



**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Notes to Financial Statements	18



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

## **Independent Auditors' Report**

Dr. Karen Haynes  
President  
California State University, San Marcos:

We have audited the accompanying financial statements of California State University, San Marcos (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, 2009, 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 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 to the financial statements, the financial statements of the University, an agency of the State of California, 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 are attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2009, the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State University, San Marcos and of its aggregate discretely presented component units as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.



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

KPMG LLP

January 25, 2010

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Management's Discussion and Analysis

June 30, 2009

This section of California State University, San Marcos (the University) annual financial report presents the management's discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes to the financial statements.

### **Introduction to the Financial Statements**

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

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

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

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

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

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

### **Analytical Overview**

#### ***Summary***

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

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis

June 30, 2009

The University's condensed summary of net assets as of June 30, 2009 and 2008 is as follows:

**Condensed Summary of Net Assets**

	<b>June 30</b>	
	<u><b>2009</b></u>	<u><b>2008</b></u>
<b>Assets:</b>		
Current assets	\$ 35,304,820	29,801,581
Capital assets	196,892,040	171,710,197
Other noncurrent assets	79,846,362	91,430,166
Total assets	<u>312,043,222</u>	<u>292,941,944</u>
<b>Liabilities:</b>		
Current liabilities	39,245,071	20,144,307
Long-term debt obligations, net of current portion	74,347,414	40,800,119
Other noncurrent liabilities	3,249,314	3,081,919
Total liabilities	<u>116,841,799</u>	<u>64,026,345</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	160,489,698	161,404,962
Restricted, expendable	32,971,363	55,094,473
Unrestricted	1,740,362	12,416,164
Total net assets	<u>\$ 195,201,423</u>	<u>228,915,599</u>

*Assets*

Total assets increased \$19.1 million from prior year due to a \$5.5 million increase in current assets, a \$25.2 million increase in capital assets, offset by an \$11.6 million decrease in other noncurrent assets. Total current assets increased \$5.5 million primarily due to a \$3.3 million increase in cash, a \$1.2 million increase in short-term investments, and a \$1.1 million increase in accounts receivable, current. The \$1.1 million increase in accounts receivables, current is primarily due to a \$0.7 million increase in receivables from the University's auxiliaries and other receivable combined with a \$0.4 million increase in student receivables. The \$3.3 million increase in cash is due to a large deposit in transit, not yet invested in the California State University Investment Pool. The \$1.2 million increase in short-term investments due to a \$1.8 million increase in investments held by the Chancellor's Office for debt service payments for the University's new parking revenue bond offset by a minor decrease in the investment pool of the State of California.

Capital assets increased by \$25.2 million primarily due to \$35.2 million of current year additions from ongoing capital projects, primarily due to the University's Energy Conservation Project, The McMahan House, Parking Structure, and the Social and Behavioral Science Building. These additions are offset by \$10.0 million in current year depreciation expense. 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 of the University.

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Management's Discussion and Analysis

June 30, 2009

Other noncurrent assets decreased \$11.6 million primarily due to an \$18.9 million decrease in noncurrent accounts receivable representing a reduction in the capital state appropriations receivable for the deallocation of \$16.6 million for the Social and Behavioral Science Building due a decrease in project costs and a \$2.3 million decrease for capital expenditures. This decrease is offset by a \$7.9 million increase in other long-term investments, primarily due to a \$17.2 million increase in unspent bond proceeds for the University's new Parking Structure offset by a \$9.5 million decrease in investments held for capital projects that are not funded with state appropriations.

#### *Liabilities*

Total liabilities increased \$52.8 million from prior year due to a \$19.1 million increase in current liabilities and a \$33.5 million increase in long-term debt obligations, net of current portion.

Total current liabilities increased \$19.1 million primarily due to a \$16.8 million increase in accounts payable primarily associated with the \$17.2 million refund of noncapital state appropriations to the State of California. There were also \$0.5 million increases in both accrued compensated absences, current and deferred revenue as a result of stricter enforcement of vacation carry over policies and increase in fall fees. In addition, there were \$0.5 million increases in both long term debt, current, and other liabilities due to a new capital lease for the development and implementation of the PeopleSoft CMS student module and the University's computer refresh program and increase in accrued interest for the University's parking revenue bond.

Total long-term debt obligations, net of current portion, increased \$33.5 million primarily due the issuance of Systemwide Revenue Bonds Series 2009A in the amount of \$34.6 million for the construction of the University's Parking Structure.

#### *Net Assets*

Total net assets decreased \$33.7 million from the prior year. A significant portion, \$160.5 million, of net assets at the end of the year is invested in capital assets, net of related debt. Restricted net assets totaling \$33.0 million of net assets at the end of the year are restricted for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which decreased \$22.1 million from prior year as discussed below. Unrestricted net assets totaled \$1.7 million at the end of the year. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis

June 30, 2009

***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**

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Expendable:		
Scholarships and fellowships	\$ 46,991	20,801
Loans	56,368	53,345
Capital projects	31,428,636	54,737,963
Debt service	1,420,597	—
Other	18,771	282,364
Total restricted net assets – expendable	<u>\$ 32,971,363</u>	<u>55,094,473</u>

The \$22.1 million decrease in restricted net assets – expendable is primarily due to a \$23.3 million decrease in net assets restricted for capital projects. This is the result of a \$16.6 million decrease in capital state appropriations revenue due to a deallocation of appropriations for the University's Social and Behavioral Sciences Building due to a reduction in project costs and spending of bond proceeds and state appropriations on several capital projects. The decrease in net assets for capital projects was partially offset by an increase in net assets restricted for debt service due to increased amounts needed to cover upcoming debt service payments.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis

June 30, 2009

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2009 and 2008 is as follows:

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

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
Operating revenues:		
Student tuition and fees, net	\$ 30,523,939	28,372,626
Grants and contracts, noncapital	260,327	835,561
Sales and services of auxiliary enterprises, net	3,770,935	3,975,336
Other operating revenues	3,246,354	3,013,315
Total operating revenues	<u>37,801,555</u>	<u>36,196,838</u>
Operating expenses	<u>124,543,037</u>	<u>124,529,317</u>
Operating loss	<u>(86,741,482)</u>	<u>(88,332,479)</u>
Nonoperating revenues:		
State appropriations, noncapital	47,961,522	67,071,786
Federal financial aid grants, noncapital	7,675,529	6,838,776
State financial aid grants, noncapital	3,193,490	2,863,849
Other federal nonoperating grants, noncapital	6,448,000	—
Investment income, net	1,907,642	2,637,243
Other nonoperating revenues, net	1,312,750	986,575
Total nonoperating revenues	<u>68,498,933</u>	<u>80,398,229</u>
Loss before other additions	(18,242,549)	(7,934,250)
State appropriations, capital	(16,563,784)	56,087,000
Grants and gifts, capital	<u>1,092,157</u>	<u>3,137,428</u>
Increase (decrease) in net assets	(33,714,176)	51,290,178
Net assets at beginning of year	<u>228,915,599</u>	<u>177,625,421</u>
Net assets at end of year	<u>\$ 195,201,423</u>	<u>228,915,599</u>

