



**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Basic Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, HAYWARD

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Three Embarcadero Center  
San Francisco, CA 94111

## Independent Auditors' Report

Dr. Norma S. Rees  
President  
California State University, Hayward:

We have audited the accompanying basic financial statements of California State University, Hayward (the University) and its aggregate discretely presented component units, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express 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 opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in note 2, the basic financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System, as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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





Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 17, 2003

# CALIFORNIA STATE UNIVERSITY, HAYWARD

## Management's Discussion and Analysis

June 30, 2003

This section of California State University, Hayward (the University) annual financial report presents our discussion and analysis of the financial performance of the University for fiscal year ended June 30, 2003. This discussion has been prepared by management and should be read in conjunction with the basic financial statements and footnotes.

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

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* which were implemented in fiscal year 2002. These reports are designed to improve the usefulness of the report to the primary users of these financial statements, including the citizenry, legislative bodies, investors and creditors. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities which best represents the activities of the University.

The basic 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 basic financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the University.

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

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

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

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Management's Discussion and Analysis

June 30, 2003

**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.

**Condensed Summary of Net Assets**

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 43,883,521	43,022,344
Capital assets	63,738,154	59,713,099
Other noncurrent assets	28,105,431	7,643,522
Total assets	<u>135,727,106</u>	<u>110,378,965</u>
Liabilities:		
Current liabilities	38,399,221	29,406,875
Long-term liabilities	4,184,350	4,423,450
Other noncurrent liabilities	11,247,929	10,657,424
Total liabilities	<u>53,831,500</u>	<u>44,487,749</u>
Net assets:		
Invested in capital assets net of related debt	59,119,965	55,094,149
Restricted	15,768,798	3,867,491
Unrestricted	7,006,843	6,929,576
Total net assets	<u>\$ 81,895,606</u>	<u>65,891,216</u>

*Net Assets*

The University's 2003 net assets totaled \$81.9 million at June 30, 2003, an increase of \$16.0 million over June 30, 2002. A significant portion of net assets at the end of the year are invested in capital assets. The increase in invested in capital assets is due to the project started in the current year for the telecommunication systems, offset by the recording of \$4.8 million of current year depreciation. Restricted net assets increased \$11.9 million due to additional allocations received for capital projects.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Management's Discussion and Analysis

June 30, 2003

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 Funds**

	<u>2003</u>	<u>2002</u>
Nonexpendable-endowments	\$ 384,746	381,924
Expendable:		
Scholarships and fellowships	389,838	494,004
Research	497,775	497,775
Loans	435,181	412,414
Capital projects	13,928,195	1,947,587
Debt service	133,063	133,063
Other	—	724
Total expendable	<u>15,384,052</u>	<u>3,485,567</u>
Total restricted net assets	\$ <u>15,768,798</u>	<u>3,867,491</u>

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

Years ended June 30,

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Student tuition and fees	\$ 36,803,386	35,196,123
Grants, contracts, and gifts	11,944,542	10,623,457
Sales and services of auxiliary enterprises	4,200,851	781,649
Other operating revenue	5,899,758	3,302,755
Total operating revenues	<u>58,848,537</u>	<u>49,903,984</u>
Operating expenses	<u>158,615,954</u>	<u>153,341,197</u>
Nonoperating revenues:		
State appropriations	88,108,291	88,133,078
Investment income, net	1,050,432	3,463,441
Other nonoperating revenues	4,543,084	4,896,909
Total nonoperating revenues	<u>93,701,807</u>	<u>96,493,428</u>
Other capital-related revenues	<u>22,070,000</u>	<u>3,303,487</u>
Change in net assets	16,004,390	(3,640,298)
Beginning net assets	<u>65,891,216</u>	<u>69,531,514</u>
Ending net assets	\$ <u>81,895,606</u>	<u>65,891,216</u>

# CALIFORNIA STATE UNIVERSITY, HAYWARD

## Management's Discussion and Analysis

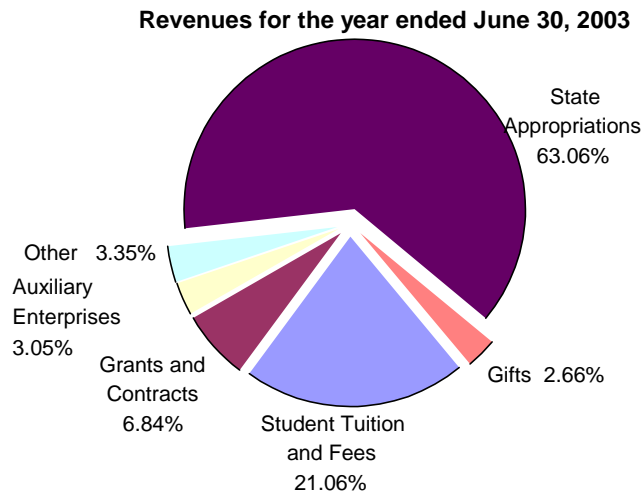
June 30, 2003

### Revenue

Overall revenues increased 16% in 2003. State appropriations decreased by \$668,526 due to de-allocation received to address mid-year budget reductions by the Budget office. However, capital appropriations increased by \$20.2 million for University projects.

