14,442,952 |
| | <hr/> | <hr/> |
| Total capital assets, net of accumulated depreciation | \$ 99,289,995 | 91,309,494 |
| | <hr/> <hr/> | <hr/> <hr/> |

At June 30, 2005 and 2004, the University had \$99.3 million and \$91.3 million, respectively, in capital assets, net of accumulated depreciation of \$79.2 million and \$74.3 million, respectively. Depreciation expense totaled \$5.3 million and \$5.4 million for the years ended June 30, 2005 and 2004, respectively.

The University had one major capital project in process during the year. This project is the construction of a new science building, funded through general obligation debt and scheduled for completion and occupancy in 2007.

The major capital project completed during fiscal year 2005 was the Residential Life Village, Phase III, which was funded by Systemwide Revenue Bonds, and totaled \$15.4 million.

See note 5 of the notes to financial statements for further information on capital assets.

Long-Term Debt Obligations

Debt outstanding at June 30, 2005 and 2004 is summarized below by type of debt instrument:

| | June 30 | |
|--|----------------|-------------|
| | 2005 | 2004 |
| Systemwide Revenue Bonds | \$ 18,080,000 | 18,110,000 |
| Capital leases | 1,111,458 | 1,444,806 |
| | <hr/> | <hr/> |
| Total long-term debt | 19,191,458 | 19,554,806 |
| Less current portion | (671,407) | (363,349) |
| | <hr/> | <hr/> |
| Long-term debt, net of current portion | \$ 18,520,051 | 19,191,457 |
| | <hr/> <hr/> | <hr/> <hr/> |

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Management's Discussion and Analysis

June 30, 2005

The interest rates on outstanding debt range from 2.5% to 7.5%.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds and the Housing System Revenue Bonds at A1 and the Student Union Revenue Bonds at A2 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds and the Housing System Revenue Bonds at A and the Student Union Revenue Bonds at BBB+ (however, these bonds are insured to AAA).

See notes 5 through 8 of the notes to financial statements for further information on long-term debt obligations.

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for the fiscal year 2006. The University received \$1.3 million for enrollment growth and fees were increased 8% for undergraduate and credential students and 10% for graduate students. Mandatory cost increases for retirement, health, and dental benefits were funded, as well as a general salary increase of approximately 3.5%. State budget increases are expected to result in an overall general fund budget augmentation of about \$2.8 million.

The planned full-time equivalents enrollment target for 2005/2006 is 6,624, an increase from the previous year of 4.0%. The campus expects to exceed this target for the current and future years. The increase in student fees and additional enrollment will generate over \$3.0 million in additional student fee revenue in 2005/2006.

Construction began in Winter 2005 on a new science building and is projected to be completed in 2007. This project will replace an existing building that was built in 1972 and is in need of major seismic and programmatic renovations involving extensive destructive and reconstructive work.

The campus is continuing its implementation of CMS/PeopleSoft applications. The Finance module came live on January 1, 2005 and the Labor Cost Distribution module went live on July 1, 2005. Enrollment Services has begun working with a five-campus consortium charged with implementing the CMS/PeopleSoft Student module. This project is scheduled for Fall 2008 implementation. Estimated expenditures for the 2005/2006 through 2008/2009 fiscal years range from \$1.0 million to \$2.7 million per year. The campus will be implementing the baseline product with no campus specific modifications.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Statement of Net Assets

