



CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

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KPMG LLP
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Independent Auditors' Report

Jeffrey D. Armstrong, President
California Polytechnic State University, San Luis Obispo:

We have audited the accompanying financial statements of California Polytechnic State University, San Luis Obispo (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2011, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented auxiliary organizations of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented auxiliary organizations, are based solely on the reports of the other auditors.

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

As discussed in note 2 to the financial statements, the financial statements of the University are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2011, the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinions, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of California Polytechnic State University, San Luis Obispo and of its aggregate discretely presented component units as of June 30, 2011, and the respective changes in their financial position and, where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.



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

KPMG LLP

April 30, 2012

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Management's Discussion and Analysis

June 30, 2011

This section of California Polytechnic State University, San Luis Obispo's (the University) annual financial report presents the University's discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

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

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

Analytical Overview

Summary

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

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Management's Discussion and Analysis

June 30, 2011

The University's condensed summary of net assets as of June 30, 2011 and 2010 is as follows:

Condensed Summary of Net Assets

	June 30	
	2011	2010
Assets:		
Current assets	\$ 104,593,241	91,669,287
Capital assets	704,961,102	662,254,645
Other noncurrent assets	187,386,487	141,671,934
Total assets	<u>996,940,830</u>	<u>895,595,866</u>
Liabilities:		
Current liabilities	59,511,091	49,453,874
Long-term debt obligations, net of current portion	443,118,221	446,424,680
Other noncurrent liabilities	16,692,380	18,679,888
Total liabilities	<u>519,321,692</u>	<u>514,558,442</u>
Net assets:		
Invested in capital assets, net of related debt	296,383,917	286,042,032
Restricted, nonexpendable	3,653,575	3,514,395
Restricted, expendable	74,238,466	15,084,990
Unrestricted	103,343,180	76,396,007
Total net assets	<u>\$ 477,619,138</u>	<u>381,037,424</u>

Assets

Total assets increased \$101.3 million from prior year due to a \$12.9 million increase in current assets, a \$42.7 million increase in capital assets, and a \$45.7 million increase in other noncurrent assets. Total current assets increased primarily due to an increase in short-term investments of \$14.7 million, offset by a decrease in accounts receivable of \$1.6 million. The increase in short-term investments is directly related to the increase in the composition of investments being used to fund current operations and the decrease in long-term investments being used to fund capital improvements and major capital projects.

Net capital assets increased \$42.7 million, or 6.5%, primarily due to \$74.6 million of current year additions, offset by \$31.3 million in current year depreciation expense. Capital asset additions primarily comprise construction work in progress for the following projects: \$37.8 million for the Recreation Center Expansion, \$18.0 million for the Center for Science, \$4.1 million for the Meat Processing Center, and \$4.9 million for the thermal energy storage tank.

Other noncurrent assets increased \$45.7 million, or 32.3%, primarily due to a \$78.9 million increase in accounts receivable, offset by a \$32.5 million decrease in other long-term investments. Noncurrent accounts receivables increased due to unspent state appropriation proceeds for the Center for Science appropriated in the current year. Long-term investments decreased due to increased spending of long-term investments used to fund capital improvements and major capital projects. The largest decrease was \$40.7 million from the Student Union

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Management's Discussion and Analysis

June 30, 2011

Recreation Center Expansion construction project, which is offset by an increase of \$7.4 million of Student Union fees reserved for future funding of capital projects and improvements.

Liabilities

Total liabilities increased \$4.8 million, or 0.9%, due to a \$10.1 million increase in current liabilities, offset by a \$5.3 million decrease in noncurrent liabilities. The increase in current liabilities is primarily due to a \$5.1 million increase in accounts payable and a \$2.2 million shift in accrued compensated absences from long-term to short-term. Accounts payable increased as a result of \$7.0 million in ongoing construction expenses from the Recreation Center Expansion project and Center for Science project. The increase in accounts payable was offset by the completion of two projects within Student Union construction and a onetime \$2.9 million prior year purchase of housing equipment.

Non-current liabilities decreased primarily due to \$1.2 million in debt retirement from Housing Series 2002A revenue bonds and a \$4.0 million decrease in accrued compensated absences. The decrease in accrued compensated absences is indicative of more leave being taken in the current year as a result of mandated furloughs in the prior year.

Net Assets

The University's net assets totaled \$477.6 million at the end of the fiscal year, compared to \$381.0 million in the previous year, an increase of \$96.6 million, or 25.4%. A significant portion, \$296.4 million, of net assets at the end of the year is Invested in Capital Assets, net of related debt; however, the overall increase in net assets came primarily from Restricted-expendable for Capital Projects, Invested in Capital Assets and Unrestricted net assets.

Restricted-expendable for Capital Projects increased \$61.7 million from the prior year primarily due to the receipt of \$97.0 million in new capital state appropriation funding for the Center for Science. The increase is offset by \$33.1 million of capitalized expenses transferred to Invested in Capital Assets, net of related debt, for the Center for Science and the Recreation Center Expansion construction project additions.

Unrestricted net assets represent other net resources available to the University for general and educational obligations. Unrestricted net assets increased \$26.9 million from \$76.4 million to \$103.3 million as of June 30, 2010 and 2011, respectively. The current year increase in unrestricted net assets is \$3.6 million less than the prior year increase and is a result of various factors discussed in other sections noted.

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Management's Discussion and Analysis

June 30, 2011

Restricted Resources

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

Restricted Net Assets

	June 30	
	2011	2010
Nonexpendable		
Endowments	\$ 3,653,575	3,514,395
Expendable:		
Scholarships and fellowships	4,306,421	4,306,228
Loans	2,713,442	2,475,580
Capital projects	65,108,581	3,371,207
Debt service	1,793,621	4,683,709
Other	316,401	248,266
Total restricted net assets – expendable	74,238,466	15,084,990
Total restricted net assets	\$ 77,892,041	18,599,385

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

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Management's Discussion and Analysis

June 30, 2011

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010 is as follows:

