

CALIFORNIA STATE UNIVERSITY, HAYWARD

Combined Financial Statements

June 30, 1998

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

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

We have audited the accompanying combined balance sheet of California State University, Hayward (the University) as of June 30, 1998 and the related combined statements of changes in fund balances and net assets and current funds revenues, expenditures and other changes for the year then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of the discretely presented auxiliary organizations, which statements reflect total assets constituting 13 percent and total revenues constituting 9 percent of the total reporting entity. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented auxiliary organizations, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

In our opinion, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 1998, and the changes in its fund balances and net assets and its current funds revenue, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

KPMG LLP

October 16, 1998, except as to note 12
which is as of May 12, 1999

CALIFORNIA STATE UNIVERSITY, HAYWARD

Combined Balance Sheet

June 30, 1998

Assets	Current funds		Loan funds	Endowment funds	Agency funds	Plant Funds	Total University (memorandum only)	Auxiliary organizations	Total reporting entity (memorandum only)
	Unrestricted	Restricted							
Cash and cash equivalents	\$ 4,991,738	221,208	1,055	2,935	71,089	—	5,288,025	2,558,195	7,846,220
Accounts receivable, net	7,113,745	508,082	4,369,685	—	—	250,131	12,241,643	1,399,401	13,641,044
Investments	10,700,335	373,000	313,000	355,000	155,000	—	11,896,335	9,144,482	21,040,817
Due from other funds	125,404	—	6,292	—	474,000	49,013	654,709	—	654,709
Prepaid expenses and other assets	1,852,941	—	—	—	—	—	1,852,941	2,127,932	3,980,873
Property, plant and equipment, net	—	—	—	—	—	126,521,877	126,521,877	8,831,510	135,353,387
Total assets	\$ 24,784,163	1,102,290	4,690,032	357,935	700,089	126,821,021	158,455,530	24,061,520	182,517,050
Liabilities, Fund Balances and Net Assets									
Liabilities:									
Accounts payable	3,189,493	16,124	—	—	—	—	3,205,617	872,654	4,078,271
Accrued salaries and benefits payable	5,329,187	—	—	—	—	—	5,329,187	242,419	5,571,606
Due to other funds	56,171	565,054	—	—	—	33,484	654,709	—	654,709
Deferred revenues	3,560,358	—	—	—	—	—	3,560,358	—	3,560,358
Accrued compensated absences	4,447,911	—	—	—	—	—	4,447,911	93,820	4,541,731
Capitalized lease obligations	—	—	—	—	—	285,395	285,395	—	285,395
Long-term debt obligations	—	—	—	—	—	5,318,297	5,318,297	11,045,000	16,363,297
Self-insurance claims liability	2,014,000	—	—	—	—	—	2,014,000	—	2,014,000
Depository accounts	—	—	—	—	700,089	—	700,089	—	700,089
Other liabilities	27,905	—	—	—	—	49,013	76,918	4,863,627	4,940,545
Total liabilities	18,625,025	581,178	—	—	700,089	5,686,189	25,592,481	17,117,520	42,710,001
Fund balances and net assets:									
Fund balances:									
Unrestricted – designated	6,159,138	—	—	—	—	—	6,159,138	—	6,159,138
Unrestricted – undesignated	—	—	—	—	—	—	—	903,057	903,057
Restricted	—	521,112	4,690,032	357,935	—	—	5,569,079	—	5,569,079
Unexpended plant, restricted	—	—	—	—	—	216,647	216,647	—	216,647
Net investment in plant	—	—	—	—	—	120,918,185	120,918,185	928,105	121,846,290
Total fund balances	6,159,138	521,112	4,690,032	357,935	—	121,134,832	132,863,049	1,831,162	134,694,211
Net assets:									
Unrestricted	—	—	—	—	—	—	—	5,112,838	5,112,838
Total net assets	—	—	—	—	—	—	—	5,112,838	5,112,838
Total fund balances and net assets	6,159,138	521,112	4,690,032	357,935	—	121,134,832	132,863,049	6,944,000	139,807,049
Total liabilities, fund balances and net assets	\$ 24,784,163	1,102,290	4,690,032	357,935	700,089	126,821,021	158,455,530	24,061,520	182,517,050