Student enrollment increased by 3.8% increasing student fees and tuition by \$1.6 million, increasing Grants and Contracts by \$1.3 million and \$3.4 million in other related auxiliary enterprise revenues. An additional allocation of \$454,000 was provided by the Chancellor's office to partially offset the additional enrollment increase.

The following is a graphic illustration of the University's revenues by source for the year ended June 30, 2003:



**CALIFORNIA STATE UNIVERSITY, HAYWARD**

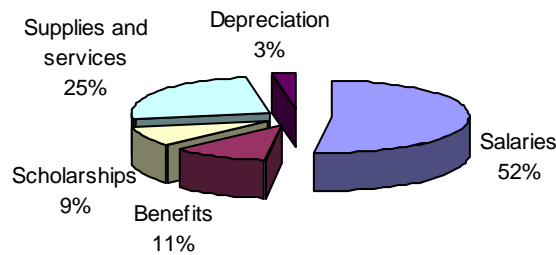
Management's Discussion and Analysis

June 30, 2003

**Expenses**

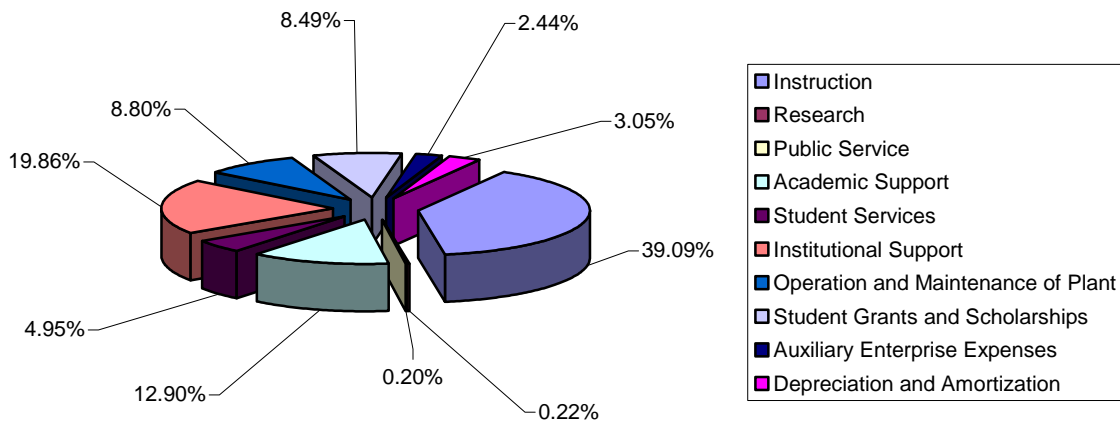
The University's operating expenses consist of salaries and benefits of \$101 million, supplies and services of \$39.3 million, scholarships of \$13.5 million and depreciation of \$4.9 million.

**Natural Classifications of Operating Expenses**



The natural classification of operating expenses is converted to functional classification as illustrated:

**Operating Expenses**



Operating expenses increased \$5.3 million or 3.4% for the fiscal year. Benefits increased \$3.2 million due to the increase in the University's contribution to the CalPERS pension fund.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Management's Discussion and Analysis

June 30, 2003

**Capital Assets and Long Term Debt Obligations**

*Capital Assets*

At June 30, 2003, the University had \$63.7 million in capital assets, net of accumulated depreciation of \$125.0 million. Details of these assets are shown below:

<b>Capital assets</b>	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Land and land improvements	\$ 3,253,785	3,253,785
Works of art and historical treasures	622,578	622,578
Buildings and building improvements	125,731,468	125,731,468
Improvements, other than buildings	12,145,197	11,946,499
Infrastructure	11,109,000	11,109,000
Personal property	27,125,099	27,149,469
Construction work in progress	8,699,253	—
Intangible assets	72,163	72,163
Total	188,758,543	179,884,962
Less accumulated depreciation	(125,020,389)	(120,171,863)
Net capital assets	\$ 63,738,154	59,713,099

**Long-Term Debt Obligations**

At June 30, 2003, the University had \$4.4 million in debt outstanding, a decrease of 4.2% from the prior year. Interest rates on outstanding debt range from 3% to 5.75%. Debt outstanding at June 30, 2003 and 2002 is summarized below by type of debt instrument:

<b>Outstanding debt</b>	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Revenue bonds	\$ 4,423,450	4,618,950

**Factors Impacting Future Periods**

*State Appropriations for 2003-2004*

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2003-2004. The allocation provided to CSU Hayward is \$77,733,700 a decrease of \$6,397,300 over fiscal year 2002-2003. There is the potential for additional budget reductions of up to 10% of the CSU budget in 2003-2004 due to undesignated budget actions required in the State budget. The impact of this potential budget reduction has not been determined.