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

	Year ended June 30	
	2011	2010
Operating revenues:		
Student tuition and fees, net	\$ 112,451,653	106,427,726
Sales and services of auxiliary enterprises, net	39,016,599	36,906,914
Other operating revenues	19,592,377	10,774,038
Total operating revenues	<u>171,060,629</u>	<u>154,108,678</u>
Operating expenses	<u>(327,492,157)</u>	<u>(299,746,566)</u>
Operating loss	<u>(156,431,528)</u>	<u>(145,637,888)</u>
Nonoperating revenues (expenses):		
State appropriations, noncapital	121,965,308	111,147,171
Federal financial aid grants, noncapital	17,439,534	16,295,245
State financial aid grants, noncapital	8,588,750	8,075,522
Other federal nonoperating grants, noncapital	8,855,661	23,932,970
Gifts, noncapital	5,203,150	11,321,177
Investment income, net	771,628	394,292
Endowment income, net	18,278	21,279
Interest expense	(20,656,601)	(18,148,385)
Other nonoperating revenues, net	9,357,391	(440,224)
Total nonoperating revenues	<u>151,543,099</u>	<u>152,599,047</u>
Income (loss) before other additions	(4,888,429)	6,961,159
State appropriations, capital	97,044,164	945,000
Grants and gifts, capital	4,386,317	3,171,122
Additions to permanent endowments	39,662	13,300
Increase in net assets	<u>96,581,714</u>	<u>11,090,581</u>
Beginning net assets	<u>381,037,424</u>	<u>369,946,843</u>
Ending net assets	<u>\$ 477,619,138</u>	<u>381,037,424</u>

Operating Revenues and Expenses

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

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Management's Discussion and Analysis

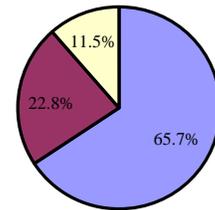
June 30, 2011

maintenance of plant, student grants and scholarships, auxiliary enterprise expenses, and depreciation and amortization.

Operating Revenues

Total operating revenues increased \$17.0 million, or 11%, primarily due to a \$6.0 million increase in student tuition and fees, net, and an \$8.8 million increase in other operating revenues. Student tuition and fees, net, increased from prior year primarily due to the state university fee increase of 10%, offset by a 5% decrease in student enrollment. Other operating revenues increased \$8.8 million due primarily to \$8.0 million recovery reimbursements from auxiliary organizations.

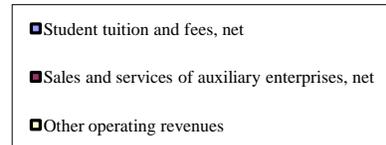
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2011 and 2010:



Operating Revenues

Year ended June 30, 2011

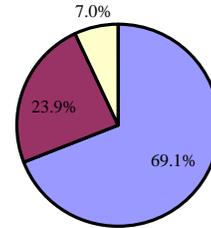
Student tuition and fees, net	\$ 112,451,653	65.7%
Sales and services of auxiliary enterprises, net	39,016,599	22.8
Other operating revenues	<u>19,592,377</u>	<u>11.5</u>
Total operating revenues	\$ <u><u>171,060,629</u></u>	<u><u>100.0%</u></u>



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Management's Discussion and Analysis

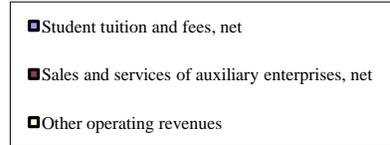
June 30, 2011



Operating Revenues

Year ended June 30, 2010

Student tuition and fees, net	\$ 106,427,726	69.1%
Sales and services of auxiliary enterprises, net	36,906,914	23.9
Other operating revenues	<u>10,774,038</u>	<u>7.0</u>
Total operating revenues	\$ <u><u>154,108,678</u></u>	<u><u>100.0%</u></u>



Operating Expenses

Total operating expenses increased by \$27.7 million, or 9.3%, of which \$14.9 million related to instruction, \$4.0 million to institutional support, \$3.6 million to student services, \$3.0 million to academic support, and \$2.1 million to student grants and scholarships.

Total operating expenses increased due to increases in salaries and benefits and supplies and other services. Total salaries and benefits costs increased \$12.8 million, or 6.6%, due to the cancellation of furloughs in fiscal year 2011, offset by nonrenewal of contracts, layoffs, and vacancies brought about by budget cuts in the California State University System. Supplies and other services increased \$13.1 million, or 23.9%, due to cancellation of furloughs combined with \$5.0 million in expenses reimbursed from auxiliaries, \$1.1 million in telephone infrastructure projects, and \$1.9 million attributable to the Continuing Education program managing self-support instruction in summer 2010 for the first time.

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Management's Discussion and Analysis

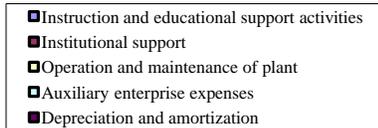
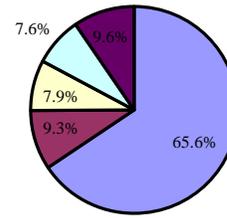
June 30, 2011

The following charts present the distribution of resources in support of the University's mission for fiscal years 2011 and 2010:

Operating Expenses

Year ended June 30, 2011

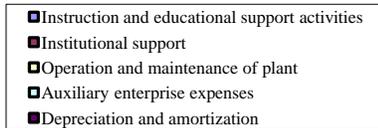
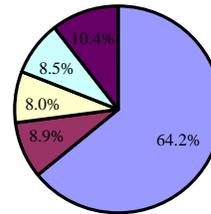
Instruction	\$ 128,194,215	39.1%
Research	800,540	0.2
Public service	519,948	0.2
Academic support	27,477,529	8.4
Student services	35,894,689	11.0
Student grants and scholarships	<u>21,938,709</u>	<u>6.7</u>
Total instruction and educational support activities	214,825,630	65.6
Institutional support	30,487,050	9.3
Operation and maintenance of plant	25,835,263	7.9
Auxiliary enterprises expenses	25,014,006	7.6
Depreciation and amortization	<u>31,330,208</u>	<u>9.6</u>
Total operating expenses	\$ <u>327,492,157</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2010

Instruction	\$ 113,267,051	37.8%
Research	1,709,968	0.6
Public service	492,864	0.2
Academic support	24,477,757	8.2
Student services	32,332,715	10.8
Student grants and scholarships	<u>19,870,181</u>	<u>6.6</u>
Total instruction and educational support activities	192,150,536	64.2
Institutional support	26,512,561	8.9
Operation and maintenance of plant	23,973,027	8.0
Auxiliary enterprises expenses	25,557,440	8.5
Depreciation and amortization	<u>31,553,002</u>	<u>10.4</u>
Total operating expenses	\$ <u>299,746,566</u>	<u>100.0%</u>



Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations; federal grants; certain financial aid grants, noncapital; grants and gifts, capital; investment income; and interest expense.

