

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and interest on the 2010 Bonds is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes that interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds, including whether interest on the 2010A Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. See "TAX MATTERS" herein.



**\$146,950,000**  
**TRUSTEES OF THE CALIFORNIA**  
**STATE UNIVERSITY**  
**SYSTEMWIDE REVENUE BONDS**  
**SERIES 2010A**

**\$205,145,000**  
**TRUSTEES OF THE CALIFORNIA**  
**STATE UNIVERSITY**  
**SYSTEMWIDE REVENUE BONDS**  
**SERIES 2010B**  
**(TAXABLE — BUILD AMERICA BONDS)**

**Dated: Date of Delivery**

**Due: November 1, as shown on inside cover**

The Trustees of the California State University Systemwide Revenue Bonds, Series 2010A (the "Series 2010A Bonds") and the Trustees of the California State University Systemwide Revenue Bonds, Series 2010B (Taxable – Build America Bonds) (the "Series 2010B Bonds" and together with the Series 2010A Bonds, the "2010 Bonds") are being issued by the Trustees of the California State University (the "Board") pursuant to an Indenture dated as of April 1, 2002, as previously supplemented and as supplemented from time to time, including by a Twelfth Supplemental Indenture dated as of March 1, 2010 and a Thirteenth Supplemental Indenture dated as of March 1, 2010 (collectively, the "Indenture"), between the Board and the Treasurer of the State of California, as trustee (the "State Treasurer"). The 2010 Bonds are being issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the California State University. See Appendix H—"PROJECTS FINANCED AND BONDS REFUNDED WITH 2010 BONDS."

The 2010 Bonds are being issued on a parity with other bonds of the Board that have been issued previously or may be issued in the future pursuant to the Indenture. The pledge and lien on the Gross Revenues under the Indenture secures bonds issued under the Indenture on a parity basis and is senior to other indebtedness of the Board. See "SECURITY FOR THE 2010 BONDS—No Senior Lien Indebtedness" and "— Parity Lien Indebtedness."

The 2010 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof, and following their purchase by the Underwriters will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the 2010 Bonds. Individual purchases will be made in book-entry form only, in principal amounts of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interests in the 2010 Bonds purchased. See "THE 2010 BONDS—Book Entry Only System."

Interest on the 2010 Bonds is payable on November 1, 2010, and semiannually thereafter on May 1 and November 1 of each year. Principal of and interest on the 2010 Bonds are payable by the State Treasurer, as trustee, to DTC. DTC is required to remit such principal and interest to its Participants for subsequent disbursement to the Beneficial Owners of the 2010 Bonds, as described herein. See Appendix G—"BOOK-ENTRY ONLY SYSTEM."

**The 2010 Bonds are subject to optional and mandatory sinking fund redemption as described herein. See "THE 2010 BONDS—Redemption."**

**MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS**  
**SEE INSIDE COVER**

**THE 2010 BONDS ARE LIMITED OBLIGATIONS OF THE BOARD, PAYABLE FROM GROSS REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE. NEITHER THE PAYMENT OF THE PRINCIPAL OF THE 2010 BONDS NOR ANY PART THEREOF, NOR ANY INTEREST THEREON, CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF CALIFORNIA. THE 2010 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN OR OTHER ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE STATE OF CALIFORNIA OR OF THE BOARD, EXCEPT TO THE EXTENT OF THE AFOREMENTIONED PLEDGE. THE OWNERS OF THE 2010 BONDS HAVE NO RIGHT TO COMPEL THE EXERCISE OF ANY TAXING POWER OF THE STATE OF CALIFORNIA. THE BOARD HAS NO TAXING POWER.**

**This cover page contains information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

*The 2010 Bonds are offered when, as and if issued, subject to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board. Certain legal matters will be passed upon for the Board by its General Counsel and for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Underwriters' Counsel and Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the Board. It is anticipated that the Series 2010A Bonds and the Series 2010B Bonds will be available for delivery to DTC in New York, New York, on or about April 6, 2010.*

**Underwriters for Series 2010A Bonds (Tax-Exempt)**

**Morgan Stanley      Barclays Capital      Siebert Brandford Shank & Co., LLC**

**De La Rosa & Co.**  
**J.P. Morgan**  
**SL Hare Capital, Inc.**  
**Stone & Youngberg**

**Fidelity Capital Markets**  
**RBC Capital Markets**  
**Stern Brothers & Co.**  
**Wells Fargo Securities**

**Underwriters for Series 2010B Bonds (Taxable—Build America Bonds)**

**Barclays Capital**  
**De La Rosa & Co.**  
**J.P. Morgan**  
**SL Hare Capital, Inc.**  
**Stone & Youngberg**

**Morgan Stanley**

**Siebert Brandford Shank & Co., LLC**  
**Fidelity Capital Markets**  
**RBC Capital Markets**  
**Stern Brothers & Co.**  
**Wells Fargo Securities**

Dated: March 17, 2010

**MATURITY SCHEDULE  
SERIES 2010A BONDS**

<u>Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2010	\$1,760,000	2.00%	0.33%	13077CTS3	2018	\$2,000,000	4.00%	3.17%	13077CUA0
2011	3,605,000	3.00	0.60	13077CTT1	2019	7,650,000	5.00	3.37	13077CUV4
2012	1,520,000	4.00	1.00	13077CUZ5	2019	2,000,000	4.00	3.37	13077CUB8
2012	1,530,000	1.00	1.00	13077CUX0	2020	8,255,000	5.00	3.52*	13077CUW2
2012	3,980,000	3.00	1.00	13077CTU8	2020	1,570,000	3.50	3.52	13077CUC6
2013	5,510,000	5.00	1.29	13077CUY8	2021	10,330,000	5.00	3.65*	13077CUD4
2013	1,790,000	4.00	1.29	13077CTV6	2022	8,615,000	5.00	3.78*	13077CUE2
2014	6,055,000	5.00	1.62	13077CUQ5	2023	8,455,000	5.00	3.90*	13077CUF9
2014	1,605,000	3.00	1.62	13077CTW4	2024	8,745,000	5.00	4.00*	13077CUG7
2015	2,060,000	3.00	2.00	13077CTX2	2025	7,200,000	5.00	4.08*	13077CUH5
2015	5,945,000	5.00	2.00	13077CUR3	2026	5,695,000	5.00	4.22*	13077CUJ1
2016	6,385,000	5.00	2.47	13077CUS1	2027	5,885,000	5.00	4.32*	13077CUK8
2016	2,000,000	4.00	2.47	13077CTY0	2028	3,130,000	5.00	4.41*	13077CUL6
2017	6,785,000	5.00	2.84	13077CUT9	2029	3,290,000	5.00	4.50*	13077CUM4
2017	2,000,000	3.00	2.84	13077CTZ7	2030	2,995,000	5.00	4.58*	13077CUN2
2018	7,215,000	5.00	3.17	13077CUU6	2031	1,390,000	4.50	4.70	13077CUP7

**MATURITY SCHEDULE  
SERIES 2010B (TAXABLE—BUILD AMERICA BONDS)**

<u>Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP**</u>	<u>Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP**</u>
2022	\$2,225,000	5.449%	100%	13077CTN4	2024	\$2,565,000	5.649%	100%	13077CTQ7
2023	2,345,000	5.549	100	13077CTP9	2025	4,650,000	5.699	100	13077CTR5

\$46,415,000 6.434% Term Bond due November 1, 2030 Price 100%, CUSIP\*\* 13077CTM6

\$146,945,000 6.484% Term Bond due November 1, 2041 Price 100%, CUSIP\*\* 13077CTL8

\* Yield computed to call date of May 1, 2020.

\*\* CUSIP numbers are provided for convenience of reference only. The Board assumes no responsibility for the accuracy of such numbers.

## CALIFORNIA STATE UNIVERSITY

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The Honorable John A. Pérez	<i>Speaker of the Assembly</i>
The Honorable Jack O'Connell	<i>State Superintendent of Public Instruction</i>
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Raymond Holdsworth, Jr.	<i>Member, CSU Board of Trustees</i>
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Dr. Peter G. Mehas	<i>Member, CSU Board of Trustees</i>
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Dr. Benjamin F. Quillian, *Executive Vice Chancellor and Chief Financial Officer*  
Christine Helwick, *Secretary and General Counsel*  
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The Honorable Bill Lockyer  
*Treasurer of the State of California*

The Honorable Edmund G. Brown Jr.  
*Attorney General of the State of California*

Orrick, Herrington & Sutcliffe LLP, *San Francisco, California*  
Bond Counsel and Disclosure Counsel

KNN Public Finance, a division of Zions First National Bank, *Oakland, California*  
Financial Advisor

Grant Thornton LLP, *Minneapolis, Minnesota*  
Verification Agent

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of 2010 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Board or the State of California.

Certain of the information set forth herein has been obtained from the State of California, the Board, and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of California or the California State University since the date hereof. This Official Statement is submitted in connection with the sale of the 2010 Bonds and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the California State University.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is not to be construed as a contract with the purchasers of the 2010 Bonds. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

A wide variety of other information, including financial information, concerning the State of California and the California State University is available from State agencies, State agency publications and State agency internet sites. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of, or incorporated into, this Official Statement. The references to internet websites contained in this Official Statement are shown for reference and convenience only; the information contained in such websites is not incorporated herein by reference and does not constitute a part of this Official Statement.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2010 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**THE 2010 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2010 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

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## THE 23 CURRENT CAMPUSES OF THE CSU



## OFFICIAL STATEMENT

**\$146,950,000**  
**TRUSTEES OF THE**  
**CALIFORNIA STATE UNIVERSITY**  
**SYSTEMWIDE REVENUE BONDS**  
**SERIES 2010A**

**\$205,145,000**  
**TRUSTEES OF THE**  
**CALIFORNIA STATE UNIVERSITY**  
**SYSTEMWIDE REVENUE BONDS**  
**SERIES 2010B**  
**(TAXABLE — BUILD AMERICA BONDS)**

## INTRODUCTION

*This introduction contains only a brief summary of certain of the terms of the 2010 Bonds being offered and a brief description of the Official Statement. A full review should be made of the entire Official Statement including the Appendices hereto. All statements contained in this introductory section are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California or any other documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions thereof.*

### General

The purpose of this Official Statement (the “Official Statement”) is to set forth certain information concerning the Trustees of the California State University Systemwide Revenue Bonds, Series 2010A (the “Series 2010A Bonds”) and the Trustees of the California State University Systemwide Revenue Bonds, Series 2010B (Taxable – Build America Bonds) (the “Series 2010B Bonds”) and together with the Series 2010A Bonds, the “2010 Bonds”). The 2010 Bonds are authorized to be issued by the Trustees of the California State University (the “Board”) pursuant to The State University Revenue Bond Act of 1947, Sections 90010 through 90081 of the Education Code of the State of California (the “Act”) and an indenture dated as of April 1, 2002, as supplemented (the “Indenture”), by and between the Board and the Treasurer of the State of California, as trustee (the “State Treasurer”).

### CSU and Systemwide Financing Program

The California State University (the “CSU”) system is an agency of the State of California (the “State”) created by the Donohoe Higher Education Act in 1960, which reorganized higher education in California. At that time, twelve existing schools, previously under the jurisdiction of the State Board of Education, were brought under the stewardship of the Board. Today there are 23 campuses and six off-campus centers in the CSU system. The campuses are geographically disbursed throughout the State to provide a wide spectrum of higher education services. During the Fall term of the 2009-10 academic year, CSU provided instruction to approximately 361,000 undergraduate students and approximately 73,000 graduate students. See Appendix A for a general description of CSU and Appendix B for an overview of each CSU campus.

CSU issues debt to finance many of its capital facilities needs. Responsibility for the management of CSU debt obligations is centralized in the CSU Chancellor’s Office, with oversight and ultimate approval by the Board.

The 2010 Bonds represent the thirteenth and fourteenth series of bonds issued by the Board pursuant to a systemwide debt financing program adopted on March 13, 2002 (the “Systemwide Financing Program”). Previously, the Board had financed various capital projects by issuing directly, or through auxiliary support organizations, separate series of bonds relating to individual projects, or one or more similar projects. The Systemwide Financing Program has a multi-source revenue pledge intended to create a more efficient borrowing structure with a more diverse revenue base. The Board retains the right to finance projects outside of the Systemwide Financing Program, although the Board expects that the Systemwide Financing Program will be the primary long-term financing method for CSU revenue generating capital projects.

The revenues pledged under the Systemwide Financing Program generally include student housing fees, student union fees, parking fees, health center facility fees and continuing education fees derived from substantially all of the housing, parking, student union, student center, student health center and continuing education facilities owned or operated by the Board and other projects and revenues designated by the Board for inclusion in the Systemwide Financing Program. Those other projects and revenues include certain projects leased by the Board to certain auxiliary organizations of CSU and governmental entities related to CSU, including projects previously owned and financed by the California State University Headquarters Building Authority and the California State University, Channel Islands Site Authority. See “SECURITY FOR THE 2010 BONDS,” “THE PROJECTS” and Appendix A – “CALIFORNIA STATE UNIVERSITY—Systemwide Revenue Bond Programs.”

### **Purpose of the 2010 Bonds**

The proceeds of the 2010 Bonds will be used for the purpose of financing and refinancing the acquisition, construction, improvement and renovation of certain facilities of CSU. In that connection, a portion of the proceeds of the Series 2010A Bonds, together with certain other moneys, will be applied to refund certain bonds issued by auxiliary organizations of CSU (the “Prior Bonds”). See “REFUNDING PLAN,” Appendix A—“CSU AND RELATED ENTITY INDEBTEDNESS—Commercial Paper” and Appendix H—“PROJECTS FINANCED AND BONDS REFUNDED WITH SERIES 2010 BONDS.”

### **Security for the 2010 Bonds**

The 2010 Bonds are limited obligations of the Board. The 2010 Bonds are being issued as additional bonds pursuant to the Indenture and will be secured on a parity with approximately \$3,084,073,000 aggregate principal amount of revenue bonds currently outstanding pursuant to the Indenture. These revenue bonds together with the 2010 Bonds and any additional series of revenue bonds that the Board may issue in the future from time to time in accordance with the Indenture are referred to in this Official Statement as the “Systemwide Revenue Bonds.” See “SECURITY FOR THE 2010 BONDS—Parity Lien Indebtedness” and “—No Senior Lien Indebtedness.”

The Board has covenanted in the Indenture that it will not incur any additional Indebtedness secured by a Senior Lien. See “SECURITY FOR THE 2010 BONDS— No Senior Lien Indebtedness.” The Board may incur additional Indebtedness secured by a pledge and lien on Gross Revenues on a parity with the Systemwide Revenue Bonds upon satisfaction of certain requirements for incurring Indebtedness secured by a Parity Lien under the Indenture. See “SECURITY FOR THE 2010 BONDS—Parity Lien Indebtedness.”

There is no bond reserve fund established by the Indenture to secure the Systemwide Revenue Bonds.

The Systemwide Revenue Bonds do not constitute a liability of or a lien or charge upon the funds or property of the State of California or of the Board, except to the extent of the aforementioned pledge under the Indenture. The Board has no taxing power.

### **Redemption**

The 2010 Bonds are subject to optional and mandatory sinking fund redemption as described herein. See “THE 2010 BONDS—Redemption.”