June 30, 2005

| Assets | University | Discretely presented component units Auxiliary organizations | Total |
|---|-----------------------|---|--------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 6,460,446 | 531,961 | 6,992,407 |
| Short-term investments | 11,196,940 | 5,414,058 | 16,610,998 |
| Accounts receivable, net | 3,695,868 | 2,253,900 | 5,949,768 |
| Pledges receivable, net | — | 1,013,412 | 1,013,412 |
| Prepaid expenses and other assets | 945,768 | 817,248 | 1,763,016 |
| Total current assets | <u>22,299,022</u> | <u>10,030,579</u> | <u>32,329,601</u> |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | — | 59,629 | 59,629 |
| Accounts receivable, net | 38,561,101 | — | 38,561,101 |
| Student loans receivable, net | 906,759 | — | 906,759 |
| Pledges receivable, net | — | 4,079,621 | 4,079,621 |
| Endowment investments | — | 7,620,655 | 7,620,655 |
| Other long-term investments | 1,305,540 | 818,021 | 2,123,561 |
| Capital assets, net | 99,289,995 | 5,389,696 | 104,679,691 |
| Other assets | — | 282,450 | 282,450 |
| Total noncurrent assets | <u>140,063,395</u> | <u>18,250,072</u> | <u>158,313,467</u> |
| Total assets | <u>162,362,417</u> | <u>28,280,651</u> | <u>190,643,068</u> |
| Liabilities and Net Assets | | | |
| Current liabilities: | | | |
| Accounts payable | 7,373,835 | 307,386 | 7,681,221 |
| Accrued salaries and benefits payable | 5,075,575 | 522,199 | 5,597,774 |
| Accrued compensated absences – current portion | 1,952,060 | 24,861 | 1,976,921 |
| Deferred revenue | 1,600,712 | 30,345 | 1,631,057 |
| Capitalized lease obligations – current portion | 351,407 | — | 351,407 |
| Long-term debt obligations – current portion | 320,000 | 200,000 | 520,000 |
| Other liabilities | 2,615,407 | 3,362,330 | 5,977,737 |
| Total current liabilities | <u>19,288,996</u> | <u>4,447,121</u> | <u>23,736,117</u> |
| Noncurrent liabilities: | | | |
| Accrued compensated absences, net of current portion | 796,746 | — | 796,746 |
| Deferred revenue | — | 55,630 | 55,630 |
| Grants refundable | 933,377 | — | 933,377 |
| Capitalized lease obligations, net of current portion | 760,051 | — | 760,051 |
| Long-term debt obligations, net of current portion | 17,760,000 | 4,470,227 | 22,230,227 |
| Depository accounts | 45,239 | — | 45,239 |
| Other liabilities | — | 1,004,305 | 1,004,305 |
| Total noncurrent liabilities | <u>20,295,413</u> | <u>5,530,162</u> | <u>25,825,575</u> |
| Total liabilities | <u>39,584,409</u> | <u>9,977,283</u> | <u>49,561,692</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 80,098,537 | 749,469 | 80,848,006 |
| Restricted for: | | | |
| Nonexpendable – endowments | — | 7,012,156 | 7,012,156 |
| Expendable: | | | |
| Scholarships and fellowships | 21 | 717,292 | 717,313 |
| Capital projects | 35,614,888 | — | 35,614,888 |
| Debt service | 11,218 | — | 11,218 |
| Other | — | 3,125,210 | 3,125,210 |
| Unrestricted | 7,053,344 | 6,699,241 | 13,752,585 |
| Total net assets | <u>\$ 122,778,008</u> | <u>18,303,368</u> | <u>141,081,376</u> |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2005