Certain reclassifications have been made to the 2008 condensed financial information to conform to the 2009 presentation. The changes primarily relate to the classification of cost recovery between the University and its auxiliaries that were previously presented as a reduction of operating expenses and are now presented as other operating revenues. The reclassification did not have an impact on the previously reported changes in net assets or total net assets of the University.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis

June 30, 2009

***Operating Revenues and Expenses***

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

***Operating Revenues***

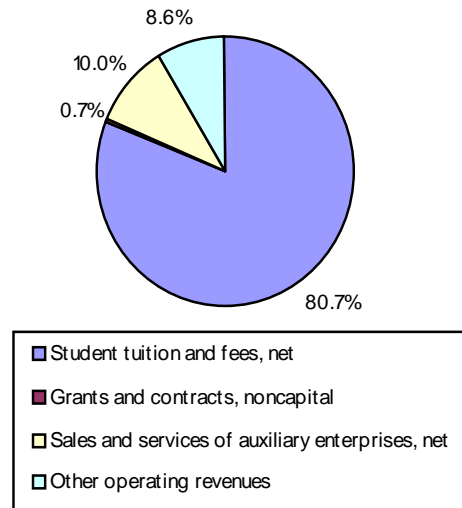
Total operating revenues increased \$1.6 million primarily due to a \$2.2 million increase in student tuition and fees, net. The state university fee increased 10% from the prior year. Student tuition and fees, net, increased \$2.2 million (7.6%) from prior year primarily due to the state university fee increase offset by a decrease of 3.8% in full-time equivalent students. The increase was partially offset by a \$0.6 million decrease in grants and contracts due to grants related to Extended Learning Commission Project Operations.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2009 and 2008:

**Operating Revenues**

Year ended June 30, 2009

Student tuition and fees, net	\$ 30,523,939	80.7%
Grants and contracts, net	260,327	0.7
Sales and services of auxiliary enterprises, net	3,770,935	10.0
Other operating revenues	<u>3,246,354</u>	<u>8.6</u>
Total operating revenues	\$ <u><u>37,801,555</u></u>	<u><u>100.0%</u></u>



**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

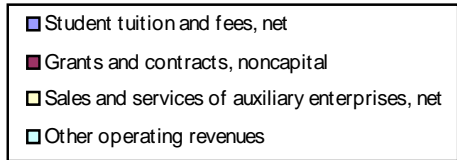
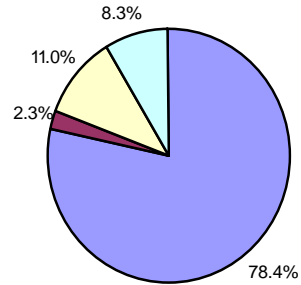
Management's Discussion and Analysis

June 30, 2009

**Operating Revenues**

Year ended June 30, 2008

Student tuition and fees, net	\$ 28,372,626	78.4%
Grants and contracts, net	835,561	2.3
Sales and services of auxiliary enterprises, net	3,975,336	11.0
Other operating revenues	<u>3,013,315</u>	<u>8.3</u>
Total operating revenues	\$ <u><u>36,196,838</u></u>	<u><u>100.0%</u></u>



*Operating Expenses*

Total operating expenses remained relatively consistent at \$124.5 million for both the fiscal years 2009 and 2008. Salaries and benefits costs within each of these functions increased by \$1.0 million primarily due to other postemployment benefits of \$0.6 million and a \$0.4 million increase in contributions to the California Public Employees' Retirement System (CalPERS). In previous years, other postemployment benefit expense and liability of \$0.3 million was carried by the Office of the Chancellor. Supplies and other services expense, within each of these functions, decreased by \$2.2 million due to general and overhead costs reductions as a result of the state's budget reductions resulting in a deallocation of state appropriations, noncapital. Student grants and scholarships increased by \$1.2 million or 10.0% as a direct result of the student tuition and fees increase of 10.0%. Depreciation remained consistent equaling \$10.0 million for the fiscal years 2009 and 2008.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis

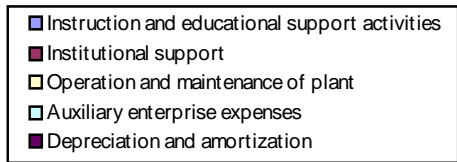
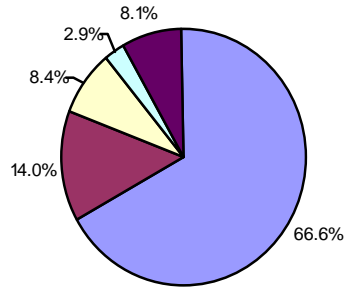
June 30, 2009

The following charts present the distribution of resources in support of the University's mission for fiscal years 2009 and 2008:

**Operating Expenses**

Year ended June 30, 2009

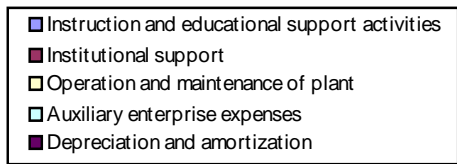
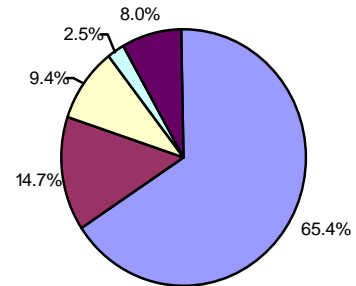
Instruction	\$ 42,348,555	34.0%
Research	92,521	0.1
Public service	246,195	0.2
Academic support	15,446,335	12.4
Student services	11,825,737	9.5
Student grants and scholarships	<u>12,965,105</u>	<u>10.4</u>
 Total instruction and educational support activities	 82,924,448	 66.6
Institutional support	17,488,419	14.0
Operation and maintenance of plant	10,516,775	8.4
Auxiliary enterprises expenses	3,586,639	2.9
Depreciation and amortization	<u>10,026,756</u>	<u>8.1</u>
 Total operating expenses	 <u>\$ 124,543,037</u>	 <u>100.0%</u>