### **Continuing Disclosure**

The Board has covenanted for the benefit of the registered owners and Beneficial Owners of the 2010 Bonds to provide certain financial information and operating data relating to the 2010 Bonds (the “Annual Report”) not later than the January 1 following the end of the Board’s fiscal year (which fiscal year currently ends June 30), commencing with the report for the fiscal year ending June 30, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed with the Municipal Securities Rulemaking Board. See “CONTINUING DISCLOSURE.” The specific nature of the information to be contained in the Annual Report and in the notice of material events is summarized in Appendix E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriters of the 2010 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).



## **Forward Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “INTRODUCTION” and Appendix A.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Board does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur, except as described under the caption “CONTINUING DISCLOSURE” and in Appendix E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

## **Certain Information Related to this Official Statement**

This Official Statement contains brief descriptions of the 2010 Bonds, security for the 2010 Bonds, the Board, the Projects, the Continuing Disclosure Certificate and the Indenture. General information concerning CSU, including the Systemwide Financing Program, is contained in Appendices A and B. The audited Financial Statements of CSU for the fiscal year ended June 30, 2009 are contained in Appendix C-1 and the audited Financial Statements of the CSU Systemwide Revenue Bond Program Fund for the fiscal year ended June 30, 2009 are contained in Appendix C-2. The summaries of the Indenture and the Continuing Disclosure Certificate contained herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Indenture and the Continuing Disclosure Certificate. Copies of the Indenture, the Continuing Disclosure Certificate and other documents referenced herein are available for inspection and for delivery from the Board at Chancellor’s Office, 401 Golden Shore, 5<sup>th</sup> Floor, Long Beach, California 90802-4210, Attention: Director, Financing and Treasury.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof. All financial and other information presented in this Official Statement has been provided by the Board from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Board. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Capitalized terms used herein which are not otherwise defined have the meanings set forth under the heading Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—CERTAIN DEFINED TERMS.”

## **Tax Matters**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Board, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and interest on the 2010 Bonds is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes that interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds, including whether interest on the Series 2010A Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. See “TAX MATTERS”.

## THE 2010 BONDS

### General

The 2010 Bonds are issued in fully registered form in denominations of \$5,000 and any integral multiple thereof. The 2010 Bonds will bear interest from their date of delivery, and will mature on the dates and in the principal amounts set forth on the inside cover page hereof, subject to the rights of prior redemption described herein.

Interest on the 2010 Bonds is payable on November 1, 2010 and semiannually thereafter on May 1 and November 1 of each year. The record date for the payment of such interest on the 2010 Bonds is the close of business on the fifteenth day of the month immediately preceding such interest payment date. As described in Appendix G—"BOOK ENTRY ONLY SYSTEM," principal and interest on the 2010 Bonds are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement to the Beneficial Owners of the Bonds.

### Book Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2010 Bonds. The ownership of one fully registered 2010 Bond for each maturity set forth on the inside cover page hereof, in the aggregate principal amount of the 2010 Bonds maturing on that date, will be registered in the name of Cede & Co., as nominee of DTC. See Appendix G—"BOOK ENTRY ONLY SYSTEM" for a description of DTC and the Book Entry Only System.

### Designation of 2010B Bonds as "Build America Bonds"

The Board expects to issue the Series 2010B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the "Recovery Act"). Pursuant to the Recovery Act, the Board expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the Board on the Series 2010B Bonds on or about each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the Treasury under the Recovery Act. Any cash subsidy payments received by the Board do not constitute Gross Revenues and are not pledged under the Indenture to secure the 2010 Bonds.

### Redemption

#### Optional Redemption.

(A) **Series 2010A Bonds.** The Series 2010A Bonds maturing on or before November 1, 2019 are not subject to redemption prior to their respective stated maturities. The Series 2010A Bonds maturing on or after November 1, 2020 are subject to redemption prior to their respective stated maturities, at the option of the Board from lawfully available funds deposited in the Optional Redemption Account as a whole or in part on any date, on or after May 1, 2020 (in such order of maturity as shall be selected by the Board in a written order of the Board filed with the State Treasurer and by lot within a maturity) at a price of the par amount thereof, without premium, together with accrued interest to the date fixed for redemption:

(B) **Series 2010B Bonds—Make Whole Optional Redemption.** From the date of issuance, the Series 2010B Bonds are subject to redemption prior to their respective stated maturities at the option of the Board, in whole or in part, on any date at a redemption price equal to the greater of:

- (1) 100% of the principal amount of the Series 2010B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2010B Bonds are to be redeemed, discounted to the date on

which such Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) plus 30 basis points, plus, in each case, accrued interest on such Series 2010B Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2010B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2010B Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

(C) **Series 2010B Bonds—Extraordinary Optional Redemption.** The Series 2010B Bonds are subject to redemption prior to their respective stated maturities at the option of the Board, in whole or in part and if in part, with maturities to be designated by the Board (and pro rata within a maturity), on any date upon the occurrence of an Extraordinary Event, at a redemption price (the “Extraordinary Redemption Price”) equal to the greater of:

- (1) 100% of the principal amount of such Series 2010B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series 2010B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series 2010B Bonds are to be redeemed, discounted to the date on which such Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points, plus, in each case, accrued interest on such Series 2010B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986, as amended (the “Code”) (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) pursuant to which the Board’s 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

(D) **Calculation of Redemption Price.** At the request of the Board or the Trustee, the redemption price of the Series 2010B Bonds to be redeemed at the option of the Board will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Board at the Board’s expense to calculate such redemption price. The Board and the Trustee may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

**Sinking Account Redemption.** The Series 2010B Bonds maturing on November 1, 2030 are subject to redemption prior to maturity in part, pro rata, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, from Mandatory Sinking Account Payments in the following amounts, commencing on November 1, 2026 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments  
Series 2010B Bonds Maturing November 1, 2030**

Redemption Date (November 1)	Principal Amount
2026	\$ 6,700,000
2027	7,080,000
2028	10,420,000
2029	10,875,000
2030*	11,340,000

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\*Maturity

The Series 2010B Bonds maturing on November 1, 2041 are subject to redemption prior to maturity in part, pro rata, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, from Mandatory Sinking Account Payments in the following amounts, commencing on November 1, 2031 according to the following schedule:

**Schedule of Mandatory Sinking Account Payments  
Series 2010B Bonds Maturing November 1, 2041**

Redemption Date (November 1)	Principal Amount
2031	\$ 11,820,000
2032	12,335,000
2033	12,865,000
2034	13,420,000
2035	14,000,000
2036	13,195,000
2037	13,755,000
2038	14,350,000
2039	14,975,000
2040	14,100,000
2041*	12,130,000

\*Maturity

**Notice of Redemption for the 2010 Bonds.** If DTC or its nominee is the registered owner of any 2010 Bond to be redeemed, notice of redemption will be given to DTC or its nominee as the registered owner of such 2010 Bond. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner of any 2010 Bond to be redeemed shall not affect the validity of the redemption of such 2010 Bond.

Notice of redemption shall be given by mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption, to the respective registered owners of any 2010 Bonds designated for redemption at their addresses appearing on the bond registration books of the State Treasurer. Each notice of redemption shall state the date fixed for redemption, the place or places of redemption, and, as further described in the following paragraph, if such funds are not then held by the State Treasurer, that such redemption will be cancelled if the funds are not held by the State Treasurer on the date fixed for redemption, the maturities, and, if less than all of any such maturity, the distinctive numbers of the 2010 Bonds of such maturity, to be redeemed and, in the case of 2010 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said 2010 Bonds the principal thereof or of said specified portion of the principal thereof, in the case of a 2010 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue, and shall require that such 2010 Bonds be then surrendered.

With respect to any notice of optional redemption of 2010 Bonds, such notice may state that such redemption shall be conditional upon the receipt by the State Treasurer on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2010 Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the State Treasurer shall not be required to redeem such 2010 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the State Treasurer shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Notice of redemption of Bonds shall be given by the State Treasurer for and on behalf of the Board. Any failure of the State Treasurer to mail notice of redemption of any 2010 Bond to any Bondholder or any defect in such notice shall not affect the validity of the proceedings for redemption of any other 2010 Bond.

**Selection of 2010 Bonds for Redemption.** Under the Indenture, the Series 2010A Bonds that are subject to optional redemption may be selected for such redemption in such amounts and order of maturity of Outstanding Series 2010A Bonds as shall be selected by the Board. Whenever provision is made in the Indenture for the redemption of the Series 2010A Bonds or a portion thereof by lot, and less than all of the Series 2010A Bonds or portion thereof are called for redemption, and if the Series 2010A Bonds are in book-entry form at the time of such redemption, the State Treasurer shall provide written notice to DTC in accordance with the Indenture and the DTC Letter of Representations of the Board, filed with DTC upon the issuance of the Series 2010A Bonds. If the Series 2010A Bonds of any maturity are to be redeemed prior to maturity and if the Series 2010A Bonds are not then in book-entry form at the time of such redemption, on each redemption date, the State Treasurer shall select the Series 2010A Bonds to be redeemed, from the Outstanding Series 2010A Bonds or portion thereof not previously called for redemption, by lot in any manner which the State Treasurer in his sole discretion shall deem appropriate and fair.

Under the Indenture, the Series 2010B Bonds that are subject to optional redemption may be selected for such redemption in such amounts and order of maturity of Outstanding Series 2010B Bonds as shall be selected by the Board. If less than all of the Series 2010B Bonds of any maturity are to be redeemed prior to maturity and if the Series 2010B Bonds are in book-entry form at the time of such redemption, the State Treasurer shall provide written notice to DTC in accordance with the Indenture and the pro rata reduction in principal provision included in the DTC Letter of Representations of the Board, filed with DTC upon the issuance of the Series 2010B Bonds. If less than all of the Series 2010B Bonds of any maturity are to be redeemed prior to maturity and if the Series 2010B Bonds are not then in book-entry form at the time of such redemption, on each redemption date, the State Treasurer shall select the specific Series 2010B Bonds for redemption on a pro rata basis from such maturity or Mandatory Sinking Account Payment within such maturity of Outstanding Series 2010B Bonds. The portion of any Series 2010B Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof. The State Treasurer will select such portions of Series 2010B Bonds to be redeemed on a pro rata basis from each maturity or Mandatory Sinking Account Payment of Outstanding Series 2010B Bonds, as the State Treasurer in his discretion may deem to be fair and appropriate.

As described in Appendix G—“BOOK ENTRY ONLY SYSTEM,” DTC shall select 2010 Bonds for redemption in accordance with its customary practices and procedures and neither the Board nor the State Treasurer shall have any responsibility to ensure that DTC has properly selected such 2010 Bonds for redemption.

**Effect of Redemption of 2010 Bonds.** Notice of redemption having been duly given as provided in the Indenture, and moneys for payment of the interest accrued to the date fixed for redemption on, the 2010 Bonds (or portions thereof) so called for redemption being held by the State Treasurer, on the date fixed for redemption designated in such notice the 2010 Bonds (or portions thereof) so called for redemption shall become due and payable at the principal amount specified in such notice and interest accrued thereon to the date fixed for redemption, interest on the 2010 Bonds (or portions thereof) so called for redemption shall cease to accrue, said 2010 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said 2010 Bonds shall have no rights in respect thereof except to receive payment of said principal amount and accrued interest.

## **SECURITY FOR THE 2010 BONDS**

### **Limited Obligations**

As described in this section, the 2010 Bonds are limited obligations of the Board, payable from Gross Revenues and other amounts pledged under the Indenture. The 2010 Bonds will not constitute a liability of or a lien upon the funds or property of the State of California or of the Board, except to the extent of the aforementioned pledge under the Indenture. The Board has no taxing power.

### **Pledge**

The 2010 Bonds will be secured solely by the Gross Revenues and other amounts pledged under the Indenture. See Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Pledge and Assignment; Gross Revenue Fund; Revenue Fund.”

**Gross Revenues.** As defined in the Indenture, Gross Revenues means (i) all income, rentals, fees, rates, charges, insurance proceeds, condemnation proceeds and other moneys derived from the ownership or operation of the Projects, but excluding any refundable deposits, fines or forfeitures or operating revenues from student unions or student centers that are not mandatory student center fees, and (ii) any other revenues, receipts, income or other moneys from time to time designated by the Board for the payment of principal of and interest on the Systemwide Revenue Bonds, in each case subject to the provisions of the Security Documents governing any Indebtedness secured by a Senior Lien. There is no outstanding Indebtedness of the Board secured by a Senior Lien, and the Board has covenanted in the Indenture that it will not incur Indebtedness secured by a Senior Lien.

The term “Projects,” as defined in the Indenture, means, on any given date, (i) all of the housing, parking, student union, student center, student health center and continuing education facilities owned or operated by the Board and (ii) any other facilities designated by the Board as Projects under the Indenture in a Certificate of the Board filed with the State Treasurer, except in all cases the Excluded Facilities. “Excluded Facilities” means any facilities which may be designated from time to time by the Board as Excluded Facilities in a Certificate of the Board which is filed with the State Treasurer. There are currently no Excluded Facilities. See “THE PROJECTS—Excluded Facilities.” As more fully described below under the caption “—Rate Covenant,” the Board has covenanted to set rates, charges and fees for Projects at levels necessary to meet debt service obligations of the Systemwide Revenue Bonds.

Gross Revenues consist primarily of mandatory and user fees collected from students attending CSU campuses. Gross Revenues do not include the State University Fee, which is the basic enrollment fee paid by all students who attend CSU. For a description of the fees and certain other amounts constituting Gross Revenues, their method of collection and recent historical collections, see Appendix A—“CALIFORNIA STATE UNIVERSITY—Systemwide Revenue Bond Programs.”

The Board covenants in the Indenture that, so long as any of the Systemwide Revenue Bonds remain Outstanding, (i) all of the Gross Revenues not encumbered by any Senior Lien shall be deposited as soon as practicable upon receipt in a fund designated as the “Trustees of the California State University Systemwide Revenue Bonds Gross Revenue Fund” (the “Gross Revenue Fund”) which the Board shall establish and maintain and (ii) funds equal to Gross Revenues encumbered by any Senior Lien shall be deposited in the Gross Revenue Fund at the earliest practicable time and to the extent such funds are available pursuant to the terms of the Security Documents evidencing such Senior Lien.

Prior to the occurrence of an Event of Default under the Indenture, amounts in the Gross Revenue Fund may be used and withdrawn by the Board at any time for any lawful purpose. In the case of an Event of Default, amounts in the Gross Revenue Fund will be used to pay certain expenses, including Maintenance and Operating Expenses with respect to Projects, before payment of debt service on the Systemwide Revenue Bonds, all as further described in Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Pledge and Assignment; Gross Revenue Fund; Revenue Fund” and “—Application of Gross Revenues and Other Funds After Default.”

### **Rate Covenant**

The Board has covenanted in the Indenture to set rates, charges, and fees for the Projects for the then current Fiscal Year so as to cause Net Income Available for Debt Service to be in an amount at least equal to Aggregate Debt Service for all Indebtedness and Designated Auxiliary Debt for such Fiscal Year. See Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Particular Covenants of the Board of Trustees.”

The annual debt service on the Systemwide Revenue Bonds is set forth in Table 9 in Appendix A. The Gross Revenues for the five fiscal years ended June 30, 2009 are summarized by program element in Table 8 in Appendix A. See Appendix A—“CALIFORNIA STATE UNIVERSITY—Financial Information Related to Systemwide Revenues” and Appendix C-2—“AUDITED FINANCIAL STATEMENTS OF THE CALIFORNIA STATE UNIVERSITY SYSTEMWIDE REVENUE BOND PROGRAM FUND AS OF JUNE 30, 2009”, including Note (1)(j) therein.