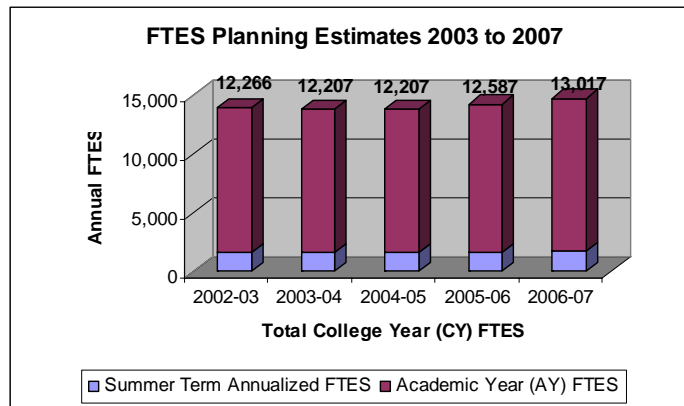
# CALIFORNIA STATE UNIVERSITY, HAYWARD

## Management's Discussion and Analysis

June 30, 2003

### *Enrollment Trends*

Planned annual FTE<sup>1</sup> enrollment targets for fiscal years 2002-2003 and 2003-2004 are 11,695 and 12,207, an increase of 4.4%. Included within the overall campus allocation is an increase of \$2,866,000 for enrollment growth. In order to manage enrollment in 2003-2004, no new full-time first time freshmen will be admitted for spring and summer quarters.



### **University Union Expansion**

In May 2002, the CSU Board of Trustees approved the Expansion Project Feasibility Study. The University Union Board of Directors is finalizing the design with its project architects. It is anticipated that construction will begin in July 2004 and will be completed in February 2006. The following items have been included in the design plans that will increase the University Union's total usable space from 55,000 square feet to approximately 80,000 square feet:

- Student Organization Center
- Programming Space
- Student Lounge with Storage Lockers
- Meeting Rooms
- Multipurpose Room (seating 350-400)
- 2 Retail Food Establishments

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<sup>1</sup> FTEs (Full Time Equivalent Students) is a Planning/Budget number that represents annual units taken divided by 15.

## **CALIFORNIA STATE UNIVERSITY, HAYWARD**

### Management's Discussion and Analysis

June 30, 2003 and 2002

- Student Cultural & Women's Resource Center
- Cyber Cafe and Pub
- Information Center
- Quiet Study Space

The total projected cost is \$11.9 million, which will be paid for by system wide revenue bonds. The repayment of the principal and interest on the debt will be funded from an increase in the University Union mandatory fees, approved by student referendum in February 2000. One-sixth of the fee increase is allocated each year to student financial aid.

#### **Business and Technology Center**

The Business and Technology Center is Cal State Hayward's first new academic building since 1971. The center will provide a state-of-the-art home for programs in technology management, engineering, multimedia production, international trade, marketing, e-commerce and online degree programs. The Cal State Hayward Educational Foundation has raised \$8.3 million towards the \$10 million in private funds to augment funds of \$11.5 million from the Public Education Facilities Bond Act of 2002.

#### **Proposed Student, Faculty, and Staff Housing**

In order to provide much needed housing, Cal State Hayward is in the planning stages to develop housing in several phases. The initial phase will include 416 beds for students on the main campus. Subsequent phases will include faculty/staff housing on the main campus, followed by the development of faculty/staff housing on the Contra Costa campus. It is anticipated that development will be funded through system wide revenue bonds, the repayment of which will be provided through revenue generated from the new housing units.

#### **PeopleSoft Maintenance, Upgrades, and Implementation**

The campus will continue to maintain and upgrade the existing PeopleSoft Human Resources and Finance applications as needed, in order to remain current with the required functionality and technology. The necessary maintenance and upgrades, and the implementation of the Student Administration application will be performed in conjunction with system wide efforts. The current schedule for going live with the various upgrades and implementations is as follows:

- Maintain and upgrade Finance from FIS 7.5 to FIS 8.4 – January 2005
- Implement Student Administration SA – Fall 2007

#### **Energy Costs and Photo Voltaic Project**

Energy costs continue to be a concern in California. Current projections by the State Government anticipate continued cost increases. In an effort to mitigate these costs, beginning October 2003, University management is implementing photovoltaic energy equipment that takes advantage of solar energy to reduce dependency on traditional energy sources. One-half of the costs of the proposed equipment and installation will be funded by a grant from PG&E. The remaining costs will be financed and repaid from savings generated by the equipment in the initial years following installation.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Statement of Net Assets