As the University is part of the System, which is an agency of the State of California (the State), the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$97.0 million for the fiscal year ended June 30, 2011, up from \$0.9 million for the fiscal year ended June 30, 2010 as a result of new funding for the Center for Science project. General

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Management's Discussion and Analysis

June 30, 2011

(noncapital) appropriation revenues totaled \$122.0 million, an increase of \$10.8 million from the prior year due to an increase in the state budget allocation that alleviated the effect of a reduction in the American Recovery & Reinvestment Act (ARRA) grant revenue. Other federal nonoperating grants, noncapital decreased \$15.1 million primarily due to the reduction in ARRA grant revenue in the current year. Gifts, noncapital decreased by \$6.1 million and other nonoperating revenue increased \$9.8 million primarily due to a reclassification of scholarship and other funding received from auxiliaries to other nonoperating revenues (expenses). Interest expense increased \$2.5 million resulting primarily from an addition of \$1.9 million in debt service relating to the University Union Plaza project.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2011	2010
Land and land improvements	\$ 5,245,634	4,545,634
Buildings and building improvements	522,379,299	540,266,730
Improvements, other than buildings	12,397,210	10,528,192
Infrastructure	60,241,233	62,017,375
Personal property	22,813,695	21,657,847
Intangible assets	849,269	801,201
Construction work in progress	81,034,762	22,437,666
Total capital assets, net of accumulated depreciation	<u>\$ 704,961,102</u>	<u>662,254,645</u>

Capital assets increased by \$42.7 million, or 6.5%, primarily due to \$74.6 million of current year additions, offset partially by \$31.3 million of current year depreciation expense. Construction work in progress was the majority of the increase with \$62.6 million in additions of which \$37.8 million related to the Recreation Center Expansion, \$18.0 million for the Center for Science, \$4.1 million for the Meat Processing Center, and \$4.9 million for the thermal energy storage tank. Construction work in progress additions are offset by \$3.9 million in transfers to building and building improvements. Buildings and building improvements decreased \$24.4 million from depreciation expense, offset by \$4.8 million of additions and \$3.9 million in transfers from construction work in progress.

Capital assets commitments at June 30, 2011 totaled \$103.9 million.

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Long-Term Debt Obligations

Debt outstanding at June 30, 2011 and 2010 is summarized below by type of debt instrument:

	June 30	
	2011	2010
Systemwide Revenue Bonds:		
Series 2002A	\$ 43,930,000	45,000,000
Series 2005C	305,605,000	305,750,000
Series 2009A	11,125,000	11,125,000
Series 2010A	20,710,000	20,710,000
Series 2010B	52,450,000	52,450,000
Revenue bond anticipation note	—	—
Total	<u>433,820,000</u>	<u>435,035,000</u>
Unamortized bond premium	12,195,226	12,783,336
Unamortized loss on refunding	<u>(167,005)</u>	<u>(178,656)</u>
Total long-term debt	445,848,221	447,639,680
Less current portion	<u>(2,730,000)</u>	<u>(1,215,000)</u>
Long-term debt, net of current portion	<u><u>\$ 443,118,221</u></u>	<u><u>446,424,680</u></u>

The University did not issue Systemwide Revenue Bonds in fiscal year 2011.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, Series 2008A, and Series 2009A, and all maturities of Series 2010A and 2010B, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 9 to the financial statements for further information on long-term debt obligations.

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Factors Impacting Future Periods

The State Budget Act for fiscal year 2012, approved by the Governor on June 30, 2011, reduces the California State University System (the System) appropriations by \$650 million, or 24% below the fiscal year 2011 enacted budget level. The result will be an approximately \$480 million decrease in noncapital state appropriations for the System in fiscal year 2012 to a total of \$2.10 billion from \$2.58 billion in fiscal year 2011. In December 2011, the System's fiscal year 2012 appropriations were further reduced by an additional \$100 million due to the \$1 billion shortfall in the State revenues.

To mitigate the impact of the appropriation reductions, the System increased tuition fee rates, including a 10% increase approved by the Board of Trustees (the Board) in November 2010 and an additional 12% increase approved by the Board in July 2011, both effective for fiscal year 2012, which together will yield approximately \$265 million in new tuition fee revenue after discounting for financial aid. Moreover, the System reduces in its base resident student enrollment target for fiscal year 2012 by roughly 10,000 full-time equivalent student headcount (FTES) to approximately 332,000, and reduces expense measures of approximately \$292 million.

In November 2011, the Board approved an increase in student tuition fees for fiscal year 2013 to raise approximately \$138 million in new tuition fee revenue after discounting for financial aid.

The University's state noncapital appropriations budget enacted for fiscal year 2012 approved by the legislative process is \$89.5 million, a decrease of \$32.5 million from the fiscal year 2011 funding level of \$122.0 million. In addition, an increase in student fees in fiscal year 2012 is expected to generate \$21.1 million during fiscal year 2012 in new revenue, net of financial aid. The budgeted FTES enrollment target for fiscal year 2012 is 15,931.

Major capital projects in process include the following:

- **Center for Science and Math:** This project involves replacement of a portion of Cal Poly's Science building and will provide lecture space, laboratory space, and faculty offices for the College of Science and Math. The project is scheduled for completion in 2013 and the total projected budget, including upgrading of the chiller capacity in the central plant, is \$118,992,000.
- **Recreation Center Expansion:** This project is an expansion and renovation of the Recreation Center. The expansion will provide an additional 85,000 square feet for University Union operations. The project is scheduled for completion in winter quarter 2012 and the total project budget is \$71,128,000.

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Statement of Net Assets

June 30, 2011

Assets	University	Discretely presented component units		Total
		GASB auxiliary organizations	FASB auxiliary organizations	
Current assets:				
Cash and cash equivalents	\$ 15,200	12,947,020	7,895,604	20,857,824
Short-term investments	101,238,781	15,527,004	66,015,676	182,781,461
Accounts receivable, net	2,880,126	290,922	9,729,259	12,900,307
Notes receivable, current portion	—	—	72,450	72,450
Pledges receivable, net	—	5,530,845	242,798	5,773,643
Prepaid expenses and other assets	459,134	913,505	4,562,464	5,935,103
Total current assets	104,593,241	35,209,296	88,518,251	228,320,788
Noncurrent assets:				
Restricted cash and cash equivalents	—	460,802	16,932	477,734
Accounts receivable, net	80,180,574	—	—	80,180,574
Notes receivable, net of current portion	—	—	3,247,494	3,247,494
Student loans receivable, net	5,971,022	—	—	5,971,022
Pledges receivable, net	—	6,126,774	4,086,387	10,213,161
Endowment investments	3,653,575	168,281,582	4,604,636	176,539,793
Other long-term investments	97,581,316	26,173,886	2,055,189	125,810,391
Capital assets, net	704,961,102	2,779,397	23,530,254	731,270,753
Other assets	—	661,064	—	661,064
Total noncurrent assets	892,347,589	204,483,505	37,540,892	1,134,371,986
Total assets	996,940,830	239,692,801	126,059,143	1,362,692,774
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	17,038,285	782,265	3,229,047	21,049,597
Accrued salaries and benefits payable	15,037,458	—	1,375,384	16,412,842
Accrued compensated absences – current portion	7,195,684	—	871,892	8,067,576
Deferred revenue	13,698,021	485,500	4,540,281	18,723,802
Long-term debt obligations – current portion	2,730,000	—	166,373	2,896,373
Other liabilities	3,811,643	75,350	1,421,444	5,308,437
Total current liabilities	59,511,091	1,343,115	11,604,421	72,458,627
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	4,822,566	—	127,813	4,950,379
Grants refundable	6,072,602	—	2,344,395	8,416,997
Long-term debt obligations, net of current portion	443,118,221	3,271,452	2,942,552	449,332,225
Depository accounts	1,187,666	—	5,875,351	7,063,017
Other postemployment benefits obligation	4,585,740	—	30,885,607	35,471,347
Other liabilities	23,806	8,749,385	1,050,619	9,823,810
Total noncurrent liabilities	459,810,601	12,020,837	43,226,337	515,057,775
Total liabilities	519,321,692	13,363,952	54,830,758	587,516,402
Net assets:				
Invested in capital assets, net of related debt	296,383,917	(328,844)	20,441,079	316,496,152
Restricted for:				
Nonexpendable – endowments	3,653,575	102,367,540	—	106,021,115
Expendable:				
Scholarships and fellowships	4,306,421	15,843,576	—	20,149,997
Research	—	7,400,588	232,881	7,633,469
Loans	2,713,442	—	—	2,713,442
Capital projects	65,108,581	22,288,658	105,136	87,502,375
Other	2,110,022	77,283,033	7,990,086	87,383,141
Unrestricted	103,343,180	1,474,298	42,459,203	147,276,681
Total net assets	\$ 477,619,138	226,328,849	71,228,385	775,176,372