## Parity Lien Indebtedness

Pursuant to the Indenture, the Board may from time to time issue additional series of Systemwide Revenue Bonds to provide funds to pay the costs of acquiring, constructing, financing and refinancing the Projects as determined by the Board and in accordance with the requirements of the Indenture, including the requirements for issuing or incurring Indebtedness secured by a Parity Lien described in the next paragraph. The maximum principal amount of Systemwide Revenue Bonds that may be issued under the Indenture is not limited.

In addition, so long as no Event of Default has occurred or is continuing under the Indenture, the Board may issue or incur Indebtedness secured by a Parity Lien if there is filed with the State Treasurer a Certificate of the Board confirming its expectation that, for the first full Fiscal Year following the date the Project financed or refinanced with the proceeds of such Indebtedness secured by a Parity Lien is placed in service, Net Income Available for Debt Service for such Fiscal Year shall be in an amount at least equal to Aggregate Debt Service for such Fiscal Year on all Indebtedness secured by a Parity Lien and Designated Auxiliary Debt. See Appendix D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Particular Covenants of the Board of Trustees.”

The Indenture does not limit the power of the Board to issue or incur (a) any Indebtedness secured by a Subordinate Lien; or (b) any Indebtedness which is not secured by any pledge, lien or encumbrance on Gross Revenues.

## No Senior Lien Indebtedness

There is no outstanding Indebtedness of the Board secured by a Senior Lien, and the Board has covenanted in the Indenture that it will not incur Indebtedness secured by a Senior Lien.

## ESTIMATED SOURCES AND USES OF FUNDS

### SERIES 2010A BONDS

#### SOURCES

Principal Amount of Series 2010A Bonds .....	\$146,950,000.00
Net Original Issue Premium .....	13,902,253.55
Moneys Related to Prior Bonds.....	<u>6,613,379.92</u>
Total Sources of Funds.....	<u>\$167,465,633.47</u>

#### USES

Series 2010A Project Account <sup>(1)</sup> .....	\$ 77,244,939.11
Escrow Funds <sup>(2)</sup> .....	62,627,001.54
Series 2010 Capitalized Interest Account.....	25,746,849.04
Series 2010 Costs of Issuance <sup>(3)</sup> .....	<u>1,846,843.78</u>
Total Uses of Funds.....	<u>\$167,465,633.47</u>

<sup>(1)</sup> Moneys in the Series 2010A Project Account will be used to pay costs of financing and refinancing the Series 2010A Projects listed in Appendix H.

<sup>(2)</sup> Certain moneys related to the Prior Bonds, together with proceeds of the Series 2010A Bonds deposited into the Escrow Funds, will be used to defease or repay the Prior Bonds listed in Appendix H.

<sup>(3)</sup> Includes Underwriters' discount and fees and costs of Bond Counsel, Disclosure Counsel and the State Treasurer and rating agency fees and financial advisor fees.

## **SERIES 2010B BONDS**

### **SOURCES**

Principal Amount of Series 2010B Bonds.....	\$205,145,000.00
Total Sources of Funds.....	<u>\$205,145,000.00</u>

### **USES**

Series 2010B Project Account <sup>(1)</sup> .....	\$203,868,927.90
Underwriters' Discount .....	<u>1,276,072.10</u>
Total Uses of Funds.....	<u>\$205,145,000.00</u>

<sup>(1)</sup> Moneys in the Series 2010B Project Account will be used to pay costs of financing the Series 2010B Projects listed in Appendix H.

### **REFUNDING PLAN**

The Board has authorized Systemwide Revenue Bonds to refund \$59,495,000 aggregate principal amount of certain outstanding bonds issued by Fullerton Auxiliary Services Corporation, San Diego State Aztec Shops, Inc. and San Diego State Research Foundation, each an auxiliary organization serving CSU (the "Auxiliaries") identified in the following table and in Appendix H (the "Prior Bonds"). To refund the Prior Bonds, a portion of the proceeds of the Series 2010A Bonds together with certain moneys held in connection with certain of the Prior Bonds will be deposited in trust with each of the trustees for the Prior Bonds, as escrow agents (each, an "Escrow Agent"), in the Escrow Funds created pursuant to Escrow Agreements, each dated as of March 1, 2010 between an Escrow Agent and the Auxiliaries. The money so deposited will be used to purchase non-callable direct obligations of the United States of America (the "Federal Securities"), the principal of and interest on which (together with any initial cash deposit) will be sufficient to pay the principal of and interest on the Prior Bonds to and including their respective redemption dates, plus any applicable redemption premiums as shown in the following table and in Appendix H. Upon such deposit and provision for any required redemption notice, the Prior Bonds will no longer be deemed to be outstanding and will have been defeased in accordance with their respective terms. The holders of Prior Bonds will thereafter be entitled to payment only from proceeds of the Federal Securities and funds (if any) on deposit in the respective Escrow Fund established for such Prior Bonds. The cash flow adequacy of the Escrow Funds will be verified by the certified public accounting firm of Grant Thornton LLP.

#### **Auxiliary Organization Bonds to Be Refunded by Series 2010A Bonds**

<i>Organization/Series</i>	<i>Principal to be Refunded</i>	<i>Redemption Date</i>	<i>Redemption Price</i>	<i>CUSIP (Base)</i>
Fullerton Auxiliary Services Corporation, <sup>(1)</sup> Series 2000A	\$16,740,000	7/1/2010	101%	359843
Fullerton Auxiliary Services Corporation, <sup>(1)</sup> Series 2000B (Tax-Exempt) (Remarketed in 2004)	8,295,000	7/1/2014	100	359843
San Diego St. Aztec Shops Ltd., Series 2000	21,370,000	9/1/2010	101	05500R



San Diego St. Research Foundation, Series 1998	\$6,605,000	5/11/2010	100%	130909
San Diego St. Research Foundation, Series 1999	6,485,000	5/11/2010	100	797455

<sup>(1)</sup> Formerly known as California State University, Fullerton Foundation.

## THE PROJECTS

### General Description

The Projects that contribute toward Gross Revenues include (i) all housing, student union, parking, student centers, student health and continuing education facilities, and (ii) other facilities designated by the Board, except, in all cases, facilities designated by the Board as Excluded Facilities. The current Projects are located at all 23 campuses of CSU. All Projects are owned by the Board and are operated by CSU or the Auxiliaries. The Projects are generally described as follows:

**Student Housing:** Twenty-two of the 23 campuses comprising the CSU system operate housing facilities under the State University Revenue Bond Act of 1947. In the Fall of 2009, the design capacity for the housing facilities was 44,225 spaces, which was approximately 10% of the Fall 2009 enrollment for CSU. Operational capacity by campus is set forth in Appendix C-2—"AUDITED FINANCIAL STATEMENTS OF THE CALIFORNIA STATE UNIVERSITY SYSTEMWIDE REVENUE BOND PROGRAM FUND AS OF JUNE 30, 2009." The Gross Revenues derived from the housing secure the Systemwide Revenue Bonds outstanding under the Indenture.

**Student Union:** Twenty-two of the 23 campuses in the CSU system operate student union facilities and collect student body center fees which constitute a portion of the Gross Revenues. The Gross Revenues derived from the student body center fees secure the Systemwide Revenue Bonds outstanding under the Indenture.

**Parking:** All 23 campuses operate parking lots and structures to accommodate students, faculty, staff and visitors. Establishment of parking rates is delegated by the Board to the Chancellor, who further delegates the authority to each respective campus president. As of June 30, 2009, there were approximately 155,452 parking spaces comprising the parking projects designated under the Indenture. All parking revenues constitute Gross Revenues for Systemwide Revenue Bonds.

**Student Health Facilities:** Twenty-two of the 23 campuses in the CSU system operate student health facilities and collect a health center fee that constitutes a portion of the Gross Revenues. These fees are not pledged to secure any indebtedness other than the Systemwide Revenue Bonds outstanding under the Indenture.

**Continuing Education Facilities:** On each of the CSU campuses, there are several types of Extended University programs offered by CSU that comprise the Continuing Education Program: Certificate Programs; On-line Programs and Courses; Professional Development; Off-Campus Degree Programs; Test Preparation; and Corporate Training and In-Service Education. Each student enrolling in a continuing education class pays a fee per class collected at the time of registration. The fees are established by each campus and constitute a portion of the Gross Revenues. The Gross Revenues derived from the continuing education facilities secure the Systemwide Revenue Bonds outstanding under the Indenture.

**Facilities of Certain Auxiliary Organizations and Other Entities:** From time to time certain facilities serving CSU are owned, operated or financed with the participation of an auxiliary organization or a special purpose governmental unit. See Appendix A—"CALIFORNIA STATE UNIVERSITY—Governance and Administration—Campus Administration and "SYSTEMWIDE REVENUE BOND PROGRAMS—Auxiliary Organizations Program and Other Entities." These facilities may include, but are not limited to,

the types of facilities described above. In certain cases, a facility financed or refinanced by the Board with Systemwide Revenue Bonds may be leased from the Board, as lessor, to an auxiliary organization or governmental unit, as lessee. Under the terms of the lease, the lessee will agree to operate the facility and to make certain rental payments to the Board which will constitute Gross Revenues under the Indenture. In other cases, the Board may loan proceeds of Systemwide Revenue Bonds to an auxiliary organization to pay for the costs of acquiring or constructing such facilities and such auxiliary organizations will agree to make loan payments to the Board which will constitute Gross Revenues under the Indenture. At the time the lease or loan is entered into, certain lessees or borrowers may have outstanding debt and the obligation to make payments to the Board under the lease or loan may be on a parity with, or junior and subordinate to, such debt of the lessee or borrower. In addition, certain auxiliary organizations, their debt and revenues may be designated by the Board pursuant to the Indenture as Designated Auxiliary Organizations, Designated Auxiliary Revenues and Designated Auxiliary Debt, respectively, and treated accordingly for purposes of the rate covenant and the additional borrowing test under the Indenture. See “SECURITY FOR THE 2010 BONDS—Rate Covenant” and “—Parity Lien Indebtedness.”

For information on certain approval procedures, the acquisition and construction process and the operation and maintenance of the Projects, see Appendix A.

### **Excluded Facilities**

Under the Indenture, the Board may, at any time, without the consent of owners of the 2010 Bonds, designate any existing or future facilities as Excluded Facilities. Certain facilities operated by the Board, because they were not a part of the facilities that provide funds for repayment of the Board’s debt programs, have been designated in the past as Excluded Facilities. Although the Excluded Facilities may change from time to time at the discretion of the Board, there are currently no Excluded Facilities. The revenues derived from Excluded Facilities do not constitute a part of the Gross Revenues, and the historic Gross Revenues set forth in Table 8 in Appendix A do not include any Gross Revenues derived from Excluded Facilities. As described further in Appendix A under the heading “SYSTEMWIDE REVENUE BOND PROGRAMS—Debt Management Program” the Board adopted a policy in March 2002 that restricts the designation of Excluded Facilities by the Board. As more fully described above under the heading “SECURITY FOR THE 2010 BONDS—Rate Covenant,” the Board has covenanted to set rates, charges and fees for Projects at levels necessary to meet debt service obligations of the Systemwide Revenue Bonds.

### **Effect of Damage to or Loss of Projects**

Damage to or destruction of one or more Projects due to seismic or other events could result in a reduction in the Gross Revenues collected and in the event of a major disaster could have a material adverse effect on the ability of CSU to collect sufficient Gross Revenues.

Under the Indenture, CSU is required to maintain property and casualty insurance in such amounts and against such risks as are appropriate, as determined by the Board, for facilities of similar size and nature as the Projects, in the event and to the extent that such insurance is customarily maintained by the Board for facilities of similar size and nature as the Projects. See Appendix A—“CALIFORNIA STATE UNIVERSITY—OTHER MATTERS—Insurance” for a description of the insurance currently maintained by CSU. Notwithstanding this insurance program, losses could be incurred due to uninsured events or damage in excess of any coverage then in effect. CSU does not currently insure the Projects against risk of loss due to earthquakes or flood.

## **TAX MATTERS**

### **Series 2010A Bonds - Tax-Exempt Bonds**

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Board (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and interest on the 2010 Bonds is exempt from State of

California personal income taxes. Bond Counsel is also of the opinion that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel also observes that the interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expects to deliver an opinion at the time of issuance of the Series 2010A Bonds substantially in the form set forth in Appendix F-1 hereto. Bond Counsel also expects to deliver an opinion at the time of issuance of the Series 2010B Bonds substantially in the form set forth in Appendix F-2 hereto.

To the extent the issue price of any maturity of the Series 2010A Bonds is less than the amount to be paid at maturity of such Series 2010A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2010A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2010A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2010A Bonds is the first price at which a substantial amount of such maturity of the Series 2010A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010A Bonds accrues daily over the term to maturity of such Series 2010A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2010A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010A Bonds. Owners of the Series 2010A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2010A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010A Bonds is sold to the public.

Series 2010A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium 2010A Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium 2010A Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium 2010A Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series 2010A Bonds. The Board has made certain representations and has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Series 2010A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2010 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2010A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and that the interest on the 2010 Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Bonds may otherwise affect a beneficial owner’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2010A Bonds. Prospective purchasers of the Series 2010A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Board, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Board has covenanted, however, to comply with the requirements of the Code.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is not obligated to defend the beneficial owners regarding the tax-exempt status of the Series 2010A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Board and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Board legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause the Board or the beneficial owners to incur significant expense.

#### **Series 2010B Bonds - Taxable (Build America Bonds)**

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2010B Bonds that acquire their Series 2010B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2010B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Series 2010B Bonds pursuant to this offering for the issue price that is applicable to such Series 2010B Bonds (i.e., the price at which a substantial amount of the Series 2010B Bonds are sold to the public) and who will hold their Series 2010B Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series 2010B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series 2010B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2010B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner

and upon the activities of the partnership. Partnerships holding Series 2010B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2010B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

**For U.S. Holders.** In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Series 2010B Bonds is exempt from State of California personal income taxes. Interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series 2010B Bonds.

The Series 2010B Bonds are not expected to be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated redemption price at maturity of the Series 2010B Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Series 2010B Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Series 2010B Bonds.

*Disposition of the Series 2010B Bonds.* Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the Board), defeasance or other disposition of a Series 2010B Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2010B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2010B Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the Series 2010B Bond (generally, the purchase price paid by the U.S. Holder for the Series 2010B Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Series 2010B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Series 2010B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

**For Non-U.S. Holders.** *Interest.* Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Series 2010B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Board through stock ownership and (2) a bank which acquires such Series 2010B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series 2010B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

*Disposition of the Series 2010B Bonds.* Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Board), defeasance or other disposition of a Series 2010B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Board), defeasance or other disposition and certain other conditions are met.

*U.S. Federal Estate Tax.* A Series 2010B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that at the time of such individual’s death, payments of interest with respect to such Series 2010B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

*Information Reporting and Backup Withholding.* U.S. information reporting and “backup withholding” requirements apply to certain payments of principal of, and interest on the Series 2010B Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Board), defeasance or other disposition of a Series 2010B Bond, to certain noncorporate holders of Series 2010B Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Series 2010B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2010B Bond or a financial institution holding the Series 2010B Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Series 2010B Bonds that are not United States persons and copies of such owners’ certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign “broker,” as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Bond to the seller of the Series 2010B Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Series 2010B Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Series 2010B Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

## **CIRCULAR 230**

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Board and our tax advisors are (or may be) required to inform you that:

- Any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the Series 2010B Bonds and the transactions described herein (or in such opinion or other advice); and

- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

### **CERTAIN LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance, sale and delivery by the Board of the 2010 Bonds and with regard to the tax status of interest on the 2010 Bonds under existing laws are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. The forms of opinion Bond Counsel proposes to render with respect to the 2010 Bonds are attached as Appendix F-1 and Appendix F-2 hereto.