June 30, 2003

Assets	University	Discretely presented component units GASB Auxiliary Organizations	Total
<b>Current assets:</b>			
Cash and cash equivalents	\$ 10,982,791	699,382	11,682,173
Short-term investments	20,766,426	15,660,570	36,426,996
Accounts receivable, net	10,496,704	2,311,770	12,808,474
Pledges receivable, net	—	1,366,757	1,366,757
Prepaid expenses and other assets	1,637,600	1,790,192	3,427,792
Total current assets	<u>43,883,521</u>	<u>21,828,671</u>	<u>65,712,192</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents	151,301	403,914	555,215
Accounts receivable, net	23,154,096	—	23,154,096
Student loans receivable, net	4,623,814	—	4,623,814
Other long-term investments	176,220	—	176,220
Capital assets, net	63,738,154	7,784,874	71,523,028
Other assets	—	1,052,416	1,052,416
Total noncurrent assets	<u>91,843,585</u>	<u>9,241,204</u>	<u>101,084,789</u>
Total assets	<u>135,727,106</u>	<u>31,069,875</u>	<u>166,796,981</u>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable	21,097,479	1,767,306	22,864,785
Accrued salaries and benefits payable	6,121,379	510,688	6,632,067
Accrued compensated absences	2,347,555	112,800	2,460,355
Deferred revenue	5,981,192	1,412,035	7,393,227
Long-term debt obligations – current portion	239,100	130,000	369,100
Self-insurance claims liability – current portion	1,966,671	—	1,966,671
Other liabilities	645,845	134,444	780,289
Total current liabilities	<u>38,399,221</u>	<u>4,067,273</u>	<u>42,466,494</u>
<b>Noncurrent liabilities:</b>			
Accrued compensated absences, net of current portion	3,271,980	—	3,271,980
Grants refundable	4,556,620	—	4,556,620
Long-term debt obligations, net of current portion	4,184,350	5,150,000	9,334,350
Self-insurance claims liability, net of current portion	3,419,329	—	3,419,329
Depository accounts	—	4,760,069	4,760,069
Other liabilities	—	1,435,441	1,435,441
Total noncurrent liabilities	<u>15,432,279</u>	<u>11,345,510</u>	<u>26,777,789</u>
Total liabilities	<u>53,831,500</u>	<u>15,412,783</u>	<u>69,244,283</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	59,119,965	2,504,874	61,624,839
Restricted for:			
Nonexpendable – endowments	384,746	945,167	1,329,913
Expendable:			
Scholarships and fellowships	389,838	3,334,799	3,724,637
Research	497,775	—	497,775
Loans	435,181	—	435,181
Capital projects	13,928,195	2,233,033	16,161,228
Debt service	133,063	—	133,063
Other	—	1,489,394	1,489,394
Unrestricted	7,006,843	5,149,825	12,156,668
Total net assets	<u>\$ 81,895,606</u>	<u>15,657,092</u>	<u>97,552,698</u>

See accompanying notes to basic financial statements.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2003

	<u>University</u>	<u>Discretely presented component units GASB Auxiliary Organizations</u>	<u>Total</u>
Revenues:			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of \$7,499,245)	\$ 36,803,386	1,619,279	38,422,665
Grants and contracts, noncapital:			
Federal	10,069,474	6,560,046	16,629,520
State and local	1,875,068	1,691,338	3,566,406
Nongovernmental	—	685,745	685,745
Sales and services of educational activities	1,103,651	—	1,103,651
Sales and services of auxiliary enterprises	4,200,851	8,856,594	13,057,445
Other operating revenues	4,796,107	1,987,886	6,783,993
Total operating revenues	<u>58,848,537</u>	<u>21,400,888</u>	<u>80,249,425</u>
Expenses:			
Operating expenses:			
Instruction	62,006,123	—	62,006,123
Research	347,913	7,995,108	8,343,021
Public service	309,695	—	309,695
Academic support	20,456,069	867,298	21,323,367
Student services	7,857,252	1,714,022	9,571,274
Institutional support	31,496,352	—	31,496,352
Operation and maintenance of plant	13,952,820	135,647	14,088,467
Student grants and scholarships	13,465,399	461,627	13,927,026
Auxiliary enterprise expenses	3,875,805	9,088,700	12,964,505
Depreciation	4,848,526	316,843	5,165,369
Total operating expenses	<u>158,615,954</u>	<u>20,579,245</u>	<u>179,195,199</u>
Operating (loss) income	<u>(99,767,417)</u>	<u>821,643</u>	<u>(98,945,774)</u>
Nonoperating revenues (expenses):			
State appropriations, noncapital	88,108,291	—	88,108,291
Gifts, noncapital	4,648,678	—	4,648,678
Investment income, net	1,050,432	347,272	1,397,704
Endowment income	740	162,873	163,613
Interest on capital-related debt	(233,835)	(280,392)	(514,227)
Other nonoperating revenues, net	127,501	—	127,501
Net nonoperating revenues	<u>93,701,807</u>	<u>229,753</u>	<u>93,931,560</u>
(Loss) income before state appropriations, capital	<u>(6,065,610)</u>	<u>1,051,396</u>	<u>(5,014,214)</u>
State appropriations, capital	<u>22,070,000</u>	<u>—</u>	<u>22,070,000</u>
Increase in net assets	16,004,390	1,051,396	17,055,786
Net assets:			
Net assets at beginning of year	65,891,216	14,605,696	80,496,912
Net assets at end of year	<u>\$ 81,895,606</u>	<u>15,657,092</u>	<u>97,552,698</u>