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY, HAYWARD
 Combined Statement of Changes in Fund Balances and Net Assets
 Year ended June 30, 1998

	<u>Current funds</u>		<u>Loan funds</u>	<u>Endowment funds</u>	<u>Plant funds</u>	<u>Total University (memorandum only)</u>	<u>Auxiliary Organizations</u>	<u>Total reporting entity (memorandum only)</u>
	<u>Unrestricted</u>	<u>Restricted</u>						
Revenues and other additions:								
State appropriations	\$ 69,141,963	—	—	—	214,142	69,356,105	—	69,356,105
Fees and tuition	34,775,921	—	—	—	—	34,775,921	1,499,015	36,274,936
Investment income	925,462	8,209	115,382	—	—	1,049,053	193,702	1,242,755
Endowment income	—	59,832	—	1,186	—	61,018	—	61,018
Federal grants and contracts	106,475	6,300,953	4,730	—	—	6,412,158	2,528,796	8,940,954
State grants and contracts	95,146	1,289,910	—	—	—	1,385,056	386,125	1,771,181
Private gifts, grants, and contracts	1,225,873	419,509	—	1,499	—	1,646,881	733,427	2,380,308
Sales and service of educational activities	774,751	57,035	—	—	—	831,786	—	831,786
Sales and service of auxiliary enterprises	3,618,728	—	—	—	—	3,618,728	7,634,576	11,253,304
Expended for plant facilities (including current funds of \$1,464,201)	—	—	—	—	6,837,434	6,837,434	—	6,837,434
Retirement of indebtedness	—	—	—	—	520,432	520,432	—	520,432
Other	613,843	4,472	103,789	—	5,373,233	6,095,337	45,595	6,140,932
Total revenues and other additions	111,278,162	8,139,920	223,901	2,685	12,945,241	132,589,909	13,021,236	145,611,145
Expenditures and other deductions:								
Educational and general:								
Instruction	51,262,155	185,690	—	—	—	51,447,845	1,202,402	52,650,247
Research	—	—	—	—	—	—	1,857,239	1,857,239
Public service	151,119	56,459	—	—	—	207,578	—	207,578
Academic support	11,246,373	309,291	—	—	—	11,555,664	—	11,555,664
Student services	11,566,530	87,006	—	—	—	11,653,536	92,214	11,745,750
Institutional support	20,163,285	26,630	—	—	—	20,189,915	13,044	20,202,959
Operation and maintenance of plant	8,500,609	8,978	—	—	—	8,509,587	146,075	8,655,662
Student grants and scholarships	4,603,534	7,717,078	—	—	—	12,320,612	—	12,320,612
Total educational and general expenditures	107,493,605	8,391,132	—	—	—	115,884,737	3,310,974	119,195,711
Other expenditures:								
Auxiliary enterprise expenditures	2,328,513	—	—	—	—	2,328,513	8,359,560	10,688,073
Loan cancellations and write-offs	—	—	69,056	—	—	69,056	—	69,056
Expended for plant facilities (including noncapitalized of \$283,558)	—	—	—	—	5,656,791	5,656,791	—	5,656,791
Retirement of indebtedness	—	—	—	—	520,432	520,432	—	520,432
Interest on indebtedness	—	—	—	—	334,715	334,715	444,648	779,363
Disposal of plant facilities	—	—	—	—	337,642	337,642	70,000	407,642
Other	—	—	—	477,457	—	477,457	—	477,457
Total other expenditures	2,328,513	—	69,056	477,457	6,849,580	9,724,606	8,874,208	18,598,814
Total expenditures and other deductions	109,822,118	8,391,132	69,056	477,457	6,849,580	125,609,343	12,185,182	137,794,525
Transfers among funds – additions (deductions):								
Mandatory transfers:								
Federal program matching	(123,977)	117,685	6,292	—	—	—	—	—
Principal and interest	(744,278)	—	—	—	744,278	—	—	—
Payments on capital lease obligations	(110,869)	—	—	—	110,869	—	—	—
Total transfers	(979,124)	117,685	6,292	—	855,147	—	—	—
Net increase (decrease) in fund balances and net assets	476,920	(133,527)	161,137	(474,772)	6,950,808	6,980,566	836,054	7,816,620
Fund balance and net assets at beginning of year	5,682,218	654,639	4,528,895	832,707	114,184,024	125,882,483	6,107,946	131,990,429
Fund balance and net assets at end of year	\$ 6,159,138	521,112	4,690,032	357,935	121,134,832	132,863,049	6,944,000	139,807,049