### **CONTINUING DISCLOSURE**

The Board has covenanted for the benefit of the holders and beneficial owners of the 2010 Bonds to provide certain financial information and operating data relating to CSU by not later than January 1 following the end of CSU's fiscal year (which fiscal year as of the date hereof ends June 30) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed directly with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in Appendix E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." Pursuant to the Indenture, failure of the Board to comply with its obligations under the Continuing Disclosure Certificate will not be considered an event of default under the Indenture. However, the Trustee and any holder or Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board to comply with its obligations under the Continuing Disclosure Certificate.

The Board has complied in all material respects with all previous undertakings with regard to providing such annual reports or notices of such material events in accordance with Rule 15c2-12 of the Securities and Exchange Commission.

### **LEGALITY FOR INVESTMENT**

Under provisions of the Act, the 2010 Bonds are legal investments in California for commercial and savings banks, all trust funds, for the funds of all insurance companies, trust companies, and for State school funds. Any moneys or funds which may by law be invested in bonds of a county, municipality or school district may be invested in the 2010 Bonds, and the 2010 Bonds may also be used as security for the deposit of public moneys in banks in California.

### **LITIGATION**

There is no litigation of any nature pending against the Board as of the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the 2010 Bonds or in any way contesting or affecting the validity of the 2010 Bonds or the security thereof, or any proceedings of the Board taken with respect to the issuance or sale thereof. At the time of delivery of the 2010 Bonds, the Board will furnish a certificate to the effect that no such litigation is then pending.

At any given time, including the present, there are certain other claims and disputes, including those currently in litigation, that arise in the normal course of CSU's activities. Such matters could, if determined adversely to the Board, affect expenditures by the Board, and in some cases, its Gross Revenues. The Board and its General Counsel are of the opinion that no pending actions are likely to have a material adverse effect on the Board's ability to pay the principal of, premium, if any, and interest on the 2010 Bonds when due.

### **RATINGS**

The 2010 Bonds have been assigned ratings of "Aa3" and "A+" by Moody's Investors Service and Standard & Poor's Ratings Services, respectively. Such ratings reflect only the views of the respective rating agency, and explanations of the significance of the ratings must be obtained from the rating agency furnishing such

rating. There is no assurance that such ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of the rating agencies circumstances so warrant. A downward revision or withdrawal of any such credit ratings may have an adverse effect on the market price of the 2010 Bonds.

## **UNDERWRITING**

The Series 2010A Bonds are being purchased by an underwriting group represented by Barclays Capital Inc. (collectively called the “Underwriters”) from the State Treasurer, who is authorized pursuant to the Act to sell the Series 2010A Bonds on behalf of the Board. The Underwriters have agreed to purchase the Series 2010A Bonds at a price of \$159,967,004.41. The price represents the principal amount of the Series 2010A Bonds, plus a net original issue premium of \$13,902,253.55, less an Underwriters’ discount of \$885,249.14. The purchase contract pursuant to which the Series 2010A Bonds are being sold provides that the Underwriters will purchase all of the Series 2010A Bonds if any such Series 2010A Bonds are purchased with the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Series 2010B Bonds are being purchased by an underwriting group represented by Barclays Capital Inc., Morgan Stanley & Co. Incorporated and Siebert Brandford Shank & Co., LLC (collectively called the “Underwriters”) from the State Treasurer, who is authorized pursuant to the Act to sell the Series 2010B Bonds on behalf of the Board. The Underwriters have agreed to purchase the Series 2010B Bonds at a price of \$203,868,927.90. The price represents the principal amount of the Series 2010B Bonds, less an Underwriters’ discount of \$1,276,072.10. The purchase contract pursuant to which the Series 2010B Bonds are being sold provides that the Underwriters will purchase all of the Series 2010B Bonds if any such Series 2010B Bonds are purchased with the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The following two sentences have been provided by J.P. Morgan Securities Inc. J.P. Morgan Securities Inc., one of the Underwriters of the 2010 Bonds, has entered into an agreement (the “Distribution Agreement”) with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings including the Series 2010 Bonds, at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2010 Bonds with UBS Financial Services Inc.

The following three sentences have been provided by Wells Fargo Securities. Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, National Association, member FINRA and SIPC. It is anticipated that on or around March 20, 2010, Wachovia Bank, N.A., will merge into its affiliate, Wells Fargo Bank, N.A. Accordingly, Wells Fargo Bank, N.A. will appear in the final official statement as underwriter, in place of Wachovia Bank, N.A.

The following four sentences have been provided by Morgan Stanley. Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the 2010 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2010 Bonds.

## **FINANCIAL ADVISOR**

The Board has entered into an agreement with KNN Public Finance (the “Financial Advisor”), a division of Zions First National Bank, whereunder the Financial Advisor provides financial recommendations and guidance to the Board with respect to preparation for sale of the 2010 Bonds, timing of sale, tax-exempt bond market conditions, costs of issuance and other factors related to the sale of the 2010 Bonds. The Financial Advisor has read and participated in the drafting of certain portions of this Official Statement. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement.



## **FINANCIAL INTERESTS**

The fees payable to the Underwriters, Underwriters' Counsel, Bond Counsel, Disclosure Counsel and the Financial Advisor are contingent upon the issuance of the 2010 Bonds.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the Board, on or before the settlement date of the 2010A Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Prior Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the 2010A Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the Board and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Board and its representatives and has not evaluated or examined the assumptions or information used in the computations.

## **AUDITED FINANCIAL STATEMENTS**

The audited financial statements for Fiscal Year 2008-09 for CSU included in Appendix C-1 of this Official Statement have been audited by KPMG LLP (the "Auditor"), certified public accountants, independent auditor, as stated in its reports included in Appendix C-1 herein. The audited financial statements for Fiscal Year 2008-09 for the CSU Systemwide Revenue Bond Program Fund included in Appendix C-2 of this Official Statement have also been audited by the Auditor, as stated in its report included in Appendix C-2 herein. The Auditor has not consented to the inclusion of its reports herein and has not undertaken to update its reports. No opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 17, 2009 of CSU. See Appendix C-1. No opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 11, 2009 of the Systemwide Financing Program. See Appendix C-2. CSU believes that there has not been any material adverse change in the financial condition of CSU or the Systemwide Financing Program since June 30, 2009.

## **MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Board and the purchasers or holders of any of the 2010 Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Board.

TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

By: /s/ Dr. Charles B. Reed  
Dr. Charles B. Reed  
Chancellor

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**APPENDIX A**  
**CALIFORNIA STATE UNIVERSITY**  
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## **APPENDIX A**

### **CALIFORNIA STATE UNIVERSITY**

#### **GENERAL**

California State University (“CSU”) is the nation’s largest system of public higher education serving more than 433,000 students and employing more than 47,000 faculty and staff. CSU spans the entire State of California (the “State”) and includes the State’s oldest public higher education institution. Its annual budget for fiscal year 2009-10 is approximately \$6.9 billion.

The CSU system (the “CSU System”) is an agency of the State created by the Donohoe Higher Education Act in 1960, which reorganized higher education in California. At that time, twelve existing schools, previously under the jurisdiction of the State Board of Education, were brought under the stewardship of the Board of Trustees (the “Board”). Today there are 23 campuses and seven off-campus centers in the CSU System. See Appendix B for an overview of each campus.

#### **Education Program**

The educational responsibilities of CSU are to provide undergraduate and graduate instruction through bachelor’s and master’s degrees in the liberal arts and sciences, in applied fields, and the professions. A number of doctoral degrees are offered jointly with the University of California and with private institutions in California, and CSU is authorized to offer a Doctor of Education (Ed.D.) degree independently of any other institution of higher education. Implementation of the first CSU Ed.D. degree programs commenced at seven CSU campuses in Fall 2007. Six additional campuses launched Ed.D. degree programs in 2008. The two polytechnic campuses, California Polytechnic State University, San Luis Obispo and California State Polytechnic University, Pomona emphasize the applied fields of agriculture, engineering, business, home economics and other occupational and professional programs.

The mission statement of CSU lists the following general objectives:

- To advance and extend knowledge, learning, and culture, especially throughout California.
- To provide opportunities for individuals to develop intellectually, personally, and professionally.
- To prepare significant numbers of educated, responsible people to contribute to California’s schools, economy, culture, and future.
- To encourage and provide access to an excellent education to all who are prepared for and wish to participate in collegiate study.
- To offer undergraduate and graduate instruction leading to bachelor’s and higher degrees in the liberal arts and sciences, the applied fields, and the professions, including the doctoral degree when authorized.
- To prepare students for an international, multi-cultural society.
- To provide public services that enrich the university and its communities.

During 2008-09, CSU conferred bachelor's and master's degrees that span 384 different degree programs, as well as teaching credentials.

#### **Accreditation**

The regional accrediting body for California, Hawaii, and certain Pacific Islands is the Western Association of Schools and Colleges (“WASC”), which is one of the six major regional college accreditation agencies in the

United States. WASC's Accrediting Commission for Senior Colleges and Universities has granted institutional accreditation to all 23 CSU campuses.

## GOVERNANCE AND ADMINISTRATION

### The Board of Trustees

CSU is governed by the Board through the Chancellor, who is the chief executive officer of the CSU System.

Under present law there are 24 voting Trustees and one non-voting Trustee. Nineteen of the Trustees are appointed by the Governor for staggered terms of office. The Alumni Trustee is appointed by CSU-statewide Alumni Council. Appointments are for eight years, except for the Student Trustees, an Alumni Trustee and Faculty Trustee whose terms are for two years. After the expiration of their terms, Trustees remain on the Board until a replacement is named, provided, however, that a Trustee subject to State Senate confirmation may not remain on the Board longer than 60 days without reappointment. All appointments, except for the Student, Alumni and Faculty Trustees, must be confirmed by the State Senate.

Five voting Trustees are ex officio members: the Governor, the Lieutenant Governor, the Speaker of the Assembly, the State Superintendent of Public Instruction and the Chancellor.

The Governor is designated as the President of the Board. The Executive Vice Chancellor, Administration and Finance, and Chief Financial Officer Dr. Benjamin F. Quillian serves as Treasurer, and General Counsel Christine Helwick serves as Secretary.

The following individuals serve as voting members of the governing Board of CSU:

The Honorable Arnold Schwarzenegger	<i>Governor of California</i>
The Honorable John A. Pérez	<i>Speaker of the Assembly</i>
The Honorable Jack O'Connell	<i>State Superintendent of Public Instruction</i>
Dr. Charles B. Reed	<i>CSU Chancellor</i>
Dr. Herbert L. Carter	<i>Chair, CSU Board of Trustees</i>
A. Robert Linscheid	<i>Vice Chair, Alumni, CSU Board of Trustees</i>
Roberta Achtenberg	<i>Member, CSU Board of Trustees</i>
Carol R. Chandler	<i>Member, CSU Board of Trustees</i>
Dr. Debra S. Farar	<i>Member, CSU Board of Trustees</i>
Dr. Kenneth Fong	<i>Member, CSU Board of Trustees</i>
Margaret Fortune	<i>Member, CSU Board of Trustees</i>
George Gowgani	<i>Member, CSU Board of Trustees</i>
Melinda Guzman	<i>Member, CSU Board of Trustees</i>
William Hauck	<i>Member, CSU Board of Trustees</i>
Raymond Holdsworth, Jr.	<i>Member, CSU Board of Trustees</i>
Linda A. Lang	<i>Member, CSU Board of Trustees</i>
Dr. Peter G. Mehas	<i>Member, CSU Board of Trustees</i>
Henry Mendoza	<i>Member, CSU Board of Trustees</i>
Lou Monville	<i>Member, CSU Board of Trustees</i>
Russel Statham	<i>Student, CSU Board of Trustees</i>
Dr. Glen O. Toney	<i>Member, CSU Board of Trustees</i>

### Central Administration

The Board appoints the Chancellor, who is the Chief Executive Officer of CSU, and the President of each campus, who is the Chief Executive Officer of the respective campus. The Board, the Chancellor, and the Presidents develop systemwide policy, with actual implementation at the campus level taking place through broadly-based consultative procedures. Principal staff members of the CSU System are located in CSU offices at 401 Golden Shore, Long Beach, California. They include:

*Dr. Charles B. Reed*, Chancellor and member of the Board. Dr. Reed joined CSU as Chancellor in March 1998. Prior to this appointment he was the Chancellor of the State University System of Florida, beginning in 1985. Dr. Reed has worked in higher education since 1963.

*Dr. Jeri Echeverria*, Executive Vice Chancellor and Chief Academic Officer, was appointed on July 1, 2009. Prior to her appointment, Dr. Echeverria was Provost and Vice President for Academic Affairs at Fresno State University. She has been with CSU since 1988. Dr. Echeverria has been in the education field more than 30 years.

*Dr. Benjamin F. Quillian*, Treasurer of the Board and Executive Vice Chancellor, Administration and Finance, and Chief Financial Officer, has been with the Chancellor's Office since 2008 and prior to that was Vice President and CFO at the CSU, Fresno campus. Dr. Quillian was the Senior Vice President for Business and Operations and Chief Financial Officer of the American Council of Education from 2003-2008. Dr. Quillian has worked in higher education for more than 30 years.

*Christine Helwick*, Secretary of the Board and General Counsel, was appointed to the position of General Counsel in March 1996 after acting as Interim General Counsel from 1995. Ms. Helwick came from the University of California, where she provided legal counsel beginning in 1978.

*Gail Brooks*, Vice Chancellor, Human Resources joined the Chancellor's Office in 2006, after having served for seven years as Assistant Vice Chancellor, Human Resources at the University of California, Irvine. Ms. Brooks has worked in human resources and labor relations for more than 20 years.

### **Campus Administration**

Campus presidents are the chief executive officers of their respective campuses. They are responsible to the Chancellor and the Board for all activities on their campuses, including those educational activities funded from State appropriations and a variety of support activities funded from Non-State resources. As a result, campus presidents are required to develop and oversee Non-State self-supporting services and programs.

The laws applicable to CSU include provisions for the establishment of auxiliary organizations, which are chartered by their respective campus to perform many of these Non-State self-supporting activities under the supervision of their respective campus president. These organizations operate pursuant to special written agreements with their respective campus and perform specific functions that contribute to the educational mission of the campus. They are subject to certain specific statutes, regulations and policies established by the Board of Trustees, the Chancellor, and the campus presidents and almost all are classified as non-profit for tax purposes. Due to restrictions on the use of State funds, activities conducted by the auxiliary organizations must be self-supporting. Revenue in excess of expenditures for a fiscal year is used to establish working capital and reserves and to pay for capital expenditures or special campus programs as developed through a campus program budget review process. Auxiliary organization financial activity is audited annually and incorporated in the CSU audited financial statements. For additional information, see "SYSTEMWIDE REVENUE BOND PROGRAMS—Auxiliary Organizations Program and Other Entities" and Appendix C-1 — "AUDITED FINANCIAL STATEMENTS OF CALIFORNIA STATE UNIVERSITY AS OF JUNE 30, 2009."