| | <u>University</u> | <u>Discretely presented component units Auxiliary organizations</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-----------------------|---|---------------------|---------------------|
| Revenues: | | | | |
| Operating revenues: | | | | |
| Student tuition and fees (net of scholarship allowances of \$11,021,219) | \$ 13,303,349 | 1,254,286 | — | 14,557,635 |
| Grants and contracts, noncapital: | | | | |
| Federal | 8,571,093 | 3,804,713 | — | 12,375,806 |
| State and local | 4,151,794 | 618,263 | — | 4,770,057 |
| Nongovernmental | 54,314 | 160,276 | — | 214,590 |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$1,042,082) | 2,661,770 | 2,071,237 | — | 4,733,007 |
| Other operating revenues | 630 | 1,491,872 | — | 1,492,502 |
| Total operating revenues | <u>28,742,950</u> | <u>9,400,647</u> | <u>—</u> | <u>38,143,597</u> |
| Expenses: | | | | |
| Operating expenses: | | | | |
| Instruction | 32,559,736 | 1,524,642 | — | 34,084,378 |
| Research | 20,610 | 2,629,392 | — | 2,650,002 |
| Public service | 105,423 | 132,384 | — | 237,807 |
| Academic support | 9,670,523 | — | — | 9,670,523 |
| Student services | 8,401,237 | 1,120,823 | — | 9,522,060 |
| Institutional support | 13,452,647 | 2,606,406 | (93,057) | 15,965,996 |
| Operation and maintenance of plant | 6,148,777 | 697,822 | — | 6,846,599 |
| Student grants and scholarships | 8,280,230 | 1,048,635 | — | 9,328,865 |
| Auxiliary enterprise expenses | 4,490,107 | 2,704,852 | — | 7,194,959 |
| Depreciation | 5,268,181 | 286,973 | — | 5,555,154 |
| Total operating expenses | <u>88,397,471</u> | <u>12,751,929</u> | <u>(93,057)</u> | <u>101,056,343</u> |
| Operating loss | <u>(59,654,521)</u> | <u>(3,351,282)</u> | <u>93,057</u> | <u>(62,912,746)</u> |
| Nonoperating revenues (expenses): | | | | |
| State appropriations, noncapital | 52,304,289 | — | — | 52,304,289 |
| Gifts, noncapital | 93,047 | 3,883,072 | 1,048,635 | 5,024,754 |
| Investment income, net | 328,290 | 163,939 | — | 492,229 |
| Endowment income | — | 789,751 | — | 789,751 |
| Interest on capital-related debt | (929,207) | — | — | (929,207) |
| Other nonoperating revenues (expenses), net | 4,680,545 | (282,400) | (1,141,692) | 3,256,453 |
| Net nonoperating revenues (expenses) | <u>56,476,964</u> | <u>4,554,362</u> | <u>(93,057)</u> | <u>60,938,269</u> |
| Income (loss) before other additions | <u>(3,177,557)</u> | <u>1,203,080</u> | <u>—</u> | <u>(1,974,477)</u> |
| State appropriations, capital | 232,000 | — | — | 232,000 |
| Grants and gifts, capital | 738,947 | — | — | 738,947 |
| Additions to permanent endowments | — | 208,817 | — | 208,817 |
| Increase (decrease) in net assets | <u>(2,206,610)</u> | <u>1,411,897</u> | <u>—</u> | <u>(794,713)</u> |
| Net assets: | | | | |
| Net assets at beginning of year | <u>124,984,618</u> | <u>16,891,471</u> | <u>—</u> | <u>141,876,089</u> |
| Net assets at end of year | <u>\$ 122,778,008</u> | <u>18,303,368</u> | <u>—</u> | <u>141,081,376</u> |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Statement of Cash Flows

Year ended June 30, 2005

| | <u>University</u> |
|---|-------------------|
| Cash flows from operating activities: | |
| Student tuition and fees | \$ 13,485,719 |
| Federal grants and contracts | 8,650,451 |
| State and local grants and contracts | 4,115,530 |
| Nongovernmental grants and contracts | 54,314 |
| Payments to suppliers | (18,886,743) |
| Payments to employees | (59,574,032) |
| Payments to students | (8,097,541) |
| Collections of student loans | 164,573 |
| Sales and services of auxiliary enterprises | 3,012,660 |
| Other receipts | 14,356,928 |
| | <hr/> |
| Net cash used in operating activities | (42,718,141) |
| | <hr/> |
| Cash flows from noncapital financing activities: | |
| State appropriations | 54,035,578 |
| Federal loan program receipts | 141,086 |
| Federal loan program disbursements | (129,568) |
| Monies received on behalf of others | 14,409,821 |
| Monies disbursed on behalf of others | (14,484,968) |
| Other | 4,759,418 |
| | <hr/> |
| Net cash provided by noncapital financing activities | 58,731,367 |
| | <hr/> |
| Cash flows from capital and related financing activities: | |
| State appropriations | 5,714,133 |
| Capital grants and gifts | 41,771 |
| Proceeds from sale of capital assets | 6,394 |
| Acquisition of capital assets | (14,400,914) |
| Principal paid on capital debt and leases | (363,348) |
| Interest paid on capital debt and leases | (785,633) |
| | <hr/> |
| Net cash used in capital and related financing activities | (9,787,597) |
| | <hr/> |
| Cash flows from investing activities: | |
| Proceeds from sales and maturities of investments | 800,000 |
| Purchases of investments | (1,910,332) |
| Investment income received | (21,710) |
| | <hr/> |
| Net cash used in investing activities | (1,132,042) |
| | <hr/> |
| Net increase in cash and cash equivalents | 5,093,587 |
| Cash and cash equivalents at beginning of year | <hr/> |
| | 1,366,859 |
| Cash and cash equivalents at end of year | <hr/> |
| | \$ 6,460,446 |
| | <hr/> <hr/> |