**Operating Expenses**

Year ended June 30, 2008

Instruction	\$ 42,467,781	34.2%
Research	176,035	0.1
Public service	226,236	0.2
Academic support	15,293,627	12.3
Student services	11,301,874	9.1
Student grants and scholarships	<u>11,791,180</u>	<u>9.5</u>
 Total instruction and educational support activities	 81,256,733	 65.4
Institutional support	18,358,082	14.7
Operation and maintenance of plant	11,748,450	9.4
Auxiliary enterprises expenses	3,144,084	2.5
Depreciation and amortization	<u>10,021,968</u>	<u>8.0</u>
 Total operating expenses	 <u>\$ 124,529,317</u>	 <u>100.0%</u>



*Nonoperating Revenues (Expenses)*

Nonoperating revenues (expenses) come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations, federal 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.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Management's Discussion and Analysis

June 30, 2009

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. General (noncapital) appropriation revenues totaled \$48.0 million, a decrease of \$19.1 million from the prior year primarily due to the refund of state noncapital appropriation to the state based on the latest revised state budget. It is partially offset by a funding of \$6.4 million from the federal ARRA grant to restore the state appropriation. Investment income was \$1.9 million, a decrease of \$0.7 million from prior year primarily due to declining interest rates.

The University did not receive any new capital appropriations for the fiscal year ended June 30, 2009. However, the University received a \$16.6 million deallocation of a prior year capital appropriation for the Social and Behavioral Science Building due to a decrease in project costs. Capital state appropriations in the prior year included onetime appropriations of \$53.7 for the construction of the Social and Behavioral Science Building and \$1.7 million for the nursing facility improvements and \$0.7 million in other minor capital projects. Grants and gifts, capital, decreased by \$2.1 million primarily due to a \$2.8 million decrease in donor funds received for the building of the McMahan House, offset by a \$0.7 million increase for the transfer of the Foundation Classroom Building from the University Auxiliary Research Services Corporation to the University.

### *Capital Assets and Long-Term Debt Obligations*

#### *Capital Assets*

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

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Land and land improvements	\$ 10,981,328	10,981,328
Works of art and historical treasures	45,000	25,000
Buildings and building improvements	119,038,639	124,093,602
Improvements, other than buildings	4,117,095	4,789,763
Infrastructure	17,668,321	15,246,990
Personal property	5,161,167	5,587,304
Intangible assets	2,738,057	2,447,210
Construction work in progress (CWIP)	37,142,433	8,539,000
Total capital assets, net of accumulated depreciation	<u>\$ 196,892,040</u>	<u>171,710,197</u>

Capital assets increased \$25.2 million primarily due to \$35.2 million of current year additions, which was partially offset by \$10.0 million in current year depreciation expense. The \$35.2 million in current year additions is primarily due an increase in construction work in progress. The increase in CWIP is due to a \$14.9 million increase for the University's Parking Structure, \$4.9 million increase for the Social and Behavioral Science Building, \$2.9 million for the McMahan House, and \$4.7 million in the University's Energy Conservation Project. These projects were funded through private donations, capital state appropriations, and systemwide revenue bonds. Additionally, the University's Campus View Drive was completed and added to infrastructure at a total cost of \$3.3 million.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis

June 30, 2009

Due to the state's budget crisis and its difficulty issuing bonds in the current financial market, the state suspended all state-funded capital projects, including General Obligation Bond projects, and froze disbursements on these projects starting in December 2008. The state lifted the suspension of the General Obligation Bond projects in April 2009.

See note 6 of the notes to the financial statements for further information on capital assets.

*Long-Term Debt Obligations*

Debt outstanding at June 30, 2009 and 2008 is summarized below by type of debt instrument:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Systemwide Revenue Bonds:		
Series 2002A	\$ 5,090,000	5,200,000
Series 2005C	24,400,000	24,730,000
Series 2009A	34,640,000	—
Other	8,373,119	8,801,568
Total	72,503,119	38,731,568
Unamortized bond discount	(280,661)	—
Total long-term debt	72,222,458	38,731,568
Less current portion	(1,136,044)	(868,449)
Long-term debt, net of current portion	\$ 71,086,414	37,863,119

At June 30, 2009 and 2008, the University had \$72.2 million and \$38.7 million, respectively, in debt outstanding. The \$33.5 million increase is primarily due to the issuance of Systemwide Revenue Bonds Series 2009A in the amounts of \$33.5 million issued for the construction of the University's Parking Structure.

*Bond Ratings*

Moody's Investors Service and Standards & Poor's Rating Service currently provide an intrinsic rating of Aa3 and A+, respectively, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C and Series 2009A, 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 Aa3 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 10 to the financial statements for further information on long-term debt obligations.

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Management's Discussion and Analysis

June 30, 2009

#### *Factors Impacting Future Periods*

The University's state noncapital appropriations budget for fiscal year 2010 approved by the legislative process is \$53.5 million. Although this is an increase of \$5.5 million over the fiscal year 2009 funding level of \$48.0 million, it is still \$15.5 million below the original fiscal year 2009 allocated funding level of \$69.0 million before the economic downturn. In October and November 2009, the University received the remaining \$10.8 million of ARRA funding, which was intended to and did mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2009. However, it will not mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2010. Reductions in operating expenses and an increase in student fees in fiscal year 2010 will partly offset the funding loss from the state. The student fee increase is expected to generate \$5.1 million during fiscal year 2010 in new revenue, net of financial aid. In addition, all University employees, except public safety personnel, will be on furlough work schedules to reduce up to \$5.1 million in operating expenses and narrow the budget gap in fiscal year 2010.

The 2009/2010 budgeted full-time equivalent (FTE) enrollment targets remain unchanged from prior fiscal year at 7,283.

In 2007, the California State University Board of Trustees approved the Social and Behavioral Science Building project for the University. This project will design and construct a 67,438 assignable square feet/106,335 gross square feet building of lecture rooms, labs, faculty offices, graduate research, and academic support spaces for the Social and Behavioral Sciences. The total cost of the project is projected to be approximately \$40.1 million and will be funded primarily through state appropriations. The project began construction in December 2008 and is scheduled to take occupancy in January 2011.