## THE CSU SYSTEM AND CAMPUSES

### Enrollment

The following table sets forth fall enrollment figures for each CSU campus for the years 2005 to 2009.

**TABLE 1**  
**CALIFORNIA STATE UNIVERSITY**  
**SIZE AND ENROLLMENT**  
**2005 through 2009**

Present Name	Date Institution Opened	Size of Campus Including Agricultural Acres	Fall Enrollment				
			2005	2006	2007	2008	2009 <sup>(1)</sup>
CSU, Bakersfield	1970	376	7,549	7,711	7,700	7,684	8,003
CSU Channel Islands	2002	930	2,575	3,123	3,599	3,783	3,862
CSU, Chico	1889	773	15,919	16,250	17,034	17,132	16,934
CSU, Dominguez Hills	1965	356	12,357	12,068	12,082	12,851	14,477
CSU, East Bay	1959	355	12,535	12,706	13,124	14,167	14,749
CSU, Fresno	1911	1,410	20,371	22,098	22,383	22,613	21,500
CSU, Fullerton	1959	225	35,040	35,921	37,130	36,996	36,262
Humboldt State University	1914	144	7,462	7,435	7,773	7,800	7,954
CSU, Long Beach	1949	322	34,547	35,574	36,868	37,891	35,557
CSU, Los Angeles	1947	173	20,034	20,565	21,051	20,743	20,619
California Maritime Academy	1929	67	860	828	858	875	823
CSU, Monterey Bay	1995	1,387	3,773	3,818	4,080	4,340	4,688
CSU, Northridge	1958	353	33,243	34,560	35,466	36,208	35,198
California State Polytechnic University, Pomona	1938	1,437	19,885	20,510	21,477	21,190	22,273
CSU, Sacramento	1947	282	27,932	28,529	28,829	29,011	29,241
CSU, San Bernardino	1965	430	16,431	16,479	17,066	17,646	17,852
San Diego State University	1897	283	32,693	34,305	36,559	35,832	33,790
San Francisco State University	1899	128	28,950	29,628	30,125	30,014	30,469
San Jose State University	1862	154	29,975	29,604	31,906	32,746	31,280
California Polytechnic State University, San Luis Obispo	1901	6,051	18,475	18,722	19,777	19,471	19,325
CSU, San Marcos	1990	304	7,502	8,734	9,159	9,148	9,767
Sonoma State University	1961	219	7,749	8,274	8,770	8,921	8,546
CSU, Stanislaus	1960	220	8,137	8,374	8,836	8,601	8,586
<b>Total:</b>			<b>403,994</b>	<b>415,816</b>	<b>431,632</b>	<b>435,663</b>	<b>431,755</b>

<sup>(1)</sup> The above data do not include the non-campus programs of CalState Teach and International Studies which for Fall 2009 had enrollments of 714 and 585 students, respectively.

Source: California State University

In Fall 2009, enrollment at CSU decreased by approximately 0.9%, after increasing in Fall 2008 by 0.9%. Due to budget constraints, there may be further reductions in enrollment in the future. For a description of the State Budget Acts for FY 2008-09 and FY 2009-10 and the Governor's Budget Proposal for CSU for FY 2010-11, see "GENERAL CSU FINANCIAL INFORMATION – State Budget Acts for FY 2008-09 and FY 2009-10 and Governor's Proposed Budget FY 2010-11."

Table 2 below sets forth total enrollment and full time undergraduate enrollment information for CSU and the University of California for the years 2005 to 2009.

**TABLE 2**  
**ENROLLMENT IN**  
**PUBLIC UNIVERSITIES IN CALIFORNIA**  
**Fall 2005 through 2009**

	Fall 2005		Fall 2006		Fall 2007		Fall 2008		Fall 2009 <sup>(1)</sup>	
	Total	Full Time Undergrad	Total	Full Time Undergrad	Total	Full Time Undergrad	Total	Full Time Undergrad	Total	Full Time Undergrad
California State University	403,994	262,806	415,816	272,562	431,632	285,000	435,663	292,413	431,755	291,075
University of California	195,336	151,062	200,085	163,099	205,489	167,319	211,374	172,599	N/A	N/A

<sup>(1)</sup> For CSU, the above data exclude the non-campus programs of CalState Teach and International Studies, which for Fall 2009 had enrollments of 714 and 585 students, respectively.

Source: California State University

Table 3 below sets forth full time equivalent student enrollment (“FTES”) enrollment data for CSU graduate and undergraduate students for academic years 2004-05 to 2008-09. FTES is a measurement of enrollment derived by dividing total student credit hours for a term by fifteen both for graduate and undergraduate students, and is used for budgeting and accounting for actual educational activity.

**TABLE 3**  
**CALIFORNIA STATE UNIVERSITY**  
**FULL TIME EQUIVALENT STUDENTS**  
**Academic Year 2004-05 through 2008-09**

<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09<sup>(1)</sup></u>
310,327	316,948	334,388	348,110	362,086

<sup>(1)</sup> The above data exclude the non-campus programs of CalState Teach and International Studies, which for academic year 2008-09 had FTES enrollments of 503 and 630 students, respectively.

Source: California State University

### **Student Fees and Other Education Costs**

Fees for attending CSU are set by the Board, or by the Chancellor or campus presidents under delegations from the Board. Students who are classified as California residents pay fees based upon whether they are full or part-time students and, to some degree, which campus they are attending. During the 2009-10 academic year, part-time students (taking up to 6 units) will pay a State University Fee of \$2,334 and full-time students (taking 6.1 units or more) will pay a State University Fee of \$4,026. The State University Fee revenues are not pledged as security for Systemwide Revenue Bonds issued pursuant to the Indenture. See “SECURITY FOR THE 2010 BONDS.”

Table 4 sets forth the systemwide part-time/full-time CSU State University Fee for California resident undergraduate students for academic years 2005-06 to 2009-10.



**TABLE 4**  
**CALIFORNIA STATE UNIVERSITY**  
**STATE UNIVERSITY FEE**  
**FOR CALIFORNIA RESIDENT UNDERGRADUATES**  
**2005-06 through 2009-10**

Academic Year	State University Fee	
	Part-time	Full time
2009-10	\$2,334	\$4,026
2008-09	1,770	3,048
2007-08	1,608	2,772
2006-07	1,464	2,520
2005-06	1,464	2,520

Source: California State University

For the 2009-10 academic year, graduate students will pay a State University Fee of \$2,880 (part-time) and \$4,962 (full-time).

In addition to the State University Fee, nonresident students also pay tuition of \$248 per quarter unit or \$372 per semester unit in the 2009-10 academic year for a maximum academic year charge of \$15,186. The State University Fee and the out-of-state tuition are set by the Board.

In addition to the State University Fee and tuition for non-resident students noted above, each campus has campus-based fees that it charges to each enrolled student for services or programs that are available to or provided for all students. These fees ranged from \$344 to \$2,172 per year for 2009-10. In academic year 2009-10, the State University Fee for California residents plus these campus-based fees averaged \$4,893, ranging from a high of \$6,198 at California Polytechnic State University, San Luis Obispo to a low of \$4,370 at California State University, Long Beach.

Other campus-based charges and fees may also be incurred by students, such as: application fees, graduation and diploma fees, transcript fees, Summer session and extension fees, dormitory fees, late registration fees, catalog fees, identification card fees, and miscellaneous fees for courses not fully funded out of operating expense (e.g., lab, field trips, art materials, instrument fees).

The total cost of attending CSU is based upon the student's academic program, where the student will live, the location of the campus the student will attend and other factors unique to each student. The fees charged by CSU remain low in comparison to other institutions of higher education, both inside and outside the State. CSU believes the attractive price of education it offers supports the strong demand for its services.

The State University Fee, tuition for non-resident students and some of the other campus-based fees described above are not pledged to secure the Systemwide Revenue Bonds. See "SECURITY FOR THE 2010 BONDS."

### **Fee Revenue Management and Investments**

Fees for attending CSU are collected at the time of registration for each academic term. The fees are deposited into local university bank accounts, which are invested through CSU's investment program. Campuses with facilities that were acquired through the issuance of the Board's revenue bond program also deposit revenues, including Gross Revenues, for those programs into local university bank accounts, which are invested through CSU's investment program, and operating expenses are paid from local university bank accounts, with funds drawn from CSU's investment program. CSU's investment program is managed through contracts with two investment managers, each of whom provide investment management services for the program. Funds available for investment are invested by the investment managers through a bank custodian on behalf of the Board according to the permitted investments outlined in the Government Code of the State. The permitted investments consist primarily of highly

rated fixed-income securities, which could include variable rate instruments. Furthermore, the CSU investment policy states that the primary objective of the CSU investment program shall be the safeguarding of principal and the secondary objective shall be liquidity. Because of this emphasis on asset quality and liquidity, the CSU investment program has not had, nor expects to have, any material exposure in the value of its investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Funds held in CSU's investment program are subject to changes in market valuation. See Appendix C-2 — "AUDITED FINANCIAL STATEMENTS OF THE CALIFORNIA STATE UNIVERSITY SYSTEMWIDE REVENUE BOND PROGRAM FUND AS OF JUNE 30, 2009" at Note (2)(a).

As bond trustee, the State Treasurer invests and disburses proceeds of the Board's revenue bond program during the construction phase of projects constructed by CSU, according to the permitted investments outlined in the Government Code of the State. CSU receives interest on a quarterly basis from the State Controller's Office on amounts invested by the State Treasurer.

## Student Admissions

Table 5 below sets forth application and enrollment data for freshmen, undergraduate transfers, graduates and other students for the academic years indicated for CSU.

**TABLE 5**  
**CALIFORNIA STATE UNIVERSITY**  
**UNDERGRADUATE AND GRADUATE ADMISSIONS**

Fall Term	Applications Received <sup>(1)</sup>	Applications Accepted <sup>(1)</sup>	Percent Accepted	Accepted Enrolled	Percent of Accepted Enrolled
2005					
First Time Freshmen	331,995	183,130	55%	45,846	25%
Undergrad Transfers	128,469	77,732	61%	39,447	51%
Graduates	57,680	34,434	60%	21,366	62%
Other	5,568	5,339	96%	4,493	84%
Total	523,712	300,635	57%	111,152	37%
2006					
First Time Freshmen	357,953	206,288	58%	50,144	24%
Undergrad Transfers	133,691	84,618	63%	42,151	50%
Graduates	59,595	35,783	60%	22,356	62%
Other	6,741	6,584	98%	5,534	84%
Total	557,980	333,273	60%	120,185	36%
2007					
First Time Freshmen	392,246	231,926	59%	53,744	23%
Undergrad Transfers	134,979	87,078	65%	43,414	50%
Graduates	66,343	39,736	60%	24,117	61%
Other	7,555	7,379	98%	6,596	89%
Total	601,123	366,119	61%	127,871	35%
2008					
First Time Freshmen	424,017	226,578	53%	53,944	24%
Undergrad Transfers	131,704	76,866	58%	38,514	50%
Graduates	67,445	38,336	57%	23,084	60%
Other	8,214	7,132	87%	6,365	89%
Total	631,380	348,912	55%	121,907	35%
2009					
First Time Freshmen	390,585	214,107	55%	52,678	25%
Undergrad Transfers	149,696	78,821	53%	40,624	52%
Graduates	70,781	36,561	52%	21,734	59%
Other	3,839	3,607	94%	2,815	78%
Total	614,901	333,096	54%	117,851	35%

<sup>(1)</sup> Represents Duplicated Applications Received and Accepted.

Source: California State University

## CSU AND RELATED ENTITY INDEBTEDNESS

CSU has outstanding various revenue bonds and other obligations, as listed below. These special obligations are secured by and payable from revenues of the facilities financed, investment income, student fees and rental payments.

In addition to the debt the Board issues directly, there are several other sources of capital that historically have been available to CSU. From time to time, voter-approved general obligation bonds are issued by the State (and repaid from taxes and other funds of the State) and used to pay capital costs of new academic and other facilities of CSU. Another significant source is the issuance of the State Public Works Board Lease Revenue Bonds, debt service on which the State Legislature appropriates annually in a line-item budget appropriation. There are also 93 different auxiliary organizations that provide certain essential services to individual campuses. Approximately one-tenth of these auxiliary organizations have issued their own debt generally secured by project revenue to finance projects for CSU's campuses. CSU is not obligated to pay debt service on any such bonds. The following table lists the outstanding public indebtedness of CSU and related entities as of January 25, 2010.

**TABLE 6**  
**CALIFORNIA STATE UNIVERSITY**  
**OBLIGATIONS ISSUED AND OUTSTANDING**  
**as of January 25, 2010**

Revenue Bonds and Bond Anticipation Notes ("BANs") Issued by the Board	Amount Outstanding
<u>Systemwide Revenue Bonds</u>	
Housing System Revenue Bonds	\$ 8,858,000
Series 2002A	150,215,000
Series 2003A	308,410,000
Series 2004A	135,185,000
Series 2005A	625,810,000
Series 2005B	97,770,000
Series 2005C	519,950,000
Series 2007A	251,250,000
Series 2007B	12,630,000
Series 2007C	59,540,000
Series 2007D	77,855,000
Series 2008A	371,235,000
Series 2009A	465,365,000
Total Systemwide Revenue Bonds	<u>\$3,084,073,000</u>
 Bond Anticipation Notes (BANs) <sup>(1)</sup>	 <u>100,525,000</u>
 Total Revenue Bonds and BANs	 \$3,184,598,000
 <u>Other Obligations</u> <sup>(2)</sup>	
Auxiliary Organization Bonds <sup>(3)</sup>	\$ 167,255,000
State Public Works Board Lease Revenue <sup>(4)</sup>	664,005,000
CSU Institute/CSU Deferred Maintenance <sup>(4)</sup>	4,025,000
Commercial Paper Equipment Financing	67,533,000
Other Capital Lease Obligations <sup>(5)</sup>	<u>45,419,000</u>
 Total:	 \$4,132,835,000

<sup>(1)</sup> Issued in conjunction with a commercial paper program issued by the California State University Institute, an auxiliary organization of CSU, and secured by a Subordinate Lien on Gross Revenues. See the following discussion under the subheading "Commercial Paper."

<sup>(2)</sup> These Other Obligations are not secured by a pledge of Gross Revenues. Certain outstanding auxiliary organization bonds are expected to be refunded from proceeds of the 2010 Bonds, subject to market conditions. See Appendix H.

<sup>(3)</sup> For information on CSU auxiliary organizations, see "GOVERNANCE AND ADMINISTRATION—Campus Administration" and "SYSTEMWIDE REVENUE BOND PROGRAMS—Auxiliary Organizations Programs and Other Entities."

<sup>(4)</sup> Debt that is coordinated with and supported by specific appropriations from the State Legislature through annual line-item appropriations. It is anticipated that there will be a Spring, 2010 State Public Works Board lease revenue bond sale.

<sup>(5)</sup> As of June 30, 2009.

Source: California State University

## Commercial Paper

The Board utilizes a commercial paper ("CP") program for various financing activities through the CSU Institute, an auxiliary organization of CSU (the "Institute"). To minimize debt service costs during construction periods, the Board may initially finance capital improvements with proceeds of commercial paper notes issued by the Institute and which are secured by bond anticipation notes issued by the Board. Such short-term debt is generally refinanced with long-term fixed rate Systemwide Revenue Bonds when capacity in the commercial paper program is required for other projects or during periods of low interest rates. In a few cases, financing for certain projects may remain in commercial paper and be fully amortized over short to medium term periods from project revenues. The Board also utilizes commercial paper issued by the Institute to finance certain equipment and software needs of CSU as an alternative to other capital lease and installment sale financing resources. CSU enters into installment purchase obligations and makes installment payments over terms consistent with the useful life of the financed equipment or software (typically 5-7 years). These installment payments are applied to repay the commercial paper.