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Statement of Cash Flows

Year ended June 30, 2005

| | <u>University</u> |
|---|------------------------|
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (59,654,521) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | 5,268,181 |
| Change in assets and liabilities: | |
| Accounts receivable, net | 12,706,896 |
| Student loans receivable, net | 164,573 |
| Prepaid expenses and other assets | (203,595) |
| Accounts payable | (2,392,544) |
| Accrued salaries and benefits | (841,752) |
| Accrued compensated absences | 52,993 |
| Deferred revenue | 118,534 |
| Other liabilities | 2,063,094 |
| Net cash used in operating activities | \$ <u>(42,718,141)</u> |
| Supplemental schedule of noncash transactions: | |
| Contributed capital assets | \$ 758,977 |
| Accrued capital asset costs (purchased but unpaid at year end) | (1,906,714) |
| Gifts in-kind | 93,047 |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *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 discretely presented auxiliary organizations are as follows:

- California State University, Stanislaus Foundation
- Associated Students Incorporated of California State University, Stanislaus
- University Student Union of California State University, Stanislaus
- California State University, Stanislaus Auxiliary and Business Services.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

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

| June 30, 2005 | California State University, Stanislaus Foundation | Other auxiliary organizations | Total |
|---|---|--|--------------------|
| Current assets | \$ 6,073,874 | 3,956,705 | 10,030,579 |
| Capital assets, net | — | 5,389,696 | 5,389,696 |
| Other noncurrent assets | 11,869,921 | 990,455 | 12,860,376 |
| Total assets | 17,943,795 | 10,336,856 | 28,280,651 |
| Current liabilities | 3,766,406 | 680,715 | 4,447,121 |
| Noncurrent liabilities | — | 5,530,162 | 5,530,162 |
| Total liabilities | 3,766,406 | 6,210,877 | 9,977,283 |
| Invested in capital assets, net of related debt | — | 749,469 | 749,469 |
| Restricted | 10,854,658 | — | 10,854,658 |
| Unrestricted | 3,322,731 | 3,376,510 | 6,699,241 |
| Total net assets | \$ 14,177,389 | 4,125,979 | 18,303,368 |
| Revenues: | | | |
| Student tuition and fees | \$ — | 1,254,286 | 1,254,286 |
| Grants and contracts, noncapital | 4,583,194 | 58 | 4,583,252 |
| Sales and services of auxiliary enterprises, net | — | 2,071,237 | 2,071,237 |
| Other | 1,414,245 | 77,627 | 1,491,872 |
| Total operating revenues | 5,997,439 | 3,403,208 | 9,400,647 |
| Expenses: | | | |
| Instruction | 1,236,671 | 287,971 | 1,524,642 |
| Research | 2,629,392 | — | 2,629,392 |
| Public service | 132,384 | — | 132,384 |
| Student services | 329,824 | 790,999 | 1,120,823 |
| Institutional support | 2,606,406 | — | 2,606,406 |
| Operation and maintenance of plant | 130,618 | 567,204 | 697,822 |
| Student grants and scholarships | 1,048,635 | — | 1,048,635 |
| Auxiliary enterprise expenses | 1,478,230 | 1,226,622 | 2,704,852 |
| Depreciation | — | 286,973 | 286,973 |
| Total operating expenses | 9,592,160 | 3,159,769 | 12,751,929 |
| Operating income (loss) | (3,594,721) | 243,439 | (3,351,282) |
| Net nonoperating revenues (expenses) | 4,747,501 | (193,139) | 4,554,362 |
| Income before other additions | 1,152,780 | 50,300 | 1,203,080 |
| Additions to permanent endowments | 208,817 | — | 208,817 |
| Increase in net assets | 1,361,597 | 50,300 | 1,411,897 |
| Beginning net assets, July 1, 2004 | 12,815,792 | 4,075,679 | 16,891,471 |
| Ending net assets, June 30, 2005 | \$ 14,177,389 | 4,125,979 | 18,303,368 |

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

The auxiliary organizations are presented in the accompanying financial statements as 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.