See accompanying notes to financial statements.

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

	Discretely presented component units				Total
	University			Eliminations	
		GASB auxiliary organizations	FASB auxiliary organizations		
Revenues:					
Operating revenues:					
Student tuition and fees (net of scholarship allowances of \$25,006,218)	\$ 112,451,653	—	4,898,527	—	117,350,180
Grants and contracts, noncapital:					
Federal	—	—	12,063,261	—	12,063,261
State	—	—	3,316,923	—	3,316,923
Local	—	—	793,574	—	793,574
Nongovernmental	—	—	5,085,005	—	5,085,005
Sales and services of auxiliary enterprises (net of scholarship allowances of \$3,687,194)	39,016,599	231,724	42,388,584	—	81,636,907
Other operating revenues	19,592,377	10,759	22,979,529	(1,493,340)	41,089,325
Total operating revenues	<u>171,060,629</u>	<u>242,483</u>	<u>91,525,403</u>	<u>(1,493,340)</u>	<u>261,335,175</u>
Expenses:					
Operating expenses:					
Instruction	128,194,215	1,203,823	978,623	—	130,376,661
Research	800,540	616,227	16,306,815	—	17,723,582
Public service	519,948	218,700	9,051,781	—	9,790,429
Academic support	27,477,529	6,922,581	2,168,958	—	36,569,068
Student services	35,894,689	312,634	10,476,289	(999,436)	45,684,176
Institutional support	30,487,050	6,685,625	9,096,445	(645,290)	45,623,830
Operation and maintenance of plant	25,835,263	290,527	2,942,103	—	29,067,893
Student grants and scholarships	21,938,709	1,401,360	1,223,560	(3,006,070)	21,557,559
Auxiliary enterprise expenses	25,014,006	49,605	41,315,245	—	66,378,856
Depreciation and amortization	31,330,208	140,774	2,184,708	—	33,655,690
Total operating expenses	<u>327,492,157</u>	<u>17,841,856</u>	<u>95,744,527</u>	<u>(4,650,796)</u>	<u>436,427,744</u>
Operating loss	<u>(156,431,528)</u>	<u>(17,599,373)</u>	<u>(4,219,124)</u>	<u>3,157,456</u>	<u>(175,092,569)</u>
Nonoperating revenues (expenses):					
State appropriations, noncapital	121,965,308	—	—	—	121,965,308
Federal financial aid grants, noncapital	17,439,534	—	—	—	17,439,534
State financial aid grants, noncapital	8,588,750	—	—	—	8,588,750
Other federal nonoperating grants, noncapital	8,855,661	—	—	—	8,855,661
Gifts, noncapital	5,203,150	7,860,888	4,900,839	(3,157,456)	14,807,421
Investment income, net	771,628	1,800,302	8,772,844	—	11,344,774
Endowment income, net	18,278	32,719,653	—	—	32,737,931
Interest expense	(20,656,601)	(155,058)	(171,622)	—	(20,983,281)
Other nonoperating revenues (expenses), net	9,357,391	(62,812)	397,568	—	9,692,147
Net nonoperating revenues	<u>151,543,099</u>	<u>42,162,973</u>	<u>13,899,629</u>	<u>(3,157,456)</u>	<u>204,448,245</u>
Income (loss) before other additions	<u>(4,888,429)</u>	<u>24,563,600</u>	<u>9,680,505</u>	<u>—</u>	<u>29,355,676</u>
State appropriations, capital	97,044,164	—	—	—	97,044,164
Grants and gifts, capital	4,386,317	2,612,089	1,956,434	—	8,954,840
Additions to permanent endowments	39,662	3,080,981	—	—	3,120,643
Increase in net assets	<u>96,581,714</u>	<u>30,256,670</u>	<u>11,636,939</u>	<u>—</u>	<u>138,475,323</u>
Net assets:					
Net assets at beginning of year	381,037,424	196,072,179	59,591,446	—	636,701,049
Net assets at end of year	\$ <u>477,619,138</u>	<u>226,328,849</u>	<u>71,228,385</u>	<u>—</u>	<u>775,176,372</u>

See accompanying notes to financial statements.

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Statement of Cash Flows

Year ended June 30, 2011

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 112,139,355
Payments to suppliers	(70,002,897)
Payments to employees	(205,505,621)
Payments to students	(22,183,600)
Collections of student loans	48,853
Sales and services of auxiliary enterprises	41,256,111
Other receipts	19,685,603
	<hr/>
Net cash used in operating activities	(124,562,196)
Cash flows from noncapital financing activities:	
State appropriations	121,965,308
Federal financial aid grants	17,426,171
State financial aid grants	9,315,610
Other federal nonoperating grants	8,855,661
Gifts and grants received for other than capital purposes	5,208,352
Federal loan program receipts	69,966,935
Federal loan program disbursements	(69,803,222)
Moneys received on behalf of others	10,091,513
Moneys disbursed on behalf of others	(9,456,292)
Other noncapital financing activities	8,919,028
	<hr/>
Net cash provided by noncapital financing activities	172,489,064
Cash flows from capital and related financing activities:	
State appropriations	18,189,526
Proceeds from sale of capital assets	58,568
Acquisition of capital assets	(61,270,800)
Principal paid on capital debt and leases	(1,215,000)
Interest paid on capital debt and leases	(23,040,299)
	<hr/>
Net cash used in capital and related financing activities	(67,278,005)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	461,975,071
Purchases of investments	(443,266,840)
Investment income received	642,650
	<hr/>
Net cash provided by investing activities	19,350,881
Net decrease in cash and cash equivalents	(256)
Cash and cash equivalents at beginning of year	<hr/> 15,456
Cash and cash equivalents at end of year	\$ <hr/> <hr/> 15,200