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Combined Statement of Current Funds Revenues, Expenditures and Other Changes

Year ended June 30, 1998

	Current Funds		Total (memorandum only)
	Unrestricted	Restricted	
Revenues:			
State appropriations	\$ 69,141,963	—	69,141,963
Fees and tuition	34,775,921	—	34,775,921
Investment income	925,462	8,209	933,671
Endowment income	—	59,832	59,832
Federal grants and contracts	106,475	6,300,953	6,407,428
State grants and contracts	95,146	1,289,910	1,385,056
Private gifts, grants, and contracts	1,225,873	553,036	1,778,909
Sales and service of educational activities	774,751	57,035	831,786
Sales and service of auxiliary enterprises	3,618,728	—	3,618,728
Other	613,843	4,472	618,315
Total current revenues	111,278,162	8,273,447	119,551,609
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	51,262,155	185,690	51,447,845
Public service	151,119	56,459	207,578
Academic support	11,246,373	309,291	11,555,664
Student services	11,566,530	87,006	11,653,536
Institutional support	20,163,285	26,630	20,189,915
Operation and maintenance of plant	8,500,609	8,978	8,509,587
Student grants and scholarships	4,603,534	7,717,078	12,320,612
Total educational and general expenditures	107,493,605	8,391,132	115,884,737
Auxiliary enterprises expenditures	2,328,513	—	2,328,513
Transfers among funds – additions (deductions):			
Mandatory transfers:			
Federal program matching	(123,977)	117,685	(6,292)
Principal and interest	(744,278)	—	(744,278)
Payments on capital lease obligations	(110,869)	—	(110,869)
Total transfers	(979,124)	117,685	(861,439)
Total expenditures and transfers	110,801,242	8,273,447	119,074,689
Excess of restricted receipts over transfers to revenues	—	(133,527)	(133,527)
Net increase (decrease) in fund balances	\$ 476,920	(133,527)	343,393

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

(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 22 campuses in the California State University system (the System), the University is included in the combined financial statements of the System. Responsibility for the System is vested in the Trustees of California State University (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, master's and certificate programs, and operates various auxiliary enterprises such as student housing 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 combined 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 discretely presented Auxiliary Organizations are as follows:

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

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

Summary information for the discretely presented Auxiliary Organizations is as follows:

	California State University, Hayward Foundation, Inc.	University Union of California State University, Hayward	Associated Students, California State University, Hayward	Total
Current assets	\$ 8,014,924	769,019	707,419	9,491,362
Investment in plant	7,903,405	61,771	866,334	8,831,510
Current liabilities	5,499,139	252,089	321,292	6,072,520
Long-term liabilities	11,045,000	—	—	11,045,000
Revenues	10,359,119	1,527,300	1,134,817	13,021,236
Current expenditures	9,138,998	1,471,190	1,130,346	11,740,534
Debt service expenditures	444,648	—	—	444,648
Excess of revenues over expenditures	775,473	56,110	4,471	836,054

The Auxiliary Organizations are presented in the accompanying combined 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.

(b) Basis of Presentation

The accompanying combined financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and the financial statement model of the American Institute of Certified Public Accountants' Industry Audit Guide, *Audits of Colleges and Universities*.

The accompanying combined statement of current funds revenue, expenditures and other changes is a statement of financial activities of funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income and expense.