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 the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2005 and the changes in its financial position and its 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 Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

(c) *New Accounting Pronouncement*

For the fiscal year ended June 30, 2005, the University implemented GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*. This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

required to be disclosed. Implementation of GASB Statement No. 40 did not have an impact on the University's financial statements as of and for the year ended June 30, 2005 but required additional disclosures related to deposits and investment risks (see note 3).

(d) Election of Applicable FASB Statements

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

(e) Classification of Current and Noncurrent Assets and Liabilities

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

(f) Cash Equivalents

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

(g) Investments

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.

(h) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or if donated at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Title to all assets, whether purchased, constructed, or donated, is held by the state of California. Although title is not with the University for land and buildings, the 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, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 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 expense is shown separately in the statement of revenues, expenses, and changes in net assets rather than being allocated among other categories of operating expenses.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(i) ***Deferred Revenue***

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

(j) ***Compensated Absences***

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

(k) ***Grants Refundable***

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

(l) ***Net Assets***

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

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

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

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

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

The University has adopted a policy of generally utilizing restricted – expendable funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(m) *Classification of Revenues and Expenses*

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses or capital contributions in accordance with GASB Statement No. 35. These nonoperating activities include the University's operating and capital appropriations from the state of California, net investment income, gifts, and interest expense.

The state of California 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.

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

(n) *Income Taxes*

The System was established under the State of California Education Code as an agency of the state of California. 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.

(o) *Eliminations*

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

(p) *Use of Estimates*

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

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

| | |
|---|---------------|
| Cash and cash equivalents | \$ 6,460,446 |
| Short-term investments | 11,196,940 |
| Other long-term investments | 1,305,540 |
| Total investments | 12,502,480 |
| Total cash and cash equivalents and investments | \$ 18,962,926 |

(a) Cash and Cash Equivalents

At June 30, 2005 and 2004, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$6,460,446 had a corresponding carrying value balance with the State Treasury of \$(1,774,029) at June 30, 2005. The difference related primarily to deposits in transit and outstanding checks.

(b) Investments

At June 30, 2005, the University's investment portfolio consists primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. 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, 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 mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

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. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2005 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 investment portfolio as of June 30, 2005:

| Investment type | Fair value | Weighted average maturity (in years) | Rating as of year end | | | |
|---|---------------|--------------------------------------|-----------------------|---------|---------|-----------|
| | | | AAA | Aa | A | Not rated |
| Money market mutual funds | \$ 460,038 | 0.00 | \$ 136,368 | — | — | 323,670 |
| Certificates of deposit | 241,006 | 0.80 | — | 64,246 | 176,760 | — |
| U.S. agency securities | 3,632,057 | 1.66 | 3,632,057 | — | — | — |
| Mortgage-backed securities | 478,457 | 12.13 | 478,457 | — | — | — |
| Corporate and fixed-income securities | 2,589,962 | 2.09 | 2,240,164 | 322,585 | 27,213 | — |
| Total | 7,401,520 | | \$ 6,487,046 | 386,831 | 203,973 | 323,670 |
| Not subject to ratings: | | | | | | |
| U.S. Treasury Securities | 548,477 | | | | | |
| State of California Surplus Money Investment Fund | 4,552,483 | | | | | |
| Total investments | \$ 12,502,480 | | | | | |

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, 2005, the following investments (other than U.S. Treasury Securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolios: Federal Home Loan Bank \$1,529,096 (12.2%).

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

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(4) Accounts Receivable

Accounts receivable at June 30, 2005 consisted of the following:

| | <u>Current</u> | <u>Noncurrent</u> | <u>Total</u> |
|--------------------------------------|---------------------|-------------------|-------------------|
| State appropriations | \$ 1,369,863 | 38,513,018 | 39,882,881 |
| Auxiliary organizations | 203,981 | — | 203,981 |
| Student accounts | 659,066 | 1,464 | 660,530 |
| Government grants and contracts | 99,727 | — | 99,727 |
| Other | 1,604,797 | 48,083 | 1,652,880 |
| | <u>3,937,434</u> | <u>38,562,565</u> | <u>42,499,999</u> |
| Less allowance for doubtful accounts | <u>(241,566)</u> | <u>(1,464)</u> | <u>(243,030)</u> |
| Total | <u>\$ 3,695,868</u> | <u>38,561,101</u> | <u>42,256,969</u> |