Currently the CP program is secured by a letter-of-credit and liquidity facility of \$200 million issued by State Street Bank and JPMorgan Chase Bank, N.A., both of whom have provided at least a portion of the CP program's credit/liquidity facilities since the program's inception in 2001. The Letter of Credit has a termination date of December 3, 2010. The CP program is currently authorized up to \$500 million; however, the Institute expects to operate the CP program at no more than \$200 million through the fiscal year ending June 30, 2010.

As of January 25, 2010, CP was outstanding for the following purposes:

BANs (Expected to be Refunded from Series 2010A Bonds)	\$ 82,197,000
BANs (Expected to Remain in CP)	18,328,000
Equipment	67,533,000
Total	<u>\$168,058,000</u>

## Authorized But Unissued Debt

The Board currently has authorized but unissued Systemwide Revenue Bonds in an aggregate principal amount of \$265,983,000. Upon issuance of the 2010 Bonds, approximately \$14 million aggregate principal amount of Systemwide Revenue Bonds will remain authorized but unissued (not including authorized refundings for certain auxiliary organization bonds). The Board may issue a portion or all of these additional Systemwide Revenue Bonds as well as other additional bonds for other new money projects or refunding purposes. The Board expects to authorize the issuance of additional Systemwide Revenue Bonds from time to time in the future. There is no limit on the amount of Systemwide Revenue Bonds that the Board may authorize.

## Capital Improvement Program

The Board has a capital improvement program that it approves annually in the Fall for its State and Non-State funded facilities. Additionally, the program is amended and approved throughout the year by the Board to reflect the needs and priorities of the campuses. Campus administration works closely with the Chancellor's Office to identify projects, justify the project demand and related budgets. The Board anticipates that it will use future borrowings to fund its capital improvement program.

## SYSTEMWIDE REVENUE BOND PROGRAMS

### Debt Management Program

Under the CSU Policy on Financing Activities, adopted by the Board in March 2002, responsibility for the management of CSU debt obligations continues to be centralized in the CSU Chancellor's Office, with oversight and ultimate approval provided by the Board. Debt is planned pursuant to annual funding requirements in accordance with the capital improvements program. Issuance of debt requires approval of the Board.

Under existing statutes, the Board is authorized to issue revenue bonds to finance housing, parking, health centers, student body centers and other special projects related to the educational mission of CSU, including continuing education. In March 2002, the Board approved a new long-term debt issuance program of systemwide

revenue bonds that together with the existing housing system bonds issued under a bond resolution adopted by the Board during 1968 constitute the “Systemwide Revenue Bonds.” In April 2002, CSU sold its first series of Systemwide Revenue Bonds under the new program. The 2010 Bonds are the thirteenth and fourteenth series of Systemwide Revenue Bonds. The Systemwide Revenue Bonds replaced the previous practice of single project or program revenue bonds. As the security for the Systemwide Revenue Bonds, the Board has pledged student housing fees, student union fees, parking fees, health center facility fees and fees from the continuing education program as well as payments from various auxiliary organizations and special purpose governmental entities. Under the Board’s March 2002 financing policy, the Board will use Systemwide Revenue Bonds to finance other projects that previously may have been financed by auxiliary organizations. The Board has limited the possible use of non-Systemwide Revenue Bond financing for campus revenue-based projects (whether on-campus or off-campus). The Board’s financing policy also directs the Chancellor to establish minimum debt service coverage and other requirements for the Systemwide Revenue Bond program. The Board has no outstanding Indebtedness secured by a Senior Lien and has covenanted in the Indenture not to issue any Indebtedness secured by a Senior Lien.

The following is a brief description of the programs that generate the current Gross Revenues. The Board may from time to time designate additional revenue sources as Gross Revenues.

### **Housing Program**

Twenty-two of the 23 campuses comprising the CSU System operate housing facilities under the State University Revenue Bond Act of 1947. The responsibility for fiscal management, budgeting and operations with respect to these facilities is given to each respective campus, with the Chancellor’s Office retaining overall responsibility for financing activities of the Housing Program and ensuring continuing compliance with bond-related requirements and covenants.

There is a peer review of all proposed new housing projects. A standing committee (chaired by a campus president with membership of two campus vice presidents and four campus housing officers representing student housing and faculty/staff housing programs) has the charge to evaluate proposed housing projects and to provide advice to the Chancellor and the respective campus president on the merits of the project. The scope of the committee review includes both programmatic and financial feasibility.

### **Rates and Charges**

The responsibility for the financial viability of the Housing Program on each CSU campus is delegated by the Board to each respective campus president, each of whom has the flexibility and the responsibility to increase housing rental rates and charges as needed.

Table 7 below sets forth average room rates charged for the past five academic years. In academic year 2009-10, average room rates range from a high of \$8,180 at the Channel Islands campus to a low of \$3,150 at the Bakersfield campus. Substantially all of the housing rental rates and charges constitute Gross Revenues for the Systemwide Revenue Bonds.

**TABLE 7  
CALIFORNIA STATE UNIVERSITY  
HOUSING SYSTEM AVERAGE ROOM RATES  
2005-06 through 2009-10**

<u>Academic Year</u>	<u>Average Room Rate<sup>(1)</sup></u>
2009-10	\$5,665
2008-09	5,314
2007-08	5,019
2006-07	4,748
2005-06	4,394

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<sup>(1)</sup> Represents average annual cost of double occupancy for residence halls. The average annual cost of double occupancy for apartments is reflected if residence halls are not available.

Source: California State University

### Capacity and Occupancy

In the Fall 2009, the design capacity for the student housing facilities was 44,225 spaces, which was approximately 10% of the Fall 2009 enrollment for CSU. The average Fall 2009 occupancy rate was 93%. Currently, there are various housing projects that have been funded either by commercial paper or prior Systemwide Revenue Bonds or that will be funded by 2010 Bonds. Upon the completion of these projects, it is anticipated that the student housing facilities will have a total of 45,779 spaces. Details related to operational capacity and occupancy by campus for the prior fiscal year is set forth in Appendix C-2 — AUDITED FINANCIAL STATEMENTS OF THE CALIFORNIA STATE UNIVERSITY SYSTEMWIDE REVENUE BOND PROGRAM FUND AS OF JUNE 30, 2009, Schedule 1.

### **Student Union Program**

The Education Code of the State provides that students enrolled at an individual campus of CSU may vote to authorize the Board to impose student body center fees, if two-thirds of those voting approve this levy. Under statutory terms such fees may be used for the purpose of financing, operating, and maintaining student union or student body center facilities. As of Fall 2009, students of 22 campuses in the CSU System had voted in favor of imposing student union fees.

### Rates and Charges

The student union annual fees range from \$44 to \$696 per student and are collected at 22 of the 23 campuses of the CSU System.

### Operations and Maintenance

As a matter of practice, with the recommendation of the campus president, the Board contracts with auxiliary organization not-for-profit corporations for most campuses to operate and maintain student unions. See the information in this section under the subheading “Auxiliary Organizations Program and Other Entities.”

### **Parking Program**

The parking program provides parking facilities to all CSU campuses as authorized under the provisions of the California Education Code. The program is self-supporting and derives its revenues from parking fees paid by students, faculty, staff and visitors.

Consistent with CSU objectives to increase accountability at the campus level, management of all operations of the parking program is decentralized to each CSU campus. Parking fee revenue is deposited by campuses to campus-specific State parking funds and, except for debt service funds, campuses have the authority to expend such funds directly. Campus spending of the parking fee revenue is for the acquisition, construction, operation, and maintenance of campus parking facilities.

### Parking Utilization

Because of the very large number of commuters to the CSU campuses each day, the demand for parking spaces on the campuses continues to be much higher than the number of spaces available. Since parking availability may be limited during peak hours, students are encouraged to utilize alternative transportation options when traveling to campuses and when choosing their housing. As of June 30, 2009, there were approximately 155,452 parking spaces comprising the parking projects designated under the Indenture.

### Rates and Charges

Establishment of parking rates is delegated by the Board to the Chancellor, who further delegates the authority to each respective campus president. Fees for employees and faculty, except the management group employees, however, are subject to certain collective bargaining negotiations. All parking revenues constitute Gross Revenues for the Systemwide Revenue Bonds.

## **Health Center Facilities Program**

Prior to 1996, the Health Center Facility Fee was a uniform fee set at \$6 per academic year and charged at all CSU campuses. In 1996, the Chancellor was delegated authority to establish Health Center Facility Fees at a specific campus level. At that time, the \$6 Health Center Facility Fee was re-established by the Chancellor for all campuses previously having the systemwide fee in place. Each campus president has the authority and responsibility to adjust this fee after consultation with the campus community. In accordance with the CSU System policy, the campus president is responsible to set this fee to provide for the repayment of any debt incurred in accordance with applicable CSU System debt management policies. As of 2009-10, the \$6 Health Center Facility Fee remains in place at 14 campuses, one campus does not have a Health Center Facility Fee, and the rest of the campuses have Health Center Facility Fees ranging from \$8 to \$66. The Health Center Facility Fee is included in Gross Revenues of the Systemwide Revenue Bond program and campuses may also charge a separate Health Services fee, which is used to operate the campus student health programs and is not part of Gross Revenues.

## **Continuing Education Program**

Since the inception of the CSU System in 1961, CSU has operated the Extended University or the Continuing Education Program, which is intended to provide educational services that extend beyond both the physical and programmatic boundaries of a traditional college education. The program, implemented at each of the 23 campuses, is designed to address the unique concerns of some individuals in pursuing their educational goals, especially those students who otherwise may not be able to complete their goal through a regular university environment. CSU offers six types of Extended University programs: Certificate Programs; On-line Programs and Courses; Professional Development; Off-Campus Degree Programs; Test Preparation; and Corporate Training & In-Service Education. Each campus offers these educational programs in some or each of these areas depending on its needs. The Extended Education/Continuing Education staff at the CSU System headquarters provides leadership and coordination in the development of the programs.

The Continuing Education Program fees are pledged as a part of Gross Revenues and are not pledged to secure any indebtedness other than the Systemwide Revenue Bonds outstanding under the Indenture.

## **Rates and Charges**

The Extended Education/Continuing Education Program is supported by course fees or user fees charged to the respective students or enrollees. The programs and course offerings are developed on a self-supporting basis so that the fees charged cover the cost of developing and presenting the course offerings. Fees range in amount depending upon various factors, such as the nature of the course and the materials used. Generally, fees range between \$10 to \$1,000 per unit, with most special sessions in the range of \$200 to \$600 per unit. The State does not provide direct support for these programs through the budget allocation process, although campus facilities are sometimes used at no cost to the program to deliver the programs.

## **Auxiliary Organizations Program and Other Entities**

As described previously under the caption "GOVERNANCE AND ADMINISTRATION — Campus Administration," the Board has a longstanding program utilizing auxiliary organizations to support a broad range of functions for CSU. In some cases, auxiliary organizations may become involved in the financing of campus facilities, such as student and faculty/staff housing, bookstores, food services facilities, academic facilities and event centers, as well as off-campus facilities serving the needs of the campus. Some of these facilities are financed with auxiliary debt obligations that are not part of the Systemwide Revenue Bond program. In other cases, these facilities are financed or refinanced by the Board with Systemwide Revenue Bonds using either a lease or loan structure. In the lease structure, the financed facility is leased from the Board, as lessor, to an auxiliary organization or governmental unit, as lessee. Under the terms of the lease, the lessee agrees to operate the facility and to make certain rental payments to the Board, which constitute Gross Revenues under the Indenture. In the loan structure, facilities are financed or refinanced by a loan of Systemwide Revenue Bond proceeds from the Board to the auxiliary organization pursuant to a loan agreement. Under the terms of the loan agreement, in return for the loan from the Board, the auxiliary organization agrees to acquire, construct and/or maintain the facility and to repay the loan to the Board, which repayments will constitute Gross Revenues under the Indenture. At the time the lease or loan agreement is entered into, certain auxiliary organizations may have outstanding debt and the obligation to make rental payments or loan repayments to the Board may be on a parity with, or junior and subordinate to, such debt of



the auxiliary organization. Upon the issuance of the 2010 Bonds, there will be 15 auxiliary organizations with leases or loan agreements with the Board for facilities financed or refinanced with Systemwide Revenue Bonds with aggregate annual payments for all such leases and loan agreements of approximately \$23,000,000 in fiscal year 2010-11.

In addition, certain auxiliary organizations, their debt and revenues may be designated by the Board pursuant to the Indenture as Designated Auxiliary Organizations, Designated Auxiliary Revenues and Designated Auxiliary Debt, respectively, and once so designated, such revenues and debt will be included in the rate covenant and additional borrowing test under the Indenture. See “SECURITY FOR THE 2010 BONDS—Rate Covenant” and “—Parity Lien Indebtedness.”

Additionally, from time to time, certain facilities serving CSU are owned, operated or financed with the participation of special purpose governmental entities. In the past, the lease structure described above has been used by the Board and such governmental entities to finance these facilities with Systemwide Revenue Bonds. There are currently two governmental units with leases with the Board for such facilities, namely, the California State University Headquarters Building Authority and the California State University Channel Islands Site Authority, with aggregate annual rental payments for all such leases of approximately \$12.6 million in fiscal year 2009-10.

#### **FINANCIAL INFORMATION RELATED TO SYSTEMWIDE REVENUES**

Table 8 on the following page sets forth for the five fiscal years ended June 30, 2005 through June 30, 2009 the Gross Revenues received and expenditures made with respect to the Projects from which Gross Revenues were produced during these fiscal years. Gross Revenues include revenues from the housing, student union, parking, health center and continuing education programs discussed above and revenues from certain auxiliary organizations. Under the Systemwide Revenue Bond Indenture, the Board is authorized to designate certain revenues of auxiliary organizations and other CSU-related governmental entities as Gross Revenues. Table 8 includes the revenues, expenditures and debt service only for 14 auxiliary organizations that were designated for inclusion by the Board as of June 30, 2009.