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Statement of Cash Flows

Year ended June 30, 2011

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (156,431,528)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	31,330,208
Change in assets and liabilities:	
Accounts receivable, net	1,210,966
Student loans receivable, net	(186,408)
Prepaid expenses and other assets	191,436
Accounts payable	(2,332,152)
Accrued salaries and benefits	1,364,278
Accrued compensated absences	(1,809,444)
Deferred revenue	800,351
Other postemployment benefits obligation	1,300,604
Other liabilities	(507)
Net cash used in operating activities	<u>\$ (124,562,196)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 4,386,317
Change in accrued capital asset costs (purchased but unpaid at year-end)	7,498,300
Amortization of bond premium	588,110
Amortization of loss on refunding	11,651

See accompanying notes to financial statements.

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's four recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The recognized auxiliary organizations are as follows:

- Cal Poly Corporation
- California Polytechnic State University Foundation
- Associated Students Incorporated of California Polytechnic State University at San Luis Obispo (including the accounts of the University Student Union)
- Cal Poly Housing Corporation

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

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

June 30, 2011	Cal Poly Foundation	Cal Poly Corporation	Other auxiliary organizations	Total
Current assets	\$ 35,209,104	82,041,271	6,477,172	123,727,547
Capital assets, net	—	21,926,732	4,382,919	26,309,651
Other noncurrent assets	201,381,108	14,010,638	323,000	215,714,746
Total assets	<u>236,590,212</u>	<u>117,978,641</u>	<u>11,183,091</u>	<u>365,751,944</u>
Current liabilities	1,324,121	9,590,426	2,032,989	12,947,536
Noncurrent liabilities	8,426,385	39,361,286	7,459,503	55,247,174
Total liabilities	<u>9,750,506</u>	<u>48,951,712</u>	<u>9,492,492</u>	<u>68,194,710</u>
Invested in capital assets, net of related debt	—	19,116,732	995,503	20,112,235
Restricted	225,183,395	8,328,103	—	233,511,498
Unrestricted	1,656,311	41,582,094	695,096	43,933,501
Total net assets	<u>\$ 226,839,706</u>	<u>69,026,929</u>	<u>1,690,599</u>	<u>297,557,234</u>

Year ended June 30, 2011	Cal Poly Foundation	Cal Poly Corporation	Other auxiliary organizations	Total
Operating revenues:				
Student tuition and fees, net	\$ —	—	4,898,527	4,898,527
Grants and contracts, noncapital	—	20,890,966	367,797	21,258,763
Sales and services of auxiliary enterprises, net	—	42,388,584	231,724	42,620,308
Other	—	17,074,983	5,915,305	22,990,288
Total operating revenues	<u>—</u>	<u>80,354,533</u>	<u>11,413,353</u>	<u>91,767,886</u>

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

<u>Year ended June 30, 2011</u>	<u>Cal Poly Foundation</u>	<u>Cal Poly Corporation</u>	<u>Other auxiliary organizations</u>	<u>Total</u>
Operating expenses:				
Instruction	\$ 1,203,823	978,623	—	2,182,446
Research	616,227	16,306,815	—	16,923,042
Public service	218,700	9,051,781	—	9,270,481
Academic support	6,922,581	2,168,958	—	9,091,539
Student services	312,634	1,496,223	8,980,066	10,788,923
Institutional support	6,642,793	9,096,445	42,832	15,782,070
Operation and maintenance of plant	290,527	762,937	2,179,166	3,232,630
Student grants and scholarships	1,401,360	1,223,560	—	2,624,920
Auxiliary enterprise expenses	—	41,315,245	49,605	41,364,850
Depreciation and amortization	—	1,834,086	491,396	2,325,482
Total operating expenses	<u>17,608,645</u>	<u>84,234,673</u>	<u>11,743,065</u>	<u>113,586,383</u>
Operating loss	(17,608,645)	(3,880,140)	(329,712)	(21,818,497)
Net nonoperating revenues (expenses)	<u>42,318,453</u>	<u>13,855,692</u>	<u>(111,543)</u>	<u>56,062,602</u>
Income (loss) before other additions	24,709,808	9,975,552	(441,255)	34,244,105
Grants and gifts, capital Additions to permanent endowments	2,612,089	1,956,434	—	4,568,523
	<u>3,080,981</u>	<u>—</u>	<u>—</u>	<u>3,080,981</u>
Increase (decrease) in net assets	30,402,878	11,931,986	(441,255)	41,893,609
Beginning net assets, July 1, 2010	<u>196,436,828</u>	<u>57,094,943</u>	<u>2,131,854</u>	<u>255,663,625</u>
Ending net assets, June 30, 2011	<u>\$ 226,839,706</u>	<u>69,026,929</u>	<u>1,690,599</u>	<u>297,557,234</u>

The auxiliary organizations are presented in the accompanying financial statements as discretely presented component units due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to the activities that the organizations carry out on behalf of the University, such as research, grant administration, food service, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the University, and the financial statements do not purport to, and do not, present fairly the financial position of the State or the System as of June 30, 2011 and the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

(b) *Basis of Presentation*

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

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

The Cal Poly Corporation and Associated Students, Inc. (including the accounts of the University Union) auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB), while the California Polytechnic State University Foundation and Cal Poly Housing Corporation apply the accounting and reporting standards promulgated by the GASB.

(c) *Election of Applicable FASB Statements*

The University follows standards of accounting and financial reporting issued by the FASB prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The University also has the option of following subsequent private-sector guidance subject to the same limitation. The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

(d) *Classification of Current and Noncurrent Assets (Other Than Investments) and Liabilities*

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

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent. For classification of current and noncurrent investments, refer to note 2(f).

(e) Cash Equivalents and Statement of Cash Flows

The University considers highly liquid investments with an original maturity date of three months or less to be cash equivalents. The University considers amounts included in the California State University Investment Pool to be investments. The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

(f) Investments

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

Investments that are used for current operations are classified as short-term investments. Investments that are restricted for withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt, and restricted as to the liquidity of the investments are classified as other long-term investment.