(c) Fund Accounting

In order to ensure the observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. This is done in accordance with regulations, restrictions or limitations imposed by donors or sponsoring agencies outside the University, or in accordance with directives issued by the Trustees.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance and changes in the fund balance. Separate accounts are maintained for each fund; however, funds with similar characteristics are combined into fund groups for reporting purposes. The funds maintained by the University are as follows:

- **Current Funds** – Used primarily to account for transactions that are expended in performing the primary and support objectives of the University, i.e., instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary enterprise activities. Current funds are segregated into separately balanced fund groups as follows:

Unrestricted – Used to account for transactions related to the University’s general fund appropriations, its operation of extended education programs, its portion of State of California lottery revenues allocated to the System and the activities of auxiliary enterprises and other substantially self-supporting activities. Extended education instructional programs include master’s, certificate and other non-degree programs. Lottery revenues are used to support augmented instructional programs for specific purposes not necessarily funded from general fund appropriations. Auxiliary enterprises include, but are not limited to, parking and student housing and are separate and distinct from the recognized Auxiliary Organizations discussed in the Financial Reporting Entity section above. Whereas assets, liabilities and fund balances of auxiliary enterprises are combined with other unrestricted current funds for reporting purposes, revenue and expenditures of auxiliary enterprises are reported separately. Self-supporting activities primarily provide services for students, faculty and staff and are funded by fees, unrestricted gifts and other income designated for specific purposes by the Trustees.

Fund balances, even though considered unrestricted for reporting purposes, have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures from the funds may be made and require that fund balances be designated to support future operations in those areas. Primary among the funds that have designated uses are those related to the operations of the campus housing program.

Restricted – Used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

- **Loan Funds** – Consist of funds received primarily from the Federal government for student loans. Funds under Federal loan programs may be re-loaned after collection, but are ultimately refundable to the Federal government.
- **Endowment Funds** – Consist of donated funds that, as a condition of gift instruments, generally require principal to be invested in perpetuity.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

- **Agency Funds** – Consist primarily of resources held by the University on behalf of others. As these funds are custodial in nature and transactions do not represent activities carried out by the University, such transactions are not included in the combined statement of changes in fund balances.
- **Plant Funds** – Consist primarily of property, plant, equipment, library books, bound periodicals and collections and the related debt. This fund also accounts for transactions related to the University's State of California capital outlay appropriations.

(d) Investments

University investments are reflected at fair value.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost or estimated historical cost when purchased or at estimated fair value when donated. Equipment with a value of less than \$5,000 is not capitalized. Title to all assets, whether purchased, constructed or donated, is held by the State of California. No provision for depreciation has been recorded in the accompanying combined financial statements for these assets.

(f) Due to/from Other Funds

All interfund borrowings and claims are generally payable within one year without interest.

(g) Deferred Revenues

Deferred revenues consist primarily of fees collected in advance for summer session and continuing education programs.

(h) Compensated Absences

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

(i) State Appropriations

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 in either the Current Unrestricted Fund when used to support general operations or in the Plant Fund when used for capital projects. State appropriations revert back to the State of California after five years.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

(j) *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 which 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 combined financial statements taken as a whole.

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

(k) *Estimates*

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

(l) *Total Columns*

The total columns on the accompanying combined financial statements are captioned (memorandum only) to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation as interfund eliminations have not been made. Therefore, amounts in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles.

(3) *Cash, Cash Equivalents and Investments*

The deposits of the University, included as cash and cash equivalents in the accompanying combined financial statements, are maintained at financial institutions and are fully insured or collateralized as required by state law.