See accompanying notes to basic financial statements.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Statement of Cash Flows

Year ended June 30, 2003

	<u>University</u>	<u>Discretely presented component units GASB Auxiliary Organizations</u>
Cash flows from operating activities:		
Tuition and fees	\$ 36,934,481	1,399,381
Federal grants and contracts	9,825,864	9,245,352
State grants and contracts	1,875,068	144,762
Nongovernmental grants and contracts	—	1,102,394
Payments to suppliers	(28,612,691)	(8,931,290)
Payments to employees	(100,425,510)	(9,794,431)
Payments to students	(14,112,668)	(461,627)
Collections of student loans	650,189	—
Sales and services of auxiliary enterprises	4,133,872	9,032,830
Sales and services of educational activities	1,103,651	—
Other receipts	(1,186,637)	(464,953)
Net cash (used in) provided by operating activities	<u>(89,814,381)</u>	<u>1,272,418</u>
Cash flows from noncapital financing activities:		
State appropriations	90,787,630	—
Gifts and grants received for other than capital purposes	4,648,678	—
Federal loan program receipts	1,206,344	—
Federal loan program disbursements	(650,189)	—
Monies received on behalf of others	555,721	(95,986)
Monies disbursed on behalf of others	(472,868)	(63,205)
Other	(182,332)	403,914
Net cash provided by noncapital financing activities	<u>95,892,984</u>	<u>244,723</u>
Cash flows from capital and related financing activities:		
State appropriations	1,338,377	
Acquisition of capital assets	(1,427,327)	(61,131)
Principal paid on capital debt	(195,500)	(125,000)
Interest paid on capital debt and lease	(455,918)	(280,392)
Net cash used in capital and related financing activities	<u>(740,368)</u>	<u>(466,523)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	(1,718,313)	1,815,971
Investment income	1,050,432	197,552
Purchase of investments	(3,398,011)	(2,642,694)
Net cash used in investing activities	<u>(4,065,892)</u>	<u>(629,171)</u>
Net increase in cash and cash equivalents	1,272,343	421,447
Cash and cash equivalents at beginning of year	<u>9,861,749</u>	<u>681,849</u>
Cash and cash equivalents at end of year	\$ <u>11,134,092</u>	<u>1,103,296</u>

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Statements of Cash Flows

Year ended June 30, 2003 and 2002

	<u>University</u>	<u>Discretely presented component units GASB Auxiliary Organizations</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:		
Operating (loss) income	\$ (99,767,417)	821,643
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation expense	4,848,526	316,843
Change in assets and liabilities:		
Accounts receivable, net	1,927,320	149,689
Student loans receivable, net	2,920	—
Pledges receivable, net	—	(726,405)
Prepaid expenses and other assets	197,139	(130,931)
Accounts payable	557,324	148,691
Accrued salaries and benefits	61,279	(75,506)
Accrued compensated absences	550,266	(16,370)
Deferred revenue	341,072	293,181
Self insurance claims liability	1,591,000	—
Other liabilities	(123,810)	491,583
Net cash (used in) provided by operating activities	<u>\$ (89,814,381)</u>	<u>1,272,418</u>

See accompanying notes to basic financial statements.

# CALIFORNIA STATE UNIVERSITY, HAYWARD

## Notes to Basic Financial Statements

June 30, 2003

### (1) Organization

California State University, Hayward (the University) was established as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As one of 23 campuses in the California State University system (the System), the University is included in the basic 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 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*

The accompanying basic financial statements include the accounts of the University and the University's four recognized Auxiliary Organizations. These Auxiliary Organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized Auxiliary Organizations and may be obtained from the University.