In July 2007, the University began planning for the Parking Structure Phase 1 Project. The Parking Structure Phase 1 Project will be built in two phases. Phase one provided the necessary road and site improvements at a cost of \$3.3 million and was completed in May 2009. Phase two will provide a parking structure with 1,615 parking spaces at an estimated project cost of \$30 million; estimated completion date is July 2010. Funding for these projects will be from parking revenues and revenue bond proceeds.

In November 2009, the California State University Board approved funding for the Public Safety Building, which will provide a 10,300 assignable square feet/13,026 gross square feet building that will house the University Parking and Transportation Services Department, University Police, and the Campus Emergency Operation Center. The estimated project cost is \$6.0 million; estimated completion is February 2011. Funding for these projects will be from parking revenues and bond proceeds.

The McMahon House, which began construction in February 2007, is a conference center providing 3,238 square feet of meeting space that was completed in July 2009. The total cost of the project was \$4.8 million and funded primarily through donor funds.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statement of Net Assets

June 30, 2009

<b>Assets</b>	<b>University</b>	<b>Component units FASB Auxiliary Organizations</b>	<b>Total</b>
Current assets:			
Cash and cash equivalents	\$ 3,358,867	5,429,371	8,788,238
Short-term investments	28,742,036	8,191,039	36,933,075
Accounts receivable, net	2,437,063	2,095,827	4,532,890
Leases receivable, current portior	385,000	—	385,000
Pledges receivable, net	—	1,363,709	1,363,709
Prepaid expenses and other assets	381,854	1,816,875	2,198,729
Total current assets	<u>35,304,820</u>	<u>18,896,821</u>	<u>54,201,641</u>
Noncurrent assets:			
Restricted cash and cash equivalents	—	1,722,391	1,722,391
Accounts receivable, net	36,336,759	—	36,336,759
Leases receivable, net of current portior	24,015,000	—	24,015,000
Student loans receivable, net	248,610	—	248,610
Pledges receivable, net	—	745,117	745,117
Endowment investments	—	11,269,311	11,269,311
Other long-term investments	19,245,993	—	19,245,993
Capital assets, net	196,892,040	29,541,707	226,433,747
Other assets	—	64,081	64,081
Total noncurrent assets	<u>276,738,402</u>	<u>43,342,607</u>	<u>320,081,009</u>
Total assets	<u>312,043,222</u>	<u>62,239,428</u>	<u>374,282,650</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	23,395,821	1,430,434	24,826,255
Accrued salaries and benefits payable	6,056,926	250,164	6,307,090
Accrued compensated absences, current portior	2,494,237	186,984	2,681,221
Deferred revenue	3,410,585	1,636,167	5,046,752
Capitalized lease obligations, current portior	1,641,000	—	1,641,000
Long-term debt obligations, current portior	1,136,044	385,000	1,521,044
Other liabilities	1,110,458	574,612	1,685,070
Total current liabilities	<u>39,245,071</u>	<u>4,463,361</u>	<u>43,708,432</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portior	1,718,227	—	1,718,227
Grants refundable	521,657	—	521,657
Capitalized lease obligations, net of current portior	3,261,000	—	3,261,000
Long-term debt obligations, net of current portior	71,086,414	24,715,283	95,801,697
Depository accounts	403,869	—	403,869
Other postemployment benefits obligatior	605,561	619,840	1,225,401
Total noncurrent liabilities	<u>77,596,728</u>	<u>25,335,123</u>	<u>102,931,851</u>
Total liabilities	<u>116,841,799</u>	<u>29,798,484</u>	<u>146,640,283</u>
Net assets:			
Invested in capital assets, net of related deb	160,489,698	4,441,424	164,931,122
Restricted for:			
Nonexpendable – endowments	—	15,560,774	15,560,774
Expendable:			
Scholarships and fellowships	46,991	76,914	123,905
Loans	56,368	—	56,368
Capital projects	31,428,636	2,171,222	33,599,858
Debt service	1,420,597	—	1,420,597
Other	18,771	2,669,151	2,687,922
Unrestricted	1,740,362	7,521,459	9,261,821
Total net assets	<u>\$ 195,201,423</u>	<u>32,440,944</u>	<u>227,642,367</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2009

	<b>University</b>	<b>Discretely presented component units FASB Auxiliary Organizations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues:</b>				
<b>Operating revenues:</b>				
Student tuition and fees (net of scholarship allowances of \$7,365,936)	\$ 30,523,939	974,365	—	31,498,304
<b>Grants and contracts, noncapital:</b>				
Federal	—	5,311,286	—	5,311,286
State	15,209	351,845	—	367,054
Local	—	195,506	—	195,506
Nongovernmental	245,118	929,919	—	1,175,037
Sales and services of educational activities	—	3,316,424	—	3,316,424
Sales and services of auxiliary enterprises	3,770,935	10,937,708	—	14,708,643
Other operating revenues	3,246,354	416,090	—	3,662,444
<b>Total operating revenues</b>	<b>37,801,555</b>	<b>22,433,143</b>	<b>—</b>	<b>60,234,698</b>
<b>Expenses:</b>				
<b>Operating expenses:</b>				
Instruction	42,348,555	3,075,837	—	45,424,392
Research	92,521	3,965,478	—	4,057,999
Public service	246,195	492,823	(20,000)	719,018
Academic support	15,446,335	942,501	—	16,388,836
Student services	11,825,737	1,081,980	(18,593)	12,889,124
Institutional support	17,488,419	3,813,689	(200,000)	21,102,108
Operation and maintenance of plant	10,516,775	—	—	10,516,775
Student grants and scholarships	12,965,105	846,031	(606,031)	13,205,105
Auxiliary enterprise expenses	3,586,639	9,205,512	—	12,792,151
Depreciation and amortization	10,026,756	1,408,347	—	11,435,103
<b>Total operating expenses</b>	<b>124,543,037</b>	<b>24,832,198</b>	<b>(844,624)</b>	<b>148,530,611</b>
<b>Operating income (loss)</b>	<b>(86,741,482)</b>	<b>(2,399,055)</b>	<b>844,624</b>	<b>(88,295,913)</b>
<b>Nonoperating revenues (expenses):</b>				
State appropriations, noncapital	47,961,522	—	—	47,961,522
Federal financial aid grants, noncapital	7,675,529	—	—	7,675,529
State financial aid grants, noncapital	3,193,490	—	—	3,193,490
Other federal nonoperating grants, noncapital	6,448,000	—	—	6,448,000
Gifts, noncapital	1,922,689	2,369,268	(726,031)	3,565,926
Investment income, net	1,907,642	242,004	—	2,149,646
Endowment loss	—	(2,889,455)	—	(2,889,455)
Interest expense	(1,538,991)	(1,169,388)	—	(2,708,379)
Other nonoperating revenues (expenses), net	929,052	(661,950)	661,950	929,052
<b>Net nonoperating revenues (expenses)</b>	<b>68,498,933</b>	<b>(2,109,521)</b>	<b>(64,081)</b>	<b>66,325,331</b>
<b>Income (loss) before other additions</b>	<b>(18,242,549)</b>	<b>(4,508,576)</b>	<b>780,543</b>	<b>(21,970,582)</b>
State appropriations, capital	(16,563,784)	—	—	(16,563,784)
Grants and gifts, capital	1,092,157	—	(780,543)	311,614
Additions to permanent endowments	—	74,190	—	74,190
<b>Decrease in net assets</b>	<b>(33,714,176)</b>	<b>(4,434,386)</b>	<b>—</b>	<b>(38,148,562)</b>
<b>Net assets:</b>				
Net assets at beginning of year	228,915,599	36,875,330	—	265,790,929
Net assets at end of year	\$ 195,201,423	32,440,944	—	227,642,367