**TABLE 8**  
**CALIFORNIA STATE UNIVERSITY**  
**HISTORICAL GROSS REVENUES AND EXPENDITURES**  
**(Fiscal Years Ended June 30)<sup>(1)</sup>**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Gross Revenues <sup>(2)</sup>					
Housing System	\$143,686,981	\$176,738,405	\$199,968,407	\$231,633,480	\$239,780,749
Student Unions <sup>(3)</sup>	75,616,479	83,352,569	98,691,445	111,597,611	116,262,622
Parking <sup>(4)</sup>	66,997,422	77,081,859	81,100,688	85,756,515	87,731,985
Health Centers <sup>(3)</sup>	4,857,262	5,221,326	6,109,427	7,155,316	7,583,375
Continuing Education	142,037,279	135,217,078	141,576,217	157,318,335	172,414,922
Auxiliary <sup>(5)</sup>	175,531,387	187,242,261	235,494,608	343,245,807	414,443,016
Related Governmental Units <sup>(6)</sup>	-- --	625,903	8,642,984	9,173,198	12,011,771
Total Gross Revenues	\$608,726,810	\$665,479,401	\$771,583,776	\$945,880,262	\$1,050,228,440
Debt Service					
Senior <sup>(7)</sup>	\$12,374,206	\$ 5,815,015	\$ 5,602,154	\$ 0	\$ 0
Auxiliary - Other <sup>(8)</sup>	3,711,219	7,176,209	6,229,676	9,440,296	11,217,398
Systemwide Revenue Bonds <sup>(9)</sup>	42,530,326	80,892,730	97,327,374	123,333,027	139,817,637
Total Debt Service	\$58,615,751	\$93,883,954	\$109,159,204	\$132,773,323	\$151,035,035
Operating Expenditures <sup>(10)</sup>					
Housing System	\$97,574,644	\$112,664,824	\$109,195,507	\$140,557,981	\$163,421,315
Student Union <sup>(11)(12)</sup>	43,829,599	44,745,749	47,746,580	54,950,823	59,580,405
Parking	40,707,873	47,312,116	43,496,663	48,994,324	55,495,237
Health Centers <sup>(11)</sup>	1,735,616	1,831,309	3,452,879	3,500,704	5,573,552
Continuing Education	125,322,763	129,061,921	132,809,409	140,935,145	157,339,013
Auxiliary <sup>(5)</sup>	155,675,804	163,883,079	196,394,686	295,185,018	373,930,210
Related Governmental Units <sup>(6)</sup>	-- --	not applicable	not applicable	not applicable	not applicable
Total Operating Expenditures <sup>(12)</sup>	\$464,846,299	\$499,498,998	\$533,095,724	\$684,123,995	\$815,339,732

<sup>(1)</sup> Unaudited figures stated on a cash basis, which differ from the audited figures included in Appendices C-1 and C-2.

<sup>(2)</sup> Includes interest income.

<sup>(3)</sup> Gross Revenues shown here are derived solely from certain mandatory student fees, which do not include revenues derived from operations of student unions or student health centers, as these revenues are not Gross Revenues pledged under the Indenture.

<sup>(4)</sup> Excludes fines and forfeitures collected separately from parking fees.

<sup>(5)</sup> Revenues and Expenditures shown in each fiscal year are for those auxiliary organizations that during that fiscal year have financed facilities with Systemwide Revenue Bonds through a lease or loan and exclude research grant and contract activity and restricted gifts. The number of these auxiliary organizations has increased from 8 in FY 2005 to 14 in FY 2009. Gross Revenues pledged under the Indenture are a smaller amount derived from payments under certain leases and loan agreements with the Board. See "SYSTEMWIDE REVENUE BOND PROGRAMS – Auxiliary Organizations Program and Other Entities."

<sup>(6)</sup> Includes revenues derived from leases with California State University, Channel Islands Site Authority and the Headquarters Building Authority, which are used solely to pay debt service on Systemwide Revenue Bonds; operating expenditures are not paid from Gross Revenues.

<sup>(7)</sup> By November 1, 2007, the portions of the student union debt secured by a Senior Lien were refunded by the Systemwide Revenue Bond program or matured.

<sup>(8)</sup> Since June 30, 2004, certain auxiliary organizations have participated in financing and refinancing facilities through the Systemwide Revenue Bond program. Debt service noted includes outstanding auxiliary organization debt that is not part of the Systemwide Revenue Bond program. See "SYSTEMWIDE REVENUE BOND PROGRAMS—Auxiliary Organizations Programs and Other Entities."

<sup>(9)</sup> Debt service shown excludes interest that has been funded from bond proceeds.

<sup>(10)</sup> Operating Expenditures also include extraordinary maintenance and repair projects, which are generally paid from existing program fund balances. For example, in fiscal year ended June 30, 2009, extraordinary maintenance and repair projects of \$20 million were paid from existing program fund balances.

<sup>(11)</sup> Operating Expenditures shown here are only such expenditures that are paid from certain mandatory student fees shown under Total Gross Revenues.

<sup>(12)</sup> Student Union operating expenditures for FY 2009 and, correspondingly, total operating expenditures for FY 2009 differ from Schedule 3 in Appendix C-2 by \$5,050,000 due to differences in accounting treatment to the student unions within the accounting system.

Source: California State University

Table 9 sets forth the scheduled debt service payable from Gross Revenues on a fiscal year basis, commencing with the fiscal year ending June 30, 2010. The Board may issue additional indebtedness secured on a parity by Gross Revenues under the terms of the Indenture. There is no limit on the maximum principal amount of Systemwide Revenue Bonds that may be issued under the Indenture.

**TABLE 9**  
**CALIFORNIA STATE UNIVERSITY**  
**DEBT SERVICE PAYABLE FROM GROSS REVENUES**  
**(Assumes Issuance of the 2010 Bonds)**

Fiscal Year Ending June 30	Previous Systemwide Revenue Bonds <sup>(1)</sup>	Series 2010 Bonds	Total Systemwide Revenue Bonds <sup>(1)</sup>
2010	\$ 201,370,724	\$ 0	\$ 201,370,724
2011	203,362,338	23,152,979	226,515,317
2012	211,652,912	23,536,145	235,189,056
2013	217,237,386	26,809,320	244,046,705
2014	220,374,716	26,808,020	247,182,735
2015	220,640,704	26,819,020	247,459,724
2016	218,776,928	26,809,045	245,585,973
2017	220,804,793	26,809,895	247,614,688
2018	220,698,745	26,810,645	247,509,390
2019	220,766,882	26,820,645	247,587,527
2020	218,863,372	26,804,020	245,667,391
2021	217,064,391	26,513,920	243,578,311
2022	216,656,994	26,526,820	243,183,814
2023	212,298,841	26,502,577	238,801,417
2024	208,863,321	25,910,145	234,773,466
2025	207,225,231	25,852,634	233,077,865
2026	202,303,178	25,789,061	228,092,240
2027	199,225,920	25,663,641	224,889,561
2028	196,563,032	25,500,838	222,063,870
2029	196,044,093	25,297,488	221,341,582
2030	194,822,129	25,066,928	219,889,057
2031	192,664,556	24,365,147	217,029,702
2032	187,519,112	22,385,984	209,905,096
2033	161,293,250	20,696,604	181,989,855
2034	150,744,293	20,409,620	171,153,913
2035	144,945,325	20,112,461	165,057,786
2036	131,113,245	19,803,504	150,916,750
2037	88,708,536	18,116,842	106,825,379
2038	88,705,814	17,803,123	106,508,938
2039	71,658,063	17,486,959	89,145,022
2040	40,084,825	17,161,243	57,246,068
2041	29,769,025	15,343,631	45,112,656
2042	4,493,850	12,523,255	17,017,105
2043	4,492,113	-	4,492,113
2044	4,492,275	-	4,492,275
2045	4,493,888	-	4,493,888
TOTALS <sup>(2)</sup>	\$5,730,794,800	\$746,012,555	\$6,476,806,956

<sup>(1)</sup> Includes interest funded from bond proceeds and thus differs from the information reflected in Table 8.

<sup>(2)</sup> May not add up due to rounding.

## **Financial Statements Related to Gross Revenues**

The most recent audited financial statements of the California State University Systemwide Revenue Bond Program Fund as of June 30, 2009, are attached to this Official Statement as Appendix C-2.

## **GENERAL CSU FINANCIAL INFORMATION**

### **Budgeting Process**

Each October the Board approves a budget request and sends it to the State Department of Finance for the coming fiscal year as input for development of the Governor's Budget. The Board's proposed budget identifies a base funding level built on prior year costs for full-time equivalent student enrollment targets, mandatory cost increases, and cost changes for changes in programs. Capital budget funds for instructional and instructional administrative facilities are legislatively appropriated by project, except that funds for minor capital projects are appropriated as a lump sum. The Board annually approves capital project plans for self-supporting programs, including those of the Systemwide Revenue Bond program, in a rolling five-year capital outlay Non-State funded plan, which is sent to the State for information.

### Governor's Budget/Budget Act

The Governor's Budget, with input from CSU and other State agencies, is usually developed and presented to the State Legislature each January. The Governor's Budget is usually debated during legislative hearings each Spring and in June the State Legislature is required by California law to send its own recommended budget back to the Governor following approval by at least two-thirds of the members of each house of the State Legislature. At that point, the Governor may delete, but not add, funds. A two-thirds vote by the State Legislature can override the Governor's veto of funds. Following the Governor's action, if any, on the State Legislature's recommended budget, it becomes final as the "State Budget Act."

### Negotiations with the State and Legislative Budget Hearings

Throughout the year, CSU staff engages in discussion of issues and priorities with staff in the State Department of Finance, the Legislative Analyst's Office, and with Legislative committee staff. Usually in February, the Legislative Analyst publishes an analysis of, and recommendations for legislative action on, the Governor's Budget. This analysis is the principal agenda for the legislative hearings, including hearings on the budget recommended for CSU by the Governor. Differences between the two houses are resolved in a conference committee, after which the budget is returned to the Governor for the action noted above.

### Allocations to Campuses

Campuses are informed by the Chancellor's Office of the Governor's budget decisions and allocations are identified for planning purposes. Final allocations are usually made by the Chancellor's Office promptly after the State Budget Act is signed.

### **Budget Negotiations for Higher Education**

In May 2004, CSU and the University of California ("UC") negotiated a Compact for Higher Education with the Governor's Office (the "Compact") to begin the fiscal recovery of the universities and establish long-term funding stability to enroll students, restore academic and student services programs, provide for moderate, predictable and affordable student fees, and make progress on salaries for staff and faculty. The Compact agreement is similar to the funding of partnership agreements with prior Administrations; it provides fiscal stability to CSU, but also allows for future planning for enrollment, student fees, financial aid, compensation and restoration of the academic infrastructure (libraries, technology equipment, and deferred maintenance). In 2004, the UC and CSU agreed to accept budget reductions in Fiscal Year 2004-05 to contribute to the solution for resolving the State's fiscal crisis for that fiscal year in return for a funding agreement that began in Fiscal Year 2005-06 and is effective through Fiscal Year 2010-11. This six-year agreement provides funding for 2.5% enrollment growth (roughly 8,000 FTES per year for CSU) and a 3% increase in base funding in the first two years, a 4% increase in Fiscal Year 2007-08, and 5% increases in Fiscal Years 2008-09 through 2010-11. This agreement also assumes undergraduate student fees will increase moderately over the six-year period, with no fee increase following receipt of Compact funding

exceeding 10%. The Compact calls for graduate fees to approach 150% of the undergraduate fee rate, also with the understanding that the Compact funding commitment is appropriated annually.

In Fiscal Year 2005-06, CSU received an over-all funding increase of 6.5%, which included a State University Fee increase for undergraduates of 8%, and was consistent with the Compact. In Fiscal Year 2006-07, State funding for CSU was consistent with the Compact and included additional amounts to fund nursing and math/science teacher initiatives and to avoid a State University Fee increase. In Fiscal Year 2007-08, CSU's funding from the State was consistent with the Compact and included a 10% increase in the State University Fee. As discussed below, due to the weak fiscal condition of the State, the Compact was not funded for Fiscal Year 2008-09 and Fiscal Year 2009-10.

### **State Budget Acts for FY 2008-09 and FY 2009-10**

The State Budget Act for Fiscal Year 2008-09 was signed by the Governor on September 23, 2008—the latest in State history. Thereafter, on-going weak economic conditions resulted in significant revenue shortfalls and the Governor declared a “fiscal emergency” and called special sessions of the Legislature to consider budget actions to address the problems. The CSU FY 2008-09 budget ultimately was reduced by \$97.6 million from its Final Budget State appropriation. Additionally, \$716.5 million in State appropriations were removed prior to the end of the fiscal year with the expectation that federal stimulus funds would address the reduction in FY 2008-09 and FY 2009-10. CSU has received \$716.5 million in federal stimulus funds to mitigate the State funding reduction. The budget for Fiscal Year 2009-10, enacted on February 20, 2009 and revised in July, 2009, reduced CSU appropriations 21% below the FY 2008-09 enacted budget level. To mitigate the impact of these State reductions, CSU increased student fee rates by 32% and nonresident tuition rates by 10% in FY 2009-10, which is projected to yield \$257 million in new fee revenue after discounting for financial aid. In conjunction with these actions, CSU has reduced its base resident student enrollment target for FY 2010-11 by roughly 25,000 FTES to 310,317 FTES.

### **Governor's Proposed Budget FY 2010-11**

The FY 2010-11 budget proposal from the Governor identifies a \$19.9 billion budget shortfall over the next 18 months. The Governor proposes eliminating this gap with a heavy emphasis on expenditure reductions and assumed new federal funds. Expenditure reductions are concentrated in health, welfare and transportation programs, as well as State employee compensation and, to some extent in adult and youth corrections programs. It is clear that many of the Governor's proposals will face a difficult reception in the Legislature.

Despite the State's fiscal condition, the Governor has made higher education a central priority of his FY 2010-11 budget proposal. The Governor's budget proposal provides similar treatment to the CSU and the UC. For each system, the budget proposal: (1) restores \$305 million of one-time cuts made in FY 2009-10; and (2) provides 2.5% enrollment growth. For each system, the enrollment growth funds are made contingent on the receipt of specified new federal funds for programs outside higher education.

Additional information concerning State budget matters and the State's financial condition may be found on the website of the State of California Department of Finance at <http://www.dof.ca.gov>.

### **CSU Financial Statements**

The most recent audited financial statements of CSU are attached to this Official Statement. See Appendix C-1 — “AUDITED FINANCIAL STATEMENTS OF CALIFORNIA STATE UNIVERSITY AS OF JUNE 30, 2009.” The audited financial statements of CSU are included as general background concerning the CSU System. Owners of the 2010 Bonds may rely solely on Gross Revenues specifically pledged for repayment of principal and interest on the 2010 Bonds. See Appendix C-2 — “AUDITED FINANCIAL STATEMENTS OF THE CALIFORNIA STATE UNIVERSITY SYSTEMWIDE REVENUE BOND PROGRAM FUND AS OF JUNE 30, 2009.” No other assets or revenues of CSU are pledged to the repayment of the 2010 Bonds. See “SECURITY FOR THE SYSTEMWIDE REVENUE BONDS.”

## CSU Grants, Contracts and Fundraising Activity

Table 10 below sets forth the grant and contract proceeds received by CSU and fundraising activity of CSU for fiscal years ended June 30, 2005 to 2009. Amounts shown are not included as part of the Gross Revenues and generally are restricted to specified uses.

**TABLE 10**  
**CALIFORNIA STATE UNIVERSITY**  
**GRANTS, CONTRACTS AND FUNDRAISING ACTIVITY<sup>(1)</sup>**  
**2004-05 through 2008-09**

Sources	2004-05	2005-06	2006-07	2007-08	2008-09
Federal grants and contracts	\$ 701,943,000	\$ 693,146,000	\$ 717,078,000	\$ 743,099,000	\$ 826,551,000
State grants and contracts	294,507,000	309,315,000	342,770,000	364,698,000	357,740,000
Private gifts, grants and contracts	278,616,000	311,911,000	295,948,000	277,896,000	288,011,000
Total	<u>\$1,275,066,000</u>	<u>\$1,314,372,000</u>	<u>\$1,335,796,000</u>	<u>\$1,385,693,000</u>	<u>\$1,472,302,000</u>

<sup>(1)</sup> Includes Auxiliary Organizations.