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(5) Capital Assets

Capital asset activity for the year ended June 30, 2005 consisted of the following:

| | <u>Balance, June 30, 2004</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance, June 30, 2005</u> |
|---------------------------------------|-----------------------------------|--------------------|--------------------|---------------------|-----------------------------------|
| Nondepreciable capital assets: | | | | | |
| Land and land improvements | \$ 714,150 | — | — | — | 714,150 |
| Works of art and historical treasures | 212,318 | 14,397 | — | — | 226,715 |
| Construction work in progress | 14,442,952 | 10,355,186 | — | (15,371,143) | 9,426,995 |
| Total nondepreciable capital assets | <u>15,369,420</u> | <u>10,369,583</u> | <u>—</u> | <u>(15,371,143)</u> | <u>10,367,860</u> |
| Depreciable capital assets: | | | | | |
| Buildings and building improvements | 90,986,558 | 1,304,682 | — | 14,303,579 | 106,594,819 |
| Improvements, other than buildings | 22,564,825 | 36,306 | — | — | 22,601,131 |
| Infrastructure | 19,338,808 | 105,516 | — | 1,067,564 | 20,511,888 |
| Leasehold improvements | 145,457 | 155,671 | — | — | 301,128 |
| Personal property: | | | | | |
| Equipment | 9,860,350 | 1,020,447 | (422,319) | — | 10,458,478 |
| Library books and materials | 6,150,879 | 234,807 | — | — | 6,385,686 |
| Intangible assets | 1,215,978 | 26,165 | — | — | 1,242,143 |
| Total depreciable capital assets | <u>150,262,855</u> | <u>2,883,594</u> | <u>(422,319)</u> | <u>15,371,143</u> | <u>168,095,273</u> |
| Total cost | <u>165,632,275</u> | <u>13,253,177</u> | <u>(422,319)</u> | <u>—</u> | <u>178,463,133</u> |
| Less accumulated depreciation: | | | | | |
| Buildings and building improvements | (37,037,113) | (2,463,532) | — | — | (39,500,645) |
| Improvements, other than buildings | (18,441,677) | (1,016,363) | — | — | (19,458,040) |
| Infrastructure | (4,801,508) | (483,470) | — | — | (5,284,978) |
| Leasehold improvements | (12,654) | (23,350) | — | — | (36,004) |
| Personal property: | | | | | |
| Equipment | (7,530,647) | (1,099,607) | 417,824 | — | (8,212,430) |
| Library books and materials | (5,497,917) | (162,273) | — | — | (5,660,190) |
| Intangible assets | (1,001,265) | (19,586) | — | — | (1,020,851) |
| Total accumulated depreciation | <u>(74,322,781)</u> | <u>(5,268,181)</u> | <u>417,824</u> | <u>—</u> | <u>(79,173,138)</u> |
| Net capital assets | \$ <u>91,309,494</u> | <u>7,984,996</u> | <u>(4,495)</u> | <u>—</u> | <u>99,289,995</u> |

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

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

(6) 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 \$3,220,495 at June 30, 2005. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 4.95% to 7.48% and have terms expiring in various years through January 1, 2008.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2009. 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: | | |
| 2006 | \$ 407,876 | 674,516 |
| 2007 | 407,876 | 645,000 |
| 2008 | 407,876 | 622,000 |
| 2009 | — | 40,000 |
| | <u>1,223,628</u> | <u>\$ 1,981,516</u> |
| Total minimum lease payments | 1,223,628 | \$ 1,981,516 |
| Less amount representing interest | <u>(112,170)</u> | |
| Present value of future minimum lease payments | \$ <u>1,111,458</u> | |

Rent expense under operating leases for the year ended June 30, 2005 totaled \$681,191.

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the state of California in the state Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2005 totaled \$546,127,000.

(7) Long-term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the state of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University System,

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the state of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$534,097,000 as of June 30, 2005.