State law and regulations stipulate the eligible securities for investment of surplus monies for the University. The System'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.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

At June 30, 1998, University investments are pooled at both the campus and systemwide levels. Separate accounting is maintained as to the amounts allocable to the various campuses, funds and programs. Investments at carrying value for the University consisted of the following at June 30, 1998:

	Carrying amount
Met West Total Return Fund	3,508,102
Met West Short-Term Fund	14,459
State of California Surplus Money Investment Fund	7,580,824
Other investments	792,950
	<u>11,896,335</u>
	\$ <u>11,896,335</u>

(4) Receivables

Receivables at June 30, 1998, by fund, consisted of the following:

Current Unrestricted Funds:	
State appropriations	\$ 2,191,377
Auxiliary organizations	3,806,085
Student accounts, net of allowance for doubtful accounts of \$1,041,547	632,010
Other, net of allowance for doubtful accounts of \$92,575	484,273
	<u>7,113,745</u>
	\$ <u>7,113,745</u>
Current Restricted Funds:	
Government grants and contracts	\$ 496,744
Other	11,338
	<u>508,082</u>
	\$ <u>508,082</u>
Loan Funds:	
Government grants and contracts	\$ 140,265
Student loans receivable, net of allowance for doubtful accounts of \$552,703)	4,229,420
	<u>4,369,685</u>
	\$ <u>4,369,685</u>
Plant Funds:	
State appropriations	\$ 244,038
Other	6,093
	<u>250,131</u>
	\$ <u>250,131</u>

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

(5) Property, Plant and Equipment

Property, plant and equipment at June 30, 1998 consisted of the following:

Land	\$ 3,789,747
Buildings and building improvements	81,420,378
Improvements, other than buildings	8,508,173
Equipment	12,621,679
Library books, bound periodicals and collections	11,114,159
Construction work in process	<u>9,067,741</u>
	<u>\$ 126,521,877</u>

(6) Lease Obligations

The University is obligated under a capital lease agreement for the acquisition of energy efficient equipment with a carrying value of \$495,000 at June 30, 1998. The lease bears an interest rate of 5% and has a term expiring in 2001.

Future minimum lease payments under the capital lease agreement are as follows:

Year ending June 30:	
1999	\$ 103,000
2000	103,000
2001	<u>103,000</u>
Total minimum lease payments	309,000
Less amount representing interest	<u>(23,605)</u>
Present value of future minimum lease payments	<u>\$ 285,395</u>

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, 1998 totaled approximately \$761,916,000.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

(7) Long-Term Debt Obligations

(a) *General Obligation Bond Program*

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University and the Community Colleges. Financing provided to the System 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 combined financial statements. Total General Obligation Bond debt carried by the state related to California State University projects is approximately \$565,269,000.

(b) *Revenue Bond Programs*

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, 1998 consist of campus student housing and student union bonds.

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

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

The net revenues from the housing program and student union fees are pledged to retire the related revenue bonds.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

Long-term debt obligations of the University as of June 30, 1998 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>
Housing System Revenue				
Bonds Series AV	4.25 – 5.57%	2015/16	\$ 4,186,049	4,072,100
Student Union Revenue				
Bonds Series A	5.50 – 7.50%	2012/13	1,415,000	1,230,000
Pacificorp – Payments for digital equipment – VAX	10%	1998/99	1,454,376	16,197
Total long-term debt obligations			\$ 7,055,425	5,318,297

Long-term debt principal obligations outstanding at June 30, 1998 mature in the following fiscal years:

1999	\$ 184,447
2000	176,850
2001	188,300
2002	199,750
2003	215,500
2004 and thereafter	4,353,450
	\$ 5,318,297

(8) 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.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

(b) Funding Policy

University personnel are required to contribute 5% of their monthly 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 13% 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:

1996	\$	6,249,305
1997		7,131,859
1998		7,436,473

(9) Self-Insurance Claims Liability

The System and certain of its Auxiliary Organizations have established a public entity risk pool to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks on a systemwide basis. The liability included in the accompanying combined financial statements reflects the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 1998. 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 have not been reported. The liability is estimated through an actuarial calculation using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonably adequate at June 30, 1998. Changes in the System's self-insurance claims liability for the two years ended June 30, 1998 are as follows:

Liability at July 1, 1996	\$	53,000,000
Incurred claims and changes in estimates		16,000,000
Claim payments		<u>(18,000,000)</u>
Liability at June 30, 1997		51,000,000
Incurred claims and changes in estimates		29,000,000
Claim payments		<u>(19,000,000)</u>
Liability at June 30, 1998	\$	<u>61,000,000</u>

At June 30, 1998, approximately \$14,000,000 in assets have been set aside to fund the claims liability. The University 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 University 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.