The discretely presented Auxiliary Organizations are as follows:

- California State University, Hayward Foundation, Inc.
- Associated Students Inc. of California State University, Hayward
- University Union, Inc. of California State University, Hayward
- Cal State Hayward Educational Foundation, Inc.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

Summary information for the discretely presented Auxiliary Organizations as of June 30, 2003 is as follows:

	<b>California State University, Hayward Foundation</b>	<b>Other auxiliary organizations</b>	<b>Total</b>
Current assets	\$ 12,442,806	9,385,865	21,828,671
Noncurrent assets	1,456,330	—	1,456,330
Capital assets, net	6,981,276	803,598	7,784,874
Total assets	<u>\$ 20,880,412</u>	<u>10,189,463</u>	<u>31,069,875</u>
Current liabilities	\$ 3,303,104	764,169	4,067,273
Long-term liabilities	11,345,510	—	11,345,510
Total liabilities	<u>\$ 14,648,614</u>	<u>764,169</u>	<u>15,412,783</u>
Invested in capital assets, net of related debt	\$ 1,701,276	803,598	2,504,874
Restricted	—	8,002,393	8,002,393
Unrestricted	4,530,522	619,303	5,149,825
Total net assets	<u>\$ 6,231,798</u>	<u>9,425,294</u>	<u>15,657,092</u>
Student tuition and fees	\$ —	1,619,279	1,619,279
Grants and contracts, noncapital	8,776,444	160,685	8,937,129
Sales and services of auxiliary enterprises, net	7,577,997	1,278,597	8,856,594
Other	163,371	1,824,515	1,987,886
Total operating (program) revenue	<u>\$ 16,517,812</u>	<u>4,883,076</u>	<u>21,400,888</u>
Research	\$ 7,995,108	—	7,995,108
Academic support	—	867,298	867,298
Student services	—	1,714,022	1,714,022
Operation and maintenance of plant	135,647	—	135,647
Student grants and scholarships	—	461,627	461,627
Auxiliary enterprise expenses	8,151,822	936,878	9,088,700
Depreciation	222,615	94,228	316,843
Total operating expenses	<u>\$ 16,505,192</u>	<u>4,074,053</u>	<u>20,579,245</u>
Nonoperating revenues (expenses) and capital additions	\$ (66,736)	296,489	229,753
Beginning net assets	6,285,914	8,319,782	14,605,696
Ending net assets	<u>\$ 6,219,178</u>	<u>8,616,271</u>	<u>14,835,449</u>

The Auxiliary Organizations are presented in the accompanying basic 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, HAYWARD

## Notes to Basic Financial Statements

June 30, 2003

The basic financial statements present only the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

The basic financial statements required by GASB Statements 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 basic 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 basic 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.

**(c) *Election of Applicable FASB Statements***

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

**(d) *Classification of Current and Noncurrent Assets and Liabilities***

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

**(e) *Cash Equivalents***

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

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

**(f) Investments**

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

**(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. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying basic financial statements. Capital assets, with the exception of land, 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 40 years. Library books, unless rare collections, are capitalized and depreciated over a ten-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

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.

**(h) Deferred Revenue**

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

**(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 Loan program, an approved Title IV loan program. The federal government has the ability to terminate its support of the program at any time and to request return by the University of those contributions that it has made on a cumulative basis. Accordingly, the federal contributions received and retained by the University are considered to be liabilities of the University, and are reflected as such in the accompanying statement of net assets.

**(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.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

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

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

**Unrestricted** – All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the University. For example, if they have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures of net assets may be made, and require that unrestricted net assets be designated to support future operations in these areas. Campus housing programs are a primary example of operations that have unrestricted net assets with designated uses.

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

**(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. Certain other transactions are reported as nonoperating revenues and expenses or capital contributions in accordance with GASB Statement 35. These nonoperating activities include the University's operating and capital appropriations from the State of California, net investment income, gifts, and interest expense.

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

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

**(m) Income Taxes**

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

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

The University has not undergone any recent Internal Revenue Service or other state income tax audits and no taxes have been provided for any assessments that may result from such audits. In the opinion of management, any such possible assessments would not be material to the basic financial statements taken as a whole.

**(n) Estimates**

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

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

The deposits of the University that are maintained at financial institutions are fully insured or collateralized as required by state law. At June 30, 2003, cash consisted of demand deposits held at the State Treasury and petty cash. This cash of \$11,134,092 had a bank balance of \$11,137,006 at June 30, 2003. The differences related to deposits in transit and outstanding checks.

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

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

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

As of June 30, 2003, University investments are pooled; however, separate accounting is maintained as to the amounts allocable to the various funds and programs. Investments at fair value consisted of the following at June 30, 2003:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State of California Surplus Money			
Investment Fund	\$ 9,972,861	—	9,972,861
Metropolitan West Total Return Fund	6,978,970	—	6,978,970
Metropolitan West Short Term Fund	21,729	—	21,729
State of California Local Agency			
Investment Fund	3,792,866	—	3,792,866
Other	—	176,220	176,220
	<u>20,766,426</u>	<u>176,220</u>	<u>20,942,646</u>
Total	\$ <u>20,766,426</u>	<u>176,220</u>	<u>20,942,646</u>