(b) Revenue Bond Programs

The Revenue Bond Act of 1947 provides the Trustees with the ability to issue revenue bonds to fund five specific self-supporting programs and the health facilities program. 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. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

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

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

The 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 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 tuition and interest income. Funds are used for current operating expenses, maintenance and repair,

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Notes to Financial Statements

June 30, 2005

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

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

The 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 System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond Program was \$1,510,223,000 at June 30, 2005. The University's portion of the total outstanding balance under this program was \$18,080,000 at June 30, 2005.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, C, and D and Parking Revenue Bonds Series A and B, and Headquarters Building Authority Lease Revenue Bond Series B. At June 30, 2005, the System's outstanding balance for these senior bonds totaled \$145,545,000.

Long-term debt obligations of the University as of June 30, 2005 consist of the following:

| <u>Description</u> | <u>Interest rate</u> | <u>Fiscal year maturity date</u> | <u>Original issue amount</u> | <u>Amount outstanding</u> |
|--|----------------------|----------------------------------|------------------------------|---------------------------|
| Systemwide Revenue Bonds: | | | | |
| Series 2002A | 3.0% – 5.5% | 2021 | \$ 780,000 | 710,000 |
| Series 2003A | 2.5% – 5.375% | 2035 | 17,370,000 | <u>17,370,000</u> |
| Total long-term debt | | | | 18,080,000 |
| Less current portion | | | | <u>(320,000)</u> |
| Long-term debt, net of current portion | | | | <u>\$ 17,760,000</u> |

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

| | <u>Principal</u> | <u>Interest</u> |
|----------------------|----------------------|-------------------|
| Year ending June 30: | | |
| 2006 | \$ 320,000 | 857,219 |
| 2007 | 330,000 | 847,894 |
| 2008 | 345,000 | 837,444 |
| 2009 | 350,000 | 827,456 |
| 2010 | 1,940,000 | 3,947,241 |
| 2011 – 2015 | 2,445,000 | 3,431,019 |
| 2016 – 2020 | 2,955,000 | 2,719,988 |
| 2021 – 2025 | 3,650,000 | 1,904,307 |
| 2026 – 2030 | 4,665,000 | 876,874 |
| 2031 – 2035 | 1,080,000 | 27,000 |
| | <u>\$ 18,080,000</u> | <u>16,276,442</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, please refer to the separately issued auxiliary organizations' reports.

(8) Long-term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2005 was as follows:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Current portion</u> |
|---|------------------------------|------------------|--------------------|---------------------------|----------------------------|
| Accrued compensated absences | \$ 2,695,813 | 2,242,686 | (2,189,693) | 2,748,806 | 1,952,060 |
| Capitalized lease obligations (note 6) | 1,444,806 | — | (333,348) | 1,111,458 | 351,407 |
| Long-term debt obligations (note 7): | | | | | |
| Systemwide Revenue Bonds | 18,110,000 | — | (30,000) | 18,080,000 | 320,000 |
| Total long-term liabilities | \$ <u>22,250,619</u> | <u>2,242,686</u> | <u>(2,553,041)</u> | <u>21,940,264</u> | <u>2,623,467</u> |

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(9) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

(b) Funding Policy

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 17.02% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

| | | |
|------|----|-----------|
| 2003 | \$ | 3,170,274 |
| 2004 | | 6,547,337 |
| 2005 | | 6,661,362 |

(c) Faculty Early Retirement Program

During fiscal year 2004, the System implemented the Faculty Early Retirement Program, which was authorized by Executive Order S-8-04 issued by the Governor on May 6, 2004. In order to enroll in the program, participants must meet the CalPERS retirement eligibility requirements of age 50 or more on the date of retirement and have five years or more of service credit. Eligible employees who elect to participate in this program will receive two additional years of service credit in their retirement income calculation if their (1) separation date is no earlier than May 5, 2004, and no later than July 27, 2004, and (2) CalPERS retirement date is no earlier than May 6, 2004, and no later than July 28, 2004. In return, the System must contribute to CalPERS an amount representing the actuarial equivalent of the value of this benefit. The early retirement benefit is not dependent upon future services and, therefore, is already earned as of June 30, 2004 by those who have elected to participate in the program. The University's total estimated liability under the program was

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\$890,106, of which \$222,527 was paid during fiscal year 2005. The University's remaining liability of \$667,579 has been recorded as a component of accrued salaries and benefits payable as of June 30, 2005.