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

The University's allocation of the total System's self-insurance claims liability as of June 30, 1998 was approximately 4.24%, or \$2,014,000, and has been recorded in the accompanying combined financial statements.

(10) 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, 1998 totaled \$33,371. These expenditures will be funded primarily from state appropriations.

(11) 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 \$69,356,105 for the year ended June 30, 1998. State appropriations receivable aggregated \$2,435,415 at June 30, 1998.

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

As discussed at notes 6 and 7, the University has recorded property, plant and equipment which were financed by System or State of California obligations which have not been allocated to the University. For the year ended June 30, 1998, such additions of property, plant and equipment totaled \$5,373,233 and are included in other revenue in the plant fund in the accompanying statement of changes in fund balances.

The accompanying combined financial statements also include the following transactions with related parties:

Reimbursements from Auxiliary Organizations for salaries of University employees working on contracts, grants and other programs	\$	567,954
Amounts receivable from (payable to) other CSU campuses		61,380
Amounts receivable from (payable to) Auxiliary Organizations		3,806,085

CALIFORNIA STATE UNIVERSITY, HAYWARD

Notes to Combined Financial Statements

June 30, 1998

(12) New Accounting Standard

On March 29, 1999, the Governmental Accounting Standards Board issued Technical Bulletin 99-1 (TB 99-1), *Disclosures about Year 2000 Issues* – an amendment of Technical Bulletin 98-1. The amendment, among other things, provides that required year 2000 disclosures may be presented as required supplementary information. Retroactive application of TB 99-1 is permitted. The University has elected to apply TB 99-1 retroactively for its 1998 basic financial statements, and to present the year 2000 disclosures as required supplementary information on page 18.

Report on Required Supplementary Information

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

We have audited the combined financial statements of California State University, Hayward (the University) as of and for the year ended June 30, 1998, and have issued our report thereon dated October 16, 1998, except as to note 12, which is as of May 12, 1999. Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The year 2000 supplementary information on page 18 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standard Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

KPMG LLP

May 12, 1999

CALIFORNIA STATE UNIVERSITY, HAYWARD

Required Supplementary Information

June 30, 1998

Year 2000 Issues

In accordance with GASB Technical Bulletin 98-1, "Disclosure about Year 2000 Issues," as amended by GASB Technical Bulletin 99-1, "Disclosures about Year 2000 Issues – an amendment of Technical Bulletin 98-1," the University's remediation efforts are described in the following stages:

Awareness Stage - This stage includes preparation of budgets and project plans for dealing with the year 2000 issue.

Assessment Stage - This stage includes identifying systems for year 2000 compliance.

Remediation Stage - This stage deals primarily with the technical issues of converting existing systems to year 2000 compliant systems, or switching to compliant systems.

Validation/Testing Stage - This stage includes validating and testing the changes made during the conversion process.

The University has identified the following functional areas as the focus of Year 2000 remediation efforts, along with the various stages of such efforts. The stages are presented as ranges below based upon the progress of the University in those remediation efforts.

<u>Systems</u>	<u>Range</u>
Application Software	Remediation → Validation/Testing
Mainframe Systems	Assessment → Validation/Testing
Server/Network Systems	Assessment → Validation/Testing
Desktop Systems	Assessment → Validation/Testing
Physical Plant Embedded Systems	Awareness → Assessment
Telecommunications Systems	Assessment → Validation/Testing
Academic Equipment (Embedded Systems)	Awareness → Assessment
Other Activities (Auxiliaries, Libraries, etc.)	Awareness → Validation/Testing

There can be no assurance that the systems or products of other companies or agencies upon which the University's systems rely will be converted timely or that any such failure to convert by a vendor, customer or another agency would not have an adverse effect on the University's systems or operation.