See accompanying notes to financial statements.



**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statement of Cash Flows

Year ended June 30, 2009

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (86,741,482)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	10,026,756
Change in assets and liabilities:	
Accounts receivable, net	(1,039,260)
Student loans receivable, net	197,646
Prepaid expenses and other assets	169,787
Accounts payable	(3,662,248)
Accrued salaries and benefits	57,434
Accrued compensated absences	(4,174)
Deferred revenue	614,057
Other postemployment benefits obligation	605,561
Other liabilities	120,124
Net cash used in operating activities	<u>\$ (79,655,799)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 973,565
Acquisition of capital asset through capital lease	2,318,000
Construction work in progress passed down from the Office of the Chancellor	399,811
Change in accrued capital asset costs (purchased but unpaid at year-end)	3,362,816
Gifts in-kind	81,581
Amortization of bond discount	(2,665)

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

### (1) Organization

California State University, San Marcos (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) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's three 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:

- University Auxiliary Research Services Corporation
- Associated Students Incorporated of California State University, San Marcos
- San Marcos University Corporation

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

Summary information for the discretely presented component units is as follows:

<b>June 30, 2009</b>	<b>University Auxiliary Research Services Corporation</b>	<b>Associated Students Inc. of California State University, San Marcos</b>	<b>San Marcos University Corporation</b>	<b>Total</b>
Current assets	\$ 13,863,258	749,305	4,284,258	18,896,821
Capital assets, net	1,014,856	8,589	28,518,262	29,541,707
Other noncurrent assets	13,797,900	3,000	—	13,800,900
Total assets	\$ <u>28,676,014</u>	<u>760,894</u>	<u>32,802,520</u>	<u>62,239,428</u>
Current liabilities	\$ 2,485,453	280,891	1,697,017	4,463,361
Noncurrent liabilities	619,840	—	24,715,283	25,335,123
Total liabilities	\$ <u>3,105,293</u>	<u>280,891</u>	<u>26,412,300</u>	<u>29,798,484</u>
Invested in capital assets, net of related debt	\$ 1,014,856	8,589	3,417,979	4,441,424
Restricted	20,478,061	—	—	20,478,061
Unrestricted	4,077,804	471,414	2,972,241	7,521,459
Total net assets	\$ <u>25,570,721</u>	<u>480,003</u>	<u>6,390,220</u>	<u>32,440,944</u>
<b>Year ended June 30, 2009</b>				
Operating revenues:				
Student tuition and fees, net	\$ —	974,365	—	974,365
Grants and contracts, noncapital	6,782,046	6,510	—	6,788,556
Sales and services of educational activities	3,316,424	—	—	3,316,424
Sales and services of auxiliary enterprises, net	5,527,055	45,953	5,364,700	10,937,708
Other	—	—	416,090	416,090
Total operating revenues	<u>15,625,525</u>	<u>1,026,828</u>	<u>5,780,790</u>	<u>22,433,143</u>

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

<u>June 30, 2009</u>	<u>University Auxiliary Research Services Corporation</u>	<u>Associated Students Inc. of California State University, San Marcos</u>	<u>San Marcos University Corporation</u>	<u>Total</u>
Operating expenses:				
Instruction	\$ 3,075,837	—	—	3,075,837
Research	3,965,478	—	—	3,965,478
Public service	492,823	—	—	492,823
Academic support	942,501	—	—	942,501
Student services	945,917	136,063	—	1,081,980
Institutional support	3,813,689	—	—	3,813,689
Student grants and scholarships	846,031	—	—	846,031
Auxiliary enterprise expenses	4,973,623	915,280	3,316,609	9,205,512
Depreciation and amortization	279,973	6,914	1,121,460	1,408,347
Total operating expenses	<u>19,335,872</u>	<u>1,058,257</u>	<u>4,438,069</u>	<u>24,832,198</u>
Operating income (loss)	(3,710,347)	(31,429)	1,342,721	(2,399,055)
Net nonoperating revenues (expenses)	<u>(1,013,291)</u>	<u>12,642</u>	<u>(1,108,872)</u>	<u>(2,109,521)</u>
Income (loss) before other additions	(4,723,638)	(18,787)	233,849	(4,508,576)
Additions to permanent endowments	<u>74,190</u>	<u>—</u>	<u>—</u>	<u>74,190</u>
Increase (decrease) in net assets	(4,649,448)	(18,787)	233,849	(4,434,386)
Beginning net assets, July 1, 2008	<u>30,220,169</u>	<u>498,790</u>	<u>6,156,371</u>	<u>36,875,330</u>
Ending net assets, June 30, 2009	<u>\$ 25,570,721</u>	<u>480,003</u>	<u>6,390,220</u>	<u>32,440,944</u>

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.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

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 (State) that is attributable to the transactions of the University and the financial statements do not purport to, and do not, present fairly the financial position of the State or the System as of June 30, 2009 and the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

**(b) *Basis of Presentation***

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

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

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 has elected to follow 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 guidance subject to the same conflict 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 3(b).

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**(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 component units.