(g) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or, if donated, at estimated fair value at date of donation. Capital assets, including infrastructure and intangible assets, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such costs include, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the State. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, construction work in progress, and certain intangible assets, are depreciated or amortized on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

Capitalized interest, net of related investment income at June 30, 2011 is as follows:

Interest expense capitalized for construction projects	\$ <u>1,477,610</u>
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CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

(h) *Deferred Revenue*

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

(i) *Compensated Absences*

Compensated absences are recognized when the right to receive the compensation is earned by the employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1, 2011 to calculate the liability for accrued compensated absences. The University employees pay rates are based on length of service and job classifications.

(j) *Grants Refundable*

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins and Nursing Loan programs, both Title IV loan programs. The federal government has the ability to terminate its support of these programs at any time and to request the University to return those contributions that it has made on a cumulative basis. Accordingly, the federal contributions received and retained by the University at year-end are considered to be liabilities of the University, and are reflected as such in the accompanying statement of net assets.

(k) *Net Assets*

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

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

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

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

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

(l) *Classification of Revenues and Expenses*

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

transactions include charges for services rendered and the acquisition of goods and services. Moreover, the Office of the Chancellor administers and charges campuses for centralized expenses such as State pro rata and management of capital projects and pooled investments, which are included in operating expenses by function in the accompanying statement of revenues, expenses, and changes in net assets.

Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, financial aid and ARRA grants, net investment income, noncapital gifts, interest expense, and capital gifts and grants.

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

In fiscal year 2011, the State received federal education grants that were passed on to school districts and the State's universities to restore state appropriations. The Governor had filed an application with the federal government to receive the State's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The federal education grants have been appropriated to the System by the State and reported separately under the caption of other federal nonoperating grants, noncapital in nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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

(m) Internal Services Activities

Certain institutional internal service providers offer goods and services to University departments, as well as to their external customers. These include activities such as copy centers, postal services, and telecommunications. All internal services activities to University departments have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

(n) Income Taxes

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

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Notes to Financial Statements

June 30, 2011

(o) Eliminations

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

(p) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2011 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$	<u>15,200</u>
Short-term investments		101,238,781
Endowment investments		3,653,575
Other long-term investments		<u>97,581,316</u>
Total investments		<u>202,473,672</u>
Total cash, cash equivalents, and investments	\$	<u><u>202,488,872</u></u>

(a) Cash and Cash Equivalents

At June 30, 2011, cash and cash equivalents consisted of petty cash.

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that the University will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that the University's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

(b) Investments

At June 30, 2011, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

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Investment Policy

State law and regulations require that surplus moneys of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, high-grade corporate and fixed-income securities, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University has formal duration guidelines to manage its interest rate risk. The duration guidelines include limits on the maximum maturity of any individual investment in the portfolio and average duration of the investment portfolio. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University identifies and manages the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that the callable investments will not be called. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2011 is presented in the table below.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

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The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's allocated share of the California State University Investment Pool and the SMIF as of June 30, 2011:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 284,146	—	\$ 284,146	—	—	—	—
Commercial paper	12,114,115	0.08	—	—	12,114,115	—	—
Certificates of deposit	22,651,535	0.41	—	1,517,338	14,753,722	—	6,380,475
Repurchase agreements	385,882	—	—	—	385,882	—	—
U.S. agency securities	50,673,364	1.20	34,844,004	—	15,829,360	—	—
Corporate and fixed income securities	53,521,333	1.70	20,151,387	13,937,720	19,341,204	91,022	—
U.S. Treasury securities	21,720,765	1.45	—	—	—	—	21,720,765
Mortgage-backed securities	869,019	7.55	734,864	134,155	—	—	—
State of California Surplus Money Investment Fund	40,253,513	0.64	—	—	—	—	40,253,513
Total	\$ 202,473,672		\$ 56,014,401	15,589,213	62,424,283	91,022	68,354,753

Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2011, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank notes guaranteed by the federal government – \$18,951,674 (9.4%), Federal Home Loan Mortgage Corporation notes – \$18,901,709 (9.3%), and Federal National Mortgage Association notes guaranteed by the federal government – \$10,533,960 (5.2%).

Risk and Uncertainties

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

The University, through the California State University Investment Pool, invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

For information regarding the investments of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

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(4) Accounts Receivable

Accounts receivable at June 30, 2011 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	80,180,574	80,180,574
Auxiliary organizations	1,310,667	—	1,310,667
Student accounts	460,996	—	460,996
Government grants and contracts	159,770	—	159,770
Other	1,232,856	—	1,232,856
	<u>3,164,289</u>	<u>80,180,574</u>	<u>83,344,863</u>
Less allowance for doubtful accounts	<u>(284,163)</u>	<u>—</u>	<u>(284,163)</u>
Total	\$ <u><u>2,880,126</u></u>	\$ <u><u>80,180,574</u></u>	\$ <u><u>83,060,700</u></u>

(5) Student Loans Receivable

Student loans receivable, net at June 30, 2011 consisted of the following:

Perkins loans	\$ 5,519,211
Other loans	<u>819,778</u>
Total student loans receivable, gross	6,338,989
Less allowance for doubtful accounts	<u>(367,967)</u>
Total student loans receivable, net	\$ <u><u>5,971,022</u></u>

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(6) Capital Assets

Capital assets activity for the year ended June 30, 2011 consisted of the following:

	<u>Balance, June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2011</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 4,545,634	700,000	—	—	5,245,634
Construction work in progress	<u>22,437,666</u>	<u>62,561,932</u>	<u>(27,077)</u>	<u>(3,937,759)</u>	<u>81,034,762</u>
Total nondepreciable/ nonamortizable capital assets	<u>26,983,300</u>	<u>63,261,932</u>	<u>(27,077)</u>	<u>(3,937,759)</u>	<u>86,280,396</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	735,877,343	3,842,118	(4,108,115)	1,415,507	737,026,853
Improvements, other than buildings	19,336,470	917,508	—	2,522,252	22,776,230
Infrastructure	82,349,396	290,799	—	—	82,640,195
Personal property:					
Equipment	64,979,103	5,647,036	(2,376,212)	—	68,249,927
Library books and materials	16,067,558	221,147	(18,187)	—	16,270,518
Intangible assets	<u>7,433,069</u>	<u>452,487</u>	<u>(158,400)</u>	<u>—</u>	<u>7,727,156</u>
Total depreciable/ amortizable capital assets	<u>926,042,939</u>	<u>11,371,095</u>	<u>(6,660,914)</u>	<u>3,937,759</u>	<u>934,690,879</u>
Total cost	<u>953,026,239</u>	<u>74,633,027</u>	<u>(6,687,991)</u>	<u>—</u>	<u>1,020,971,275</u>