(10) 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, industrial and nonindustrial disability, and general organizational risks. 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 not been reported. The estimated liability is actuarially determined using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2005.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2005 are as follows:

| | |
|--|-----------------------------|
| Liability at June 30, 2003 | \$ 104,371,000 |
| Incurred claims and changes in estimates | 49,591,000 |
| Claim payments | <u>(35,251,000)</u> |
| Liability at June 30, 2004 | 118,711,000 |
| Incurred claims and changes in estimates | 33,419,000 |
| Claim payments | <u>(34,491,000)</u> |
| Liability at June 30, 2005 | 117,639,000 |
| Less current portion | <u>(39,633,000)</u> |
| Long-term liability at June 30, 2005, net of current portion | <u><u>\$ 78,006,000</u></u> |

The University maintains excess general liability insurance coverage provided by Schools Excess Liability Program (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$49,000,000 per occurrence. The University purchases excess workers' compensation insurance provided by the Insurance Corporation of Hanover (ICH) to limits of \$50,000,000 in excess of \$2,500,000 self-insured retention and coverage from American Home Assurance Company (AIG) for limits of \$50,000,000 in excess of \$50,000,000. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the University maintains excess policies with SELF, ICH, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the University.

The University's allocation of the System's total self-insurance claims liability as of June 30, 2005 was approximately 2%, or \$2,752,000. 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, 2005.

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The University's receivable due from CSURMA totaled \$172,305 at June 30, 2005, which is recorded as a component of prepaid expenses and other assets in the accompanying financial statements. The receivable balance is a result of amounts paid by the University to CSURMA prior to year end related to the University's share of the estimated future funding liability.

(11) 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.

Contractual commitments for construction projects unexpended as of June 30, 2005 totaled \$36,940,268. These expenditures will be funded primarily from state capital outlay appropriations.

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, changes in net assets, or liquidity.

(12) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2005, operating expenses by natural classification consisted of the following:

| <u>2005</u> | <u>Salaries</u> | <u>Benefits</u> | <u>Scholarships and fellowships</u> | <u>Supplies and other services</u> | <u>Depreciation</u> | <u>Total</u> |
|---------------------------------------|----------------------|-------------------|---|--|---------------------|-------------------|
| Functional classification: | | | | | | |
| Instruction | \$ 22,718,693 | 6,401,626 | — | 3,439,417 | — | 32,559,736 |
| Research | 59,257 | 5,509 | — | (44,156) | — | 20,610 |
| Public service | 50,485 | 6,068 | — | 48,870 | — | 105,423 |
| Academic support | 5,357,051 | 1,755,360 | — | 2,558,112 | — | 9,670,523 |
| Student services | 5,076,099 | 1,817,995 | — | 1,507,143 | — | 8,401,237 |
| Institutional support | 5,628,124 | 2,518,710 | — | 5,305,813 | — | 13,452,647 |
| Operation and maintenance of plant | 4,008,262 | 1,763,895 | — | 376,620 | — | 6,148,777 |
| Student grants and scholarships | — | — | 8,280,230 | — | — | 8,280,230 |
| Auxiliary enterprise expenses | 1,153,147 | 464,992 | — | 2,871,968 | — | 4,490,107 |
| Depreciation | — | — | — | — | 5,268,181 | 5,268,181 |
| Total | \$ <u>44,051,118</u> | <u>14,734,155</u> | <u>8,280,230</u> | <u>16,063,787</u> | <u>5,268,181</u> | <u>88,397,471</u> |

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(13) Transactions with Related Entities

The System is an agency of the state of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$52,536,289 for the year ended June 30, 2005. State appropriations receivable aggregated \$39,882,881 at June 30, 2005. The University also received lottery appropriations from the state of California in the amount of \$681,000 for the year ended June 30, 2005, which is included in other nonoperating revenues and expenses.

As headquarters for the System, the Office of the Chancellor administers certain activities centrally for the individual campuses. Primary among these activities are management of capital projects, debt administration, and risk pool administration. The costs associated with the operations of the Office of the Chancellor are not allocated to the individual universities' financial statements.

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2005, no such additions of capital assets are included in the accompanying financial statements.

The accompanying financial statements also include amounts receivable from recognized auxiliary organizations as of June 30, 2005 totaling \$203,981.