**(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, 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. 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 nondepreciable assets such as land, 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. Periodicals and subscriptions are expensed as purchased. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

Capitalized interest, net of related investment income at June 30, 2009 is as follows:

Interest expense capitalized for construction projects	\$	1,028,593
Investment income related to unspent bond proceeds for construction		<u>(309,204)</u>
Capitalized interest, net of related investment income	\$	<u><u>719,389</u></u>

**(h) Deferred Revenue**

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

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

(i) ***Compensated Absences***

University employees accrue annual leave at rates 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 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.

(k) ***Net Assets***

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

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

**Restricted – nonexpendable** – Net assets subject to externally imposed conditions that the University retains them in perpetuity. Net assets in this category consist of endowments held by the University 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 net assets that do not fit into one of the above categories. 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 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.

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Notes to Financial Statements

June 30, 2009

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 capital and noncapital appropriations from the State, noncapital financial aid and American Recovery and Reinvestment Act (ARRA) grants, noncapital, net investment income, gifts, interest expense, and capital contributions.

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 2009, 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 ARRA. The federal education grants have been appropriated to the System by the State as a reimbursement to the general operation and reported separately as nonoperating revenues and expenses.

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.

**(o) New Accounting Pronouncements**

On July 1, 2008, the University adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49). To provide governments with better accounting guidance and consistency, GASB 49 identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

adoption of the statement did not have an impact on the University's financial statements as the university did not have any triggering events.

On July 1, 2008, the University adopted GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement requires endowments to report their land and other real estate investments at fair value. The adoption of the statement did not have a material impact on the University's financial statements.

**(p) Eliminations**

All significant nonexchange transactions between the University and the discretely presented component units 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, 2009 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$	<u>3,358,867</u>
Short-term investments		28,742,036
Other long-term investments		<u>19,245,993</u>
Total investments		<u>47,988,029</u>
Total cash and cash equivalents and investments	\$	<u><u>51,346,896</u></u>

**(a) Cash and Cash Equivalents**

At June 30, 2009, cash and cash equivalents consisted of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$3,358,867 had a corresponding balance of zero with the State Treasury and commercial banks at June 30, 2009. The differences entirely related to deposits in transit and outstanding checks.

**Custodial Credit Risk for Deposits**

Custodial credit risk for deposits is the risk that the University will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

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, 2009, 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 University's various funds and programs.

### **Investment Policy**

State law and regulations require that surplus moneys 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 California State University Investment Pool 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 allocated share of the California State University Investment Pool by measuring the weighted average maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that the callable investments will not be called. The weighted average maturity of the University's allocated share of the California State University Investment Pool for each investment type as of June 30, 2009 is presented in the table in the following page.

### **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.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

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, 2009:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 1,416,140	—	\$ 1,416,140	—	—	—	—
Certificates of deposit	280,366	0.27	33,349	—	247,017	—	—
U.S. agency securities	3,890,849	0.56	1,208,174	—	2,682,675	—	—
Corporate and fixed income securities	3,979,999	1.60	2,066,303	656,956	984,351	205,737	66,652
U.S. Treasury securities	219,178	0.64	19,844	—	199,334	—	—
State of California Surplus Money Investment Fund	37,932,707	0.64	—	—	—	—	37,932,707
Mortgage-backed securities	268,790	10.85	268,790	—	—	—	—
Total investments	\$ 47,988,029		\$ 5,012,600	656,956	4,113,377	205,737	37,999,359

**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, 2009, the University does not have any investment (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of the University's investment portfolio or in its allocation of the pool.

**Risk and Uncertainties**

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

The University through the California State University Investment Pool invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, 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 component units, refer to their separately issued financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**(4) Accounts Receivable**

Accounts receivable at June 30, 2009 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 1,432	36,336,759	36,338,191
Auxiliary organizations	943,922	—	943,922
Student accounts	963,356	—	963,356
Other	976,259	—	976,259
	<u>2,884,969</u>	<u>36,336,759</u>	<u>39,221,728</u>
Less allowance for doubtful accounts	<u>(447,906)</u>	<u>—</u>	<u>(447,906)</u>
Total	<u>\$ 2,437,063</u>	<u>36,336,759</u>	<u>38,773,822</u>

**(5) Lease Receivable**

In fiscal year 2004 – 2005, the University entered into a lease agreement with the San Marcos University Corporation. The lease agreement is the result of a transaction whereby the University refinanced certain San Marcos University Corporation bonds used to build campus housing that was placed into service in August 2003. The San Marcos University Corporation debt was refinanced through the issuance of Systemwide Revenue Bonds Series 2005A that are recorded as a long-term debt obligation in the accompanying financial statements. In return for the University refinancing the San Marcos University Corporation debt, the University entered into a 30-year lease agreement whereby the San Marcos University Corporation agreed to lease the campus housing facilities. Lease payments are due twice a year on May 1 and November 1.

Lease payments are due to the University as follows:

Fiscal year ending:		
2010	\$	385,000
2011		450,000
2012		520,000
2013		590,000
2014		670,000
2015 – 2019		3,905,000
2020 – 2024		5,010,000
2025 – 2029		6,430,000
2030 – 2033		6,440,000
Total lease receivable		<u>24,400,000</u>
Less current portion		<u>(385,000)</u>
Long-term lease receivable, net of current portion	\$	<u>24,015,000</u>

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2009 consisted of the following:

	<u>Balance, June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2009</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 10,981,328	—	—	—	10,981,328
Works of art and historical treasures	25,000	20,000	—	—	45,000
Construction work in progress	<u>8,539,000</u>	<u>32,268,560</u>	<u>—</u>	<u>(3,665,127)</u>	<u>37,142,433</u>
Total nondepreciable capital assets	<u>19,545,328</u>	<u>32,288,560</u>	<u>—</u>	<u>(3,665,127)</u>	<u>48,168,761</u>
Depreciable capital assets:					
Buildings and building improvements	171,210,681	661,950	—	411	171,873,042
Improvements, other than buildings	17,553,036	—	—	86,839	17,639,875
Infrastructure	24,891,988	399,811	—	3,410,130	28,701,929
Personal property:					
Equipment	9,754,092	654,639	(343,727)	90,047	10,155,051
Library books and materials	10,342,348	201,637	(126,406)	—	10,417,579
Intangible assets	<u>4,352,644</u>	<u>1,018,489</u>	<u>—</u>	<u>77,700</u>	<u>5,448,833</u>
Total depreciable capital assets	<u>238,104,789</u>	<u>2,936,526</u>	<u>(470,133)</u>	<u>3,665,127</u>	<u>244,236,309</u>
Total cost	<u>257,650,117</u>	<u>35,225,086</u>	<u>(470,133)</u>	<u>—</u>	<u>292,405,070</u>
Less accumulated depreciation:					
Buildings and building improvements	(47,117,079)	(5,717,324)	—	—	(52,834,403)
Improvements, other than buildings	(12,763,273)	(759,507)	—	—	(13,522,780)
Infrastructure	(9,644,998)	(1,388,610)	—	—	(11,033,608)
Personal property:					
Equipment	(6,437,935)	(883,565)	327,240	—	(6,994,260)
Library books and materials	(8,071,201)	(472,408)	126,406	—	(8,417,203)
Intangible assets	<u>(1,905,434)</u>	<u>(805,342)</u>	<u>—</u>	<u>—</u>	<u>(2,710,776)</u>
Total accumulated depreciation	<u>(85,939,920)</u>	<u>(10,026,756)</u>	<u>453,646</u>	<u>—</u>	<u>(95,513,030)</u>
Net capital assets	\$ <u><u>171,710,197</u></u>	<u><u>25,198,330</u></u>	<u><u>(16,487)</u></u>	<u><u>—</u></u>	<u><u>196,892,040</u></u>