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	<u>Balance, June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2011</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	\$ (195,610,613)	(22,835,427)	3,798,485	—	(214,647,555)
Improvements, other than buildings	(8,808,277)	(1,570,742)	—	—	(10,379,019)
Infrastructure	(20,332,021)	(2,066,941)	—	—	(22,398,962)
Personal property:					
Equipment	(44,877,309)	(4,231,222)	2,211,597	—	(46,896,934)
Library books and materials	(14,511,506)	(316,498)	18,187	—	(14,809,817)
Intangible assets	<u>(6,631,868)</u>	<u>(309,378)</u>	<u>63,360</u>	—	<u>(6,877,886)</u>
Total accumulated depreciation/ amortization	<u>(290,771,594)</u>	<u>(31,330,208)</u>	<u>6,091,629</u>	—	<u>(316,010,173)</u>
Net capital assets	\$ <u>662,254,645</u>	<u>43,302,819</u>	<u>(596,362)</u>	—	<u>704,961,102</u>

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

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(7) Lease Obligations

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2051. 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:

Year(s) ending June 30:	<u>Operating leases</u>
2012	\$ 570,538
2013	557,517
2014	557,517
2015	457,337
2016	454,387
2017 – 2021	777,515
2022 – 2026	332,042
2027 – 2031	332,042
2032 – 2036	332,042
2037 – 2041	332,042
2042 – 2046	332,042
2047 – 2051	332,042
Total minimum lease payments	<u>\$ 5,367,063</u>

Rent expense under operating leases for the year ended June 30, 2011 totaled \$646,690.

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the State in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2011 totaled \$804,745,000.

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the System, and the Community Colleges. Financing provided to the University through State General Obligation Bonds is not allocated to the System by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt

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is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the State related to System projects is approximately \$2,707,128,000 as of June 30, 2011.

(b) Revenue Bond Programs

The Revenue Bond Act of 1947 provides the Trustees with the ability to issue revenue bonds to fund specific self-supporting programs. The statute has enabled the Trustees to finance student housing, student unions, parking facilities, health facilities, continuing education facilities, and auxiliary organization facilities.

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

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

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

The health facilities program provides facilities on campus in which to provide health services to students. The health facilities program derives its revenues primarily from student fees and from interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

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

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Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay principal and interest payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects.

The University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2011 was \$433,820,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,618,713,000 in Systemwide Revenue Bonds issued through fiscal year 2011. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$6,048,939,000. In fiscal year 2011, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$226,515,000 and \$309,165,000, respectively.

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Long-term debt obligations of the University as of June 30, 2011 consist of the following:

Description	Interest rate	Fiscal year of maturity date	Original issue amount	Amount outstanding at June 30
Systemwide revenue bonds:				
SRB 2002A Housing	4.13% – 5.50%	2032/33	\$ 51,665,000	43,930,000
SRB 2005C Union	3.25% – 5.25%	2025/26	3,875,000	3,200,000
SRB 2005C Housing	3.25% – 5.25%	2038/39	273,010,000	273,010,000
SRB 2005C Parking	3.25% – 5.25%	2035/36	29,395,000	29,395,000
SRB 2009A Housing	2.50% – 5.00%	2015/16	11,125,000	11,125,000
SRB 2010A Union	1.00% – 5.00%	2025/26	20,710,000	20,710,000
SRB 2010B Union	5.70% – 6.48%	2041/42	52,450,000	52,450,000
Total				433,820,000
Unamortized bond premium				12,195,226
Unamortized loss on refunding				(167,005)
Total long-term debt				445,848,221
Less current portion				(2,730,000)
Long-term debt, net of current portion				<u>\$ 443,118,221</u>

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

	Principal	Interest	Total
Year(s) ending June 30:			
2012	\$ 2,730,000	22,118,294	24,848,294
2013	4,605,000	21,991,788	26,596,788
2014	5,535,000	21,787,606	27,322,606
2015	6,465,000	21,518,242	27,983,242
2016	7,470,000	21,202,430	28,672,430
2017 – 2021	57,045,000	98,295,244	155,340,244
2022 – 2026	73,575,000	82,018,632	155,593,632
2027 – 2031	91,990,000	60,898,462	152,888,462
2032 – 2036	105,935,000	34,639,598	140,574,598
2037 – 2041	74,220,000	8,725,584	82,945,584
2042 – 2046	4,250,000	137,785	4,387,785
	<u>\$ 433,820,000</u>	<u>393,333,665</u>	<u>827,153,665</u>

Long-term debt obligations of the discretely presented auxiliary organizations have been issued to purchase or construct facilities for University-related uses. For information regarding the long-term debt obligations of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

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(9) Advanced Refundings

Prior Years Refundings

In prior years, the University defeased certain Systemwide Revenue Bonds Series B (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005C refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the refunding bonds were used to purchase U.S. government securities that were placed in the State University Trust Fund. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. The defeased debt matured on November 1, 2007 with the unamortized loss on refunding from issuing Systemwide Revenue Bonds Series 2005C amortized over the life of the debt.

(10) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2011 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences \$	13,827,695	5,386,239	(7,195,684)	12,018,250	7,195,684
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds	435,035,000	—	(1,215,000)	433,820,000	2,730,000
Unamortized bond premium	12,783,336	—	(588,110)	12,195,226	—
Unamortized loss on refunding	<u>(178,656)</u>	<u>—</u>	<u>11,651</u>	<u>(167,005)</u>	<u>—</u>
Total long-term debt obligations	<u>447,639,680</u>	<u>—</u>	<u>(1,791,459)</u>	<u>445,848,221</u>	<u>2,730,000</u>
Total long-term liabilities	<u>\$ 461,467,375</u>	<u>5,386,239</u>	<u>(8,987,143)</u>	<u>457,866,471</u>	<u>9,925,684</u>

(11) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

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

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report

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may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 18.2% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2009	\$	23,333,978
2010		21,827,120
2011		25,173,397

(b) Postretirement Healthcare Plan

The GASB has issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, relating to Other Postemployment Benefits (OPEB), which is effective July 1, 2007. Under this statement, public employers sponsoring and subsidizing retiree healthcare benefit programs will need to recognize the cost of such benefits on an accrual basis.

Plan Description

The State provides retiree healthcare benefits to statewide employees including University employees through the programs administered by CalPERS. The State's substantive plan represents a single-employer defined benefit OPEB plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The System provides dental benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with five years of service credit.

For healthcare benefits, CalPERS offers Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), and Exclusive Provider Organizations (EPOs) (limited to members in certain California counties); for dental benefits, CalPERS offers a Dental Maintenance Organization (DMO) and dental indemnity plans to the University's retirees. Health plans offered, covered benefits, monthly rates, and copayments are determined by the CalPERS Board, which reviews health plan contracts annually.

The contribution requirements of retirees and the State are established and may be amended by the State legislature. For healthcare benefits, the State makes a contribution towards the retiree's monthly health premiums, with the retirees covering the difference between the State's contribution and the actual healthcare premium amount. The State contribution is normally established through collective bargaining agreements. No retiree contribution is required for dental benefits.