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

**(4) Accounts Receivable**

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 2,528,191	23,152,837	25,681,028
Auxiliary organizations	4,396,571	—	4,396,571
Student accounts	2,466,949	—	2,466,949
Government grants and contracts	369,572	—	369,572
Other	866,590	1,259	867,849
	<u>10,627,873</u>	<u>23,154,096</u>	<u>33,781,969</u>
Less allowance for doubtful accounts	<u>(131,169)</u>	<u>—</u>	<u>(131,169)</u>
Total	<u>\$ 10,496,704</u>	<u>23,154,096</u>	<u>33,650,800</u>

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

**(5) Capital Assets**

Capital asset activity consisted of the following:

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2002</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2003</b>
Nondepreciable capital assets:				
Land and land improvements	\$ 3,253,785	—	—	3,253,785
Works of art and historical treasures	622,578	—	—	622,578
Construction work in progress	—	8,699,253	—	8,699,253
	<hr/>	<hr/>	<hr/>	<hr/>
Total nondepreciable capital assets	3,876,363	8,699,253	—	12,575,616
Depreciable capital assets:				
Buildings and building improvements	125,731,468	—	—	125,731,468
Improvements, other than buildings	11,946,499	198,698	—	12,145,197
Infrastructure	11,109,000	—	—	11,109,000
Personal property:				
Equipment	14,503,709	582,421	(803,204)	14,282,926
Library books and materials	12,645,760	218,083	(21,670)	12,842,173
Intangible assets	72,163	—	—	72,163
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciable capital assets	176,008,599	999,202	(824,874)	176,182,927
	<hr/>	<hr/>	<hr/>	<hr/>
Total cost	179,884,962	9,698,455	(824,874)	188,758,543
Less accumulated depreciation:				
Buildings and building improvements	86,305,590	2,150,683	—	88,456,273
Improvements, other than buildings	8,117,580	755,665	—	8,873,245
Infrastructure	3,997,038	276,513	—	4,273,551
Personal property:				
Equipment	11,019,777	1,293,216	—	12,312,993
Library books and materials	10,669,108	369,765	—	11,038,873
Intangible assets	62,770	2,684	—	65,454
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	120,171,863	4,848,526	—	125,020,389
	<hr/>	<hr/>	<hr/>	<hr/>
Net capital assets	\$ 59,713,099	4,849,929	(824,874)	63,738,154

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

**(6) Lease Obligations**

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

Operating leases consist of miscellaneous facility rentals and have terms expiring in various years through fiscal year 2011. The leases can be canceled if the state does not provide adequate funding.

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

	<b>Operating leases</b>
Year ending June 30:	
2004	\$ 486,639
2005	480,850
2006	461,622
2007	494,595
2008	494,595
2009-2013	<u>1,654,145</u>
Total minimum lease payments	<u>\$ 4,072,446</u>

Rent expense under operating leases for the year ended June 30, 2003 totaled \$493,238.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2003 totaled \$600,135,000.

**(7) Long-Term Debt Obligations**

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying basic financial statements. Total General Obligation Bond debt carried by the state related to California State University projects is approximately \$447,038,000 as of June 30, 2003.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

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

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

Long-term debt obligations of the University consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Student System Revenue Bonds Series AV	4.25% – 5.75%	2015/16	\$ 4,186,049	3,403,450
Student Union Revenue Bonds Series A	3.0% – 5.0%	2012/13	<u>1,065,000</u>	<u>1,020,000</u>
Total long-term debt obligations			<u>\$ 5,251,049</u>	<u>4,423,450</u>

Long-term debt principal obligations outstanding mature in the following fiscal years:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 239,100	223,444
2005	257,000	212,442
2006	274,900	200,140
2007	294,950	186,526
2008	315,000	171,783
2009 – 2013	1,926,650	587,586
2014 – 2018	<u>1,115,850</u>	<u>99,743</u>
	<u>\$ 4,423,450</u>	<u>1,681,664</u>

Long-term debt obligations of one of the University's discretely presented component units consisted of the following:

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

Bonds Payable – On September 28, 1995, \$5,980,000 of Auxiliary Organization Revenue Certificates of Participation were issued to provide the necessary funding of the development and construction of the Residential Life Village II and the defeasance of the bonds issued on April 30, 1992. The \$1,285,000 of Serial Certificates bears interest at rates ranging from 3.75% to 4.875% per annum. Interest is payable semiannually on June 1 and December 1 in each year, commencing on December 1, 1995. Principal payments commenced on June 1, 1996, and continue until June 1, 2005. The \$4,695,000 of Term Certificates bears interest at 6% per annum. Principal and unpaid interest will be due and payable on June 1, 2022. The bonds were issued at a discount in the amount of \$86,342, which is being amortized over the life of the bonds.