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

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**(7) 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 \$2,079,034 at June 30, 2009. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.6% to 4.5% 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 2013. 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:		
2010	\$ 1,751,228	715,957
2011	1,247,090	541,469
2012	713,635	199,521
2013	582,285	167,449
2014	517,334	13,621
2015 – 2019	<u>509,912</u>	<u>—</u>
Total minimum lease payments	5,321,484	\$ <u><u>1,638,017</u></u>
Less amount representing interest	<u>(419,484)</u>	
Present value of future minimum lease payments	4,902,000	
Less current portion	<u>(1,641,000)</u>	
Capital lease obligations, net of current portion	\$ <u><u>3,261,000</u></u>	

Rent expense under operating leases for the year ended June 30, 2009 totaled \$886,163.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2009 totaled \$553,055,000.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

### (8) 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 \$2,424,162,000 as of June 30, 2009.

#### (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 interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

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, 2009 was \$64,130,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,269,398,000 in Systemwide Revenue Bonds issued through fiscal year 2009. Proceeds from the bonds provided financing for the construction of continuing education, healthcare facilities, housing, parking, and student unions, and auxiliary projects. 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 \$5,730,813,000. In fiscal year 2009, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$172,972,000 and \$199,426,000, respectively.

**(c) Revenue Bond Anticipation Notes**

Revenue Bond Anticipation Notes (BANs) are issued by the California State University Institute (the Institute), an auxiliary organization of the System, to provide short-term financing to the System

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

for construction projects. They are generally issued for a one- to three-year period in anticipation of issuing permanent revenue bonds at a future date. The University issued BANs during 2009 to finance the development and construction of Parking Structure. Interest is variable and changes based upon the cost of the Institute's commercial paper program. As of June 30, 2009, these BANs were converted to Systemwide Revenue Bonds; therefore, the University has no BANs outstanding at June 30, 2009.

**(d) Koch Financial Corporation**

The Koch Financial Corporation debt obligation was established to fund the building of a Thermal Energy Storage Tank in a cooperative effort with San Diego Gas & Electric in an effort to promote energy conservation and provide the University with energy cost savings. Additionally, the University has entered into several debt agreements with Koch Financial Corporation to finance the University's computer refresh program.

**(e) DeLage Landen Public Financing LLC**

The DeLage Landen Public Financial LLC debt obligation was established to fund the necessary upgrades to accommodate the University's growing energy needs and provide the University with energy cost savings. The energy conservation project includes improvements to the University's central plant as well as upgrades to the University's lighting and heating and air conditioning systems.

Long-term debt obligations of the University as of June 30, 2009 consist of the following:

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding at June 30
Systemwide Revenue Bonds:				
2002A – Student Union	4.10% – 5.50%	2033	\$ 5,660,000	5,090,000
2005A – Auxiliary Org	3.00% – 5.00	2033	25,230,000	24,400,000
2009A – Parking	2.50% – 5.75	2036	34,640,000	34,640,000
Other:				
Koch Financial Corporation	5.33%	2013	2,000,000	620,385
Koch Financial Corporation	4.03	2010	495,936	107,911
DLL Public Financing LLC	4.46	2024	7,831,000	7,644,823
Total				72,503,119
Unamortized bond discount				(280,661)
Total long-term debt				72,222,458
Less current portion				(1,136,044)
Long-term debt, net of current portion				\$ 71,086,414

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

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:			
2010	\$ 1,136,044	3,747,998	4,884,042
2011	1,123,126	3,522,215	4,645,341
2012	1,964,308	3,461,499	5,425,807
2013	2,086,737	3,378,082	5,464,819
2014	2,059,173	3,296,035	5,355,208
2015 – 2019	11,845,796	14,894,182	26,739,978
2020 – 2024	14,742,935	11,657,500	26,400,435
2025 – 2029	15,240,000	7,870,524	23,110,524
2030 – 2034	17,585,000	3,389,066	20,974,066
2035 – 2039	4,720,000	251,131	4,971,131
	<u>\$ 72,503,119</u>	<u>55,468,232</u>	<u>127,971,351</u>

Long-term debt obligations of the discretely presented component units 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 component units, refer to their separately issued financial statements.

**(9) Advance Refundings**

The University had no current year refundings.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**(10) Long-Term Liabilities Activity**

Long-term liabilities activity of the University for the year ended June 30, 2009 was as follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Current portion</b>
Accrued compensated absences	\$ 4,216,639	2,016,852	(2,021,027)	4,212,464	2,494,237
Capitalized lease obligations (note 7)	4,319,000	2,318,000	(1,735,000)	4,902,000	1,641,000
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds:					
2002A – Student Union	5,200,000	—	(110,000)	5,090,000	115,000
2005A – Auxiliary Org	24,730,000	—	(330,000)	24,400,000	385,000
2009A – Parking	—	34,640,000	—	34,640,000	—
Revenue Bond Anticipation Notes	—	10,937,259	(10,937,259)	—	—
Koch Financial Corporation	756,369	—	(135,984)	620,385	143,232
Koch Financial Corporation	211,582	—	(103,671)	107,911	107,911
GE Capital	2,617	—	(2,617)	—	—
DLL Public Financing LLC	7,831,000	—	(186,177)	7,644,823	384,901
<b>Total</b>	<b>38,731,568</b>	<b>45,577,259</b>	<b>(11,805,708)</b>	<b>72,503,119</b>	<b>1,136,044</b>
Unamortized bond premium (discount)	—	(283,326)	2,665	(280,661)	—
<b>Total long-term debt obligations</b>	<b>38,731,568</b>	<b>45,293,933</b>	<b>(11,803,043)</b>	<b>72,222,458</b>	<b>1,136,044</b>
<b>Total long-term liabilities</b>	<b>\$ 47,267,207</b>	<b>49,628,785</b>	<b>(15,559,070)</b>	<b>81,336,922</b>	<b>5,271,281</b>