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Funding Policy

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

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

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

Annual OPEB Cost and Net OPEB Obligation

The following table shows the total annual required contribution (ARC) for the University’s allocated portion of the postretirement healthcare plan, net of dental benefit portion, the amount contributed to the plan by the University, and changes in the University’s net OPEB obligation (NOO) for billable accounts for the fiscal year ended 2011:

Billable accounts only:		
ARC	\$	2,134,621
Contributions during the year		<u>(834,017)</u>
Increase in NOO		1,300,604
NOO – beginning of year		<u>3,285,136</u>
NOO – end of year	\$	<u><u>4,585,740</u></u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2011		39%

Actuarial Methods and Assumptions and Plan Funding Information

As an agency of the State, the University was included in the State’s OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controller’s Office (SCO) and allocated to the System. The System allocates the ARC to the University, which only includes the health benefit portion for the billable accounts. The dental benefit portion is not allocated to the University because the System centrally funds the cost of dental benefits for all retirees for the System.

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Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2011 and 9.00% in 2012, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status refer to the State of California's Comprehensive Annual Financial Reports (CAFR) for the fiscal year ended June 30, 2011.

(12) Self-Insurance Program

The System and certain auxiliary organizations have established the California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The liability included in the accompanying financial statements reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2011. The liability includes estimated 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 also reduced to estimated amounts recoverable from the reinsurer that are related to the liabilities for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case-basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2011.

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Changes in the System's self-insurance claims liability for the two years ended June 30, 2011 are as follows:

Liability at June 30, 2009	\$ 70,748,000
Incurred claims and changes in estimates	43,097,000
Claim payments	<u>(26,536,000)</u>
Long-term liability at June 30, 2010	87,309,000
Incurred claims and changes in estimates	21,270,000
Claim payments	<u>(20,338,000)</u>
Long-term liability at June 30, 2011	88,241,000
Less current portion	<u>(25,473,000)</u>
Long-term liability at June 30, 2011, net of current portion	<u>\$ 62,768,000</u>

For the year ended June 30, 2011, the CSURMA purchased excess insurance to protect the members from catastrophic losses. The CSURMA maintained excess public entity liability insurance coverage provided by School Excess Liability Fund (SELF), a Joint Power Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence until December 2009, Ironshore Specialty Insurance Company, and other various insurers with coverage for individual claims above \$5,000,000 and up to \$200,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (Chartis) to statutory limits in excess of the \$2,500,000 self-insured retention. For the Auxiliary Organizations' Risk Management Authority (AORMA) Workers' Compensation Program, the CSURMA purchased excess workers' compensation insurance provided by Safety National to statutory limit in excess of \$500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2011 was approximately 11.2%, or \$9,864,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2011. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

There is no amount due to or from CSURMA as of June 30, 2011.

(13) Commitments and Contingencies

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

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June 30, 2011

Authorized but unexpended expenditures for construction projects as of June 30, 2011 totaled \$103,852,598. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

(14) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2011, operating expenses by natural classification consisted of the following:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 82,124,322	31,088,989	—	14,980,904	—	128,194,215
Research	591,901	180,873	—	27,766	—	800,540
Public service	426,060	81,393	—	12,495	—	519,948
Academic support	15,714,048	5,739,894	—	6,023,587	—	27,477,529
Student services	17,123,006	7,153,038	—	11,618,645	—	35,894,689
Institutional support	15,074,437	5,710,069	—	9,702,544	—	30,487,050
Operation and maintenance of plant	7,623,886	3,854,226	—	14,357,151	—	25,835,263
Student grants and scholarships	—	—	21,938,709	—	—	21,938,709
Auxiliary enterprise expenses	8,735,743	5,139,173	—	11,139,090	—	25,014,006
Depreciation and amortization	—	—	—	—	31,330,208	31,330,208
Total	\$ <u>147,413,403</u>	<u>58,947,655</u>	<u>21,938,709</u>	<u>67,862,182</u>	<u>31,330,208</u>	<u>327,492,157</u>

(15) Transactions with Related Entities

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$219,009,472 for the year ended June 30, 2011. The University is an agency of the State and received about 50% of total revenues through state appropriations. State appropriations receivable aggregated \$80,180,574 at June 30, 2011. The University also received lottery fund distributions from the State in the amount of \$1,891,000 for the year ended June 30, 2011, which is included in other nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net assets.

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or State obligations. These obligations are not reflected in the accompanying financial statements. For the year ended June 30, 2011, no such additions of capital assets are included in the accompanying financial statements.

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June 30, 2011

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2011:

Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	4,173,530
Payments from recognized auxiliary organizations for other than salaries of University employees		6,711,377
Payments to recognized auxiliary organizations for services, office space rental, and programs		4,370,910
Gifts-in-kind to the University from recognized auxiliary organization		957,398
Gifts (cash or assets) to the University from recognized auxiliary organizations		10,085,747
Payments to the Office of the Chancellor for administrative activities		1,570,191
Payments to the Office of the Chancellor for State pro rata charges		787,288
Amounts receivable from the Office of the Chancellor		243,863
Amounts receivable from recognized auxiliary organizations		1,310,667
Amounts payable to recognized auxiliary organizations		(2,241,917)

(16) Subsequent Events

In July 2011, the State legislature created a new investment vehicle at the State level in which the System may invest funds. Senate Bill 79 created the State Agency Investment Fund (SAIF), under new Government Code section 16330, which allows State agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the State level. Pursuant to a memorandum of understanding between the System and the State, the System transferred \$700 million from the California State University Investment Pool to the SAIF in September 2011. The System will earn interest incomes at an annual rate of 2.0% through April 2013.

In August 2011, Standard & Poor's Rating Services lowered the long-term debt rating of the U.S. government and federal agencies from AAA to AA+. The University has \$50.7 million and \$20.7 million, or 25.0% and 10.7%, of total investment in U.S. agency securities and U.S. Treasury securities respectively as of June 30, 2011.

In September 2011, Standard & Poor's Ratings Services changed its outlook on the Systemwide Revenue Bonds from stable to positive. With the change in outlook, Standard & Poor's Ratings Services affirmed its A+ rating on the Systemwide Revenue Bonds.

In September 2011, the System issued Systemwide Revenue Bond Series 2011A in the amount of \$429,855,000. In addition to providing funding for projects around the System, proceeds of the Systemwide Revenue Bond Series 2011A were also used to pay off \$71,000,000 of bond anticipation notes and refund \$80,710,000 of previously outstanding Systemwide Revenue Bond Series 2002A and \$112,350,000 of previously outstanding Systemwide Revenue Bond Series 2003A