Bonds payable	\$	5,280,000
Less current portion		<u>130,000</u>
Total	\$	<u><u>5,150,000</u></u>

		<u>Principal</u>	<u>Interest</u>
For the year ended June 30:			
2004	\$	130,000	262,210
2005		140,000	256,140
2006		150,000	252,586
2007		150,000	244,248
2008		150,000	237,835
2009-2013		885,000	1,076,311
2014-2018		<u>3,675,000</u>	<u>1,390,337</u>
Total	\$	<u><u>5,280,000</u></u>	<u><u>3,719,667</u></u>

**(8) Current Year Bond Defeasance – Series A**

In the current fiscal year, the University defeased certain Series A bonds by placing the proceeds from the Systemwide Revenue Bonds Series 2002A refunding bonds in an irrevocable trust with the State Treasurer to provide for future debt service payments on the old bonds. The proceeds from the Series 2002A refunding bonds were used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures on November 1, 2012. For financial reporting purposes, all of the debt has been considered defeased and therefore removed as a liability of the University financial statements. As of June 30, 2003, the amount of defeased bonds outstanding but removed from long-term liabilities totaled \$1,020,000.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

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

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 5,069,269	2,897,821	2,347,555	5,619,535	2,347,555
Self insurance claims liability	3,795,000	1,591,000		5,386,000	1,966,671
Long-term debt obligation:					
Housing System Revenue Bonds	3,553,950	—	150,500	3,403,450	159,100
Student Union Revenue Bonds	1,065,000	—	45,000	1,020,000	80,000
Total long-term liabilities	\$ <u>13,483,219</u>	<u>4,488,821</u>	<u>2,543,055</u>	<u>15,428,985</u>	<u>4,553,326</u>

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

**(a) Plan Description**

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

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

**(b) Funding Policy**

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 4.23% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2001	\$ 64,371
2002	2,919,221
2003	5,173,807

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003

**(11) Self-Insurance Claims Liability**

The System and certain Auxiliary Organizations have established a public entity risk pool to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The liability included in the accompanying basic financial statements reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2003. The liability includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The liability is estimated through an actuarial calculation using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonably adequate at June 30, 2003.

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

Liability at June 30, 2001	\$ 72,151,000
Incurred claims and changes in estimates	60,204,000
Claim payments	<u>(29,832,000)</u>
Liability at June 30, 2002	102,523,000
Incurred claims and changes in estimates	42,819,000
Claim payments	<u>(40,971,000)</u>
Liability at June 30, 2003	104,371,000
Less current portion	<u>32,520,000</u>
	<u>\$ 71,851,000</u>

The System maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$24,000,000 per occurrence. The System also maintains excess workers' compensation insurance provided by SELF for individual claims over \$350,000 per occurrence. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

The University's allocation of the total self-insurance claims liability as of June 30, 2003 was approximately 7%, or \$5,386,000, of which \$1,966,671 are considered to be current liabilities. These amounts have been recorded in the accompanying basic financial statements.

**(12) Commitments and Contingencies**

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

Authorized expenditures for construction projects unexpended as of June 30, 2003 totaled \$13,928,195. These expenditures will be funded primarily from state appropriations.

**CALIFORNIA STATE UNIVERSITY, HAYWARD**

Notes to Basic Financial Statements

June 30, 2003 and 2002

**(13) Classification of Operating Expenses**

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

<u>2003</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 43,855,232	8,886,933	—	9,263,958	—	62,006,123
Research	—	—	—	347,913	—	347,913
Public service	—	—	—	309,695	—	309,695
Academic support	10,853,938	2,331,793	—	7,270,338	—	20,456,069
Student services	8,492,094	1,898,606	—	(2,533,448)	—	7,857,252
Institutional support	15,243,849	3,547,297	—	12,705,206	—	31,496,352
Operation and maintenance of plant	4,531,694	1,395,619	—	8,025,507	—	13,952,820
Student grants and scholarships	—	—	13,465,399	—	—	13,465,399
Auxiliary enterprise expenses	—	—	—	3,875,805	—	3,875,805
Depreciation	—	—	—	—	4,848,526	4,848,526
<b>Total</b>	<b>\$ 82,976,807</b>	<b>18,060,248</b>	<b>13,465,399</b>	<b>39,264,974</b>	<b>4,848,526</b>	<b>158,615,954</b>

**(14) Transactions with Related Entities**

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations allocated to the University through the Office of the Chancellor aggregated \$110,178,291 for the year ended June 30, 2003. State appropriations receivable aggregated \$25,681,028 as of June 30, 2003.

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

As discussed at notes 6 and 7, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying basic financial statements. For the year ended June 30, 2003, \$428,125 of all additions of capital assets are included in the accompanying basic financial statements.

The accompanying basic financial statements also include the following transactions with discretely presented Auxiliary Organizations and Other related parties:

Amounts receivable from the Office of the Chancellor	\$ 243
Amounts payable to recognized Auxiliary Organizations	238,231