**(11) Pension Plan and Postretirement Benefits**

**(a) Pension Plan**

**Plan Description**

The University, as an agency of the State, contributes to CalPERS. The State's plan with CalPERS is an agent multiple-employer defined benefit retirement 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. 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.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**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 16.6% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2007	\$	7,924,685
2008		8,727,777
2009		9,101,524

**(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 was 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.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

### Funding Policy

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

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

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

### Annual OPEB Cost and Net OPEB Obligation

The following table shows the total annual required contribution (ARC) for the University’s allocated portion of the postretirement healthcare plan, net of dental benefit portion, the amount contributed to the plan by the University, and changes in the University’s net OPEB obligation (NOO) for billable accounts for the fiscal year ended 2009:

Billable accounts only:		
ARC	\$	543,942
Contributions during the year		<u>(209,372)</u>
Increase in NOO		334,570
NOO – beginning of year		<u>270,991</u>
NOO – end of year	\$	<u><u>605,561</u></u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2009		38%

### 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 of the System.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

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, 2008 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 2009 and 8.50% in 2010, 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%. 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's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009.

**(12) 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 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, 2009.

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

Liability at June 30, 2007	\$ 108,192,000
Incurred claims and changes in estimates	28,487,000
Claim payments	<u>(32,682,000)</u>
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
Less current portion	<u>(17,875,000)</u>
Long-term liability at June 30, 2009, net of current portion	<u>\$ 52,873,000</u>

For the year ended June 30, 2009, 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

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Notes to Financial Statements

June 30, 2009

claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchases excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of \$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.

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 of claims incurred prior to July 1, 2004. For the years ended June 30, 2009 and 2008, this assessment totaled \$19,914,000 and \$19,834,000, respectively.

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 CSURMA loss reserve liability attributable to the University as of June 30, 2009 was approximately 1%, or \$1,277,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2009. 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, 2009 and 2008.

#### **(13) Commitments and Contingencies**

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

Authorized but unexpended expenditures for construction projects as of June 30, 2009 totaled \$40,878,653. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2009

**(14) Classification of Operating Expenses**

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2009, operating expenses by natural classification consisted of the following:

<u>2009</u>	<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	\$ 28,574,793	10,012,438	—	3,761,324	—	42,348,555
Research	68,924	19,602	—	3,995	—	92,521
Public service	163,401	51,856	—	30,938	—	246,195
Academic support	9,535,485	3,705,225	—	2,205,625	—	15,446,335
Student services	6,788,026	2,705,707	—	2,332,004	—	11,825,737
Institutional support	10,686,448	3,988,518	—	2,813,453	—	17,488,419
Operation and maintenance of plant	3,298,132	1,444,197	—	5,774,446	—	10,516,775
Student grants and scholarships	—	—	12,965,105	—	—	12,965,105
Auxiliary enterprise expenses	1,302,753	953,996	—	1,329,890	—	3,586,639
Depreciation and amortization	—	—	—	—	10,026,756	10,026,756
<b>Total</b>	<b>\$ 60,417,962</b>	<b>22,881,539</b>	<b>12,965,105</b>	<b>18,251,675</b>	<b>10,026,756</b>	<b>124,543,037</b>

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.

**(15) Transactions with Related Entities**

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$31,397,738 for the year ended June 30, 2009. The state appropriation revenue, noncapital, included a refund to the State based on the latest revised State budget as well as a \$16,563,784 deallocation of state appropriations, capital. The refund to the State is a retroactive reduction of the System's fiscal year 2009 state appropriation revenue. The refund allocated to the University through the Office of the Chancellor was \$17,227,600 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. The state appropriations, capital deallocation was due to decreased project costs for the building of the University's Social and Behavioral Science Building.

State appropriations receivable aggregated \$36,338,191 at June 30, 2009. The University also received lottery fund distributions from the State in the amount of \$581,000 for the year ended June 30, 2009, which is included in other nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net assets. Included in other nonoperating revenues (expenses), net, is \$399,811 of revenue from the Office of the Chancellor for the Infrastructure Terminal Resources Project.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2009

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) provide 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.

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 7 and 8, the University has recorded capital assets that have been financed by System or State obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2009, no such additions of capital assets are included in the accompanying financial statements.

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Notes to Financial Statements

June 30, 2009

The accompanying financial statements also include the following transactions with discretely presented component units and other related parties as of and for the year ended June 30, 2009:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 1,107,964
Reimbursements from recognized auxiliary organizations for other than salaries of University employees	4,994,973
Payments to recognized auxiliary organizations for services, office space rental, and programs	838,804
Payments to the Office of the Chancellor for State pro rata charges	227,613
Amounts receivable from the Office of the Chancellor	17,343
Amounts receivable from recognized auxiliary organizations	943,922
Amounts payable to recognized auxiliary organizations	21,129
State lottery appropriations received	581,000

#### (16) Subsequent Events

In November 2009, a \$6.0 million BAN was authorized for the construction of Public Safety Building at the San Marcos campus. Commercial paper has not yet been issued for this project.

In August 2009, the California State University System began furloughing all employees (with the exception of public safety personnel) two days per month. The University believes furloughs will reduce \$5.1 million in expenditures for the University, in fiscal year ending June 30, 2010.

In September 2009, the CSURMA's executive committee declared the return of \$16.6 million from the Worker's Compensation Program funds to the members (23 campuses). In accordance with the Funding Policy described in the CSURMA's Policy & Procedure No. JPA-7, the executive committee allocates the amount to each member by their pro rata contributions to the Worker's Compensation program fund over the past five completed fiscal years. CSURMA returned \$263,053 to the University which will increase the University's fiscal year 2010 net assets.

In December 2009, \$1.5 million of commercial paper was issued by the Institute, a California State University auxiliary to finance the University's annual computer refresh program.