Source: California State University

## CSU Endowment Assets

As of June 30, 2009, the market value of the endowment assets of CSU and its related foundations was approximately \$717 million, a reduction from approximately \$854 million as of June 30, 2008. This reduction was primarily a result of volatility in the financial markets during the period. However, because CSU does not rely significantly upon endowment funds to meet its operating needs, the decrease in the market value of CSU endowment assets is not expected to have a material impact on CSU operations. Furthermore, because endowment funds are not part of the Gross Revenues, the decrease in the market value of CSU endowment assets is not expected to have a material effect on CSU's ability to make debt service payments on the 2010 Bonds.

## OTHER MATTERS

### Insurance

CSU elected to: commercially insure property with deductibles; self-insure its general liability and errors & omissions liability; and self-insure its workers' compensation exposures through an annual appropriation from the General Fund. CSU's vehicle liability is self-insured by the State's vehicle liability self-insurance program. As a State agency, CSU, the Office of the Chancellor, the Board, and its system of campuses are included in these insurance and self-insured programs.

The office of Risk Management in the Chancellor's Office administers the property, general liability and workers' compensation programs. The State Office of Risk and Insurance Management administers the motor vehicle liability program.

The current coverage limits for CSU's insurance programs are as follows:

Property: \$1,000,000,000 per occurrence (excluding earthquake), deductibles ranging from \$100,000 to \$1,000,000.

General Liability: \$175,000,000 per occurrence, Self Insured Retention ranging from \$35,000 to \$900,000.

Workers' Compensation: \$150,000,000 per occurrence, Self Insured Retention is \$2,500,000.

Under this form of insurance, the State and its employees (as defined in Section 810.2 of the Government Code) are insured for any tort liability that may develop through carrying out official activities, including State official operations on Non-State owned property.

### **Seismicity**

Buildings designed for CSU adhere to the latest seismic requirements as detailed in Title 24 of the California Code of Regulations. CSU maintains a standing body of seismic experts collectively known as the Seismic Review Board to advise on earthquake related matters relative to its systemwide capital program. Each project is seismically peer reviewed by a member of this board as an additional measure beyond building code review that also occurs for each project. Seismic peer review is an objective technical review by an independent, knowledgeable reviewer experienced in the structural design, analysis and performance issues involved. The purpose of the seismic review is to assure project quality and provide a measure of additional assurance regarding the performance and safety of the completed project.

CSU does not currently purchase commercial policies of insurance for damage caused by earthquakes.

### **Labor Relations**

There are approximately 47,000 CSU employees that are both non-represented and represented employees. Exclusive bargaining unit representatives include: The California Federation of the Union of American Physicians and Dentists (UAPD), California State University Employees' Union (CSUEU), California Faculty Association (CFA), Academic Professionals of California, Local 1002 (APC), State Employees' Trades Council (SETC), Statewide University Police Association (SUPA), International Union of Operating Engineers, Local 39, AFL-CIO (IUOE), and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, AFL-CIO and its Local Union 4123 (UAW). The UAPD has an agreement with CSU covering the terms and conditions of employment for its members, the Physicians unit, that expires on June 30, 2011. Employees in the Health Care Support, Operations & Support Services, Clerical/Administrative Support Services, and Technical & Support Services units are represented by the CSUEU, which negotiated a contract with CSU that expires on June 30, 2011. CSUEU also represents Child Care Workers at SFSU. Their contract expires May 31, 2012. CFA, exclusive representative for the Faculty unit, and CSU entered into an agreement which remains in effect from May 15, 2007 through June 30, 2010. No salary increases have been negotiated for the other unions. The contract between APC, exclusive representative for employees in the Academic Support unit, and CSU, expires on July 1, 2011. The SETC, which represents employees in the Skilled Crafts unit, has an agreement with CSU that expires on June 30, 2011. The SUPA, exclusive representative for employees in the Public Safety unit, has an agreement with CSU that expires on June 30, 2011. The IUOE represents trades-workers at the California Maritime Academy and has an agreement with CSU that will remain in effect until June 30, 2010. The contract between the UAW, the exclusive representative for academic student employees, and CSU, expired on November 7, 2008, and the parties are currently scheduling factfinding in accordance with the impasse procedures.

### **Retirement System**

All full-time employees of CSU participate in a pension plan administered by the Board of Administration of the Public Employees Retirement System (PERS) of the State. Individuals employed half-time or more also participate in the pension plan if they are employed for more than six months. PERS is a statewide retirement system governed and operated pursuant to Part 3 (commencing with Section 20000), Division 5, Title 2 of the Government Code.

CSU employees who were members of PERS prior to January 1962 were given the opportunity to join a retirement plan that coordinated PERS and social security (OASDI) benefits. A significant number of CSU employees elected not to join the coordinated retirement plan. All eligible individuals employed by CSU after January, 1962 have been required to participate in the coordinated retirement plan.

Payments to PERS and OASDI are funded from employee and CSU contributions. Rates charged to CSU for PERS are based upon periodic actuarial studies and actions of the PERS Board. Rates charged to CSU for OASDI are established by federal regulations. The total employer contribution from all funds (i.e., General Fund, CSU Lottery Education Fund, Continuing Education Revenue Fund, and Dormitory Revenue Fund--Housing and Parking) totaled approximately \$400,694,000 for PERS and \$180,796,000 for OASDI and Medicare for the

2008-09 fiscal year. Based upon current unaudited information of CSU, contributions (all funds) for the 2009-10 fiscal year are expected to be approximately \$372,644,000 for PERS and \$168,411,000 for OASDI and Medicare. In an effort to lessen the impact of 2009-10 General Fund appropriation reductions, the Board approved a compensation cost reduction of \$273 million in fiscal year 2009-10 which includes approximately \$53 million in Medicare, OASDI and PERS combined. See Appendix C-1 — “AUDITED FINANCIAL STATEMENTS OF CALIFORNIA STATE UNIVERSITY AS OF JUNE 30, 2009, Note 12.”



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## **APPENDIX B**

### **INFORMATION REGARDING THE CAMPUSES OF THE CALIFORNIA STATE UNIVERSITY**

#### **California State University, Bakersfield**

CSU Bakersfield (1965) is located about two hours north of Los Angeles. The campus serves Kern County and the outlying areas of Inyo, Mono, Tulare and Los Angeles counties, with an extension campus in the Antelope Valley and programs in the Santa Clarita Valley. The campus consists of four academic schools: Arts and Humanities; Behavioral and Social Sciences and Education; Business and Public Administration; and Natural Science and Mathematics.

#### **California State University, Channel Islands**

As the newest campus in the CSU system, California State University Channel Islands opened its doors in Fall 2002 to approximately 1,320 full-time transfer students. The first freshmen class arrived in Fall 2003 and graduated in Spring 2007. The campus currently consists of 22 undergraduate degree programs, teaching credentials, and six graduate degree programs. At full capacity, CSU Channel Islands will serve more than 15,000 full-time equivalent students. Located in Camarillo and only minutes from the Pacific Ocean at the northern end of the Santa Monica Mountains, CSU Channel Islands primarily serves Ventura County, southern Santa Barbara, and northern Los Angeles County regions, as well as other students throughout the State.

#### **California State University, Chico**

California State University, Chico began in 1887 as the northern branch of the California State Normal School (a network of two-year preparatory schools for teachers). Since then it has progressed from an independent normal to a state teachers college in 1921; a state college in 1935; a five-year liberal arts institution in 1949; and finally into California State University, Chico in 1972. The campus is composed of seven colleges: Agriculture; Behavioral and Social Sciences; Business; Communication and Education; Engineering, Computer Science, and Construction Management; Humanities and Fine Arts; and Natural Sciences and a School of Graduate, International, and Sponsored Programs. The campus assumes primary responsibility for the public higher education needs of citizens within northeastern California. However, a majority of its students come from outside that region.

#### **California State University, Dominguez Hills**

Established by the State Legislature in 1960, the California State University, Dominguez Hills opened its doors as the California State College at Palos Verdes in 1965. The following year, the college moved to the City of Carson on land that was formerly a part of the historic Rancho San Pedro, the oldest Spanish land grant in the Los Angeles area. The campus is organized into six colleges: Business Administration and Public Policy; Education; Extended and International Education; Health and Human Services; Arts and Humanities; and Natural and Behavioral Sciences.

#### **California State University, East Bay**

California State University, East Bay was established by the State Legislature in 1957 and opened its doors to its first students in 1959 as the State College for Alameda County. The campus moved to its Hayward site in 1963, becoming California State College at Hayward. The campus received university status in 1972 and was renamed California State University, Hayward. In 2005, it was renamed California State University, East Bay. The campus also operates the Concord Campus, located in Contra Costa County, and the Oakland Professional Development and Conference Center. The campus is organized into four academic colleges: Letters, Arts, and Social Sciences; Business and Economics; Education and Allied Studies; and Science.

#### **California State University, Fresno**

Established in 1911, the California State University, Fresno is located in the heart of the State, which makes it convenient to all major points in California. The campus consists of six colleges: Agricultural Sciences and Technology; Arts and Humanities; Engineering; Health and Human Services; Sciences and Mathematics; and Social Sciences, and two schools: Business; and Education and Human Development.

### **California State University, Fullerton**

California State University, Fullerton was established by legislation enacted in 1957. The campus is located in north Orange County and has eight colleges: Arts; Communications; Education; Engineering and Computer Science; Health and Human Development; Humanities and Social Sciences; Natural Sciences and Mathematics; and the newly named Steven G. Mihaylo College of Business and Economics. A branch campus is located in Irvine.

### **Humboldt State University**

Established in 1913 as a normal school, Humboldt State University is located in the coastal City of Arcata, 275 miles north of San Francisco and 95 miles south of the Oregon border. In addition, the campus owns, leases, or has use agreements to additional sites which include a marine laboratory, an observatory, a natural history museum, a saltwater marsh, a freshwater marsh, small lakes and ponds, forest lands, and a sand dune preserve. These additional sites provide support for the campus programs. The campus comprises three colleges: Arts, Humanities, and Social Sciences; Natural Resources and Sciences; and Professional Studies.

### **California State University, Long Beach**

California State University, Long Beach first began instruction in September 1949. In 1951, the campus moved to its present site donated to the State by the City of Long Beach. The campus is organized with seven colleges: Arts; Business Administration; Education; Engineering; Health and Human Services; Liberal Arts; and Natural Sciences and Mathematics.

### **California State University, Los Angeles**

Los Angeles State College was founded by an act of the State Legislature in July 1947, and opened for classes on the campus of L.A. City College in September of that year. In 1955, the campus broke ground on its current site, with temporary bungalows housing academic instruction. Situated on a 175-acre hilltop, the campus—officially becoming California State University, Los Angeles in 1972—is at the heart of a major metropolitan city, just five miles from Los Angeles' civic and cultural center. Offering programs in more than 60 academic and professional fields, CSU Los Angeles is organized into six colleges: Arts and Letters; Business and Economics; Education; Engineering, Computer Science, and Technology; Health and Human Services; and Natural and Social Sciences.

### **California Maritime Academy**

Established by the State legislature in 1929 as the California Nautical School, the California Maritime Academy became an independent state institution of higher education in 1972. While continuing its role in the preparation of students for the maritime industry, it joined CSU as a campus in 1995. The campus is located on 87 acres of land adjacent to the Carquinez Strait at the northeastern end of the San Francisco Bay. It offers six majors leading to Bachelor of Science degrees in Business Administration; Facilities Engineering Technology; Marine Engineering Technology; Marine Transportation; and Mechanical Engineering; and a Bachelor of Arts degree in Global Studies and Maritime Affairs. Maritime track graduates can earn a merchant marine officer's license and a commission as an ensign in the U.S. Naval Reserve, Merchant Marine Reserve, or the U.S. Coast Guard.

### **California State University, Monterey Bay**

In 1995, California State University, Monterey Bay admitted its first students on a redevelopment of the former military base, Fort Ord. The campus is 1,387 acres and connects Monterey Bay with the agriculture community of the Salinas Valley. The campus offers 15 broad, interdisciplinary undergraduate degree programs that incorporate nearly 100 traditional majors, as well as six master's degree programs and teaching credential programs.

### **California State University, Northridge**

Created in 1956 as the San Fernando Valley Campus of Los Angeles State College of Applied Arts and Sciences, the campus separated from its parent institution on July 1, 1958, as San Fernando Valley State College. By action of the State Legislature, the Governor, and the Board of Trustees, the campus became California State

University, Northridge, in 1972. The campus is located in the San Fernando Valley. It is composed of nine colleges: Arts, Media, and Communication; Business and Economics; Education; Engineering and Computer Science; Extended Learning; Health and Human Development; Humanities; Science and Mathematics; and Social and Behavioral Sciences.

#### **California State Polytechnic University, Pomona**

California State Polytechnic University, Pomona opened in 1938 as the Voorhis Unit of the California Polytechnic School. The campus was located on the 150-acre site of the former Voorhis School for Boys in San Dimas, which was donated by the Charles B. Voorhis family to the State of California. In 1949, cereal magnate W.K. Kellogg deeded 813 acres of land located three miles south of the Voorhis campus to the State of California. In 1956, the campus community moved to the Kellogg Ranch campus. In 1966, Cal Poly Pomona separated from the San Luis Obispo campus to become California's sixteenth state college. University status was granted in 1972. Today, the campus covers about 1,438 acres. Cal Poly Pomona comprises eight colleges and schools: Agriculture; Business Administration; Engineering; Environmental Design; Letters, Arts, and Social Sciences; Science; Education and Integrative Studies; and Hospitality Management.

#### **California State University, Sacramento**

California State University, Sacramento was founded in 1947 and, shortly thereafter, moved to the southwest bank of the American River, to better serve its region and be close to the State Capitol. The campus is organized into seven colleges: Arts and Letters; Natural Sciences and Mathematics; Social Sciences and Interdisciplinary Studies; Business Administration; Education; Engineering and Computer Science; and Health and Human Services.

#### **California State University, San Bernardino**

In 1960, the State Legislature authorized the establishment of the State College for San Bernardino and Riverside counties. The San Bernardino campus opened in 1965. The campus is located in the northern section of San Bernardino and has a satellite campus located in Palm Desert. The campus is composed of five colleges: Arts and Letters; Business and Public Administration; Education; Natural Sciences; and Social and Behavioral Sciences.

#### **San Diego State University**

Established in 1897 as a normal school, San Diego State University was temporarily quartered in downtown San Diego while its campus site was under construction north of Balboa Park. The normal school was reorganized as a four-year state teachers college in 1921 and moved to its present site ten years later. In 1935, the name was changed to San Diego State College. University status was achieved in 1972, and the popular name, San Diego State University, was approved through legislation in 1974. The campus is composed of seven academic colleges: Arts and Letters; Business Administration; Education; Engineering; Health and Human Services; Professional Studies and Fine Arts; and Sciences. In addition to the present campus site, its Imperial Valley Campus in Calexico serves upper division students in the southeastern desert region of California.

#### **San Francisco State University**

Founded in 1899 as San Francisco State Normal School and renamed San Francisco State Teachers College in 1921, San Francisco State was authorized to grant the Bachelor of Arts degree in 1923, and in 1935 to offer a full liberal arts degree program, as San Francisco State College. Full university status was granted in 1972, and the name San Francisco State University authorized in 1974. The campus acquired its present site near Lake Merced in the late 1930s; World War II delayed completion until 1954. San Francisco State University acquired additional housing in 2005, bringing the main campus to 141 acres. In addition, San Francisco State operates the Romberg Tiburon Center for Environmental Studies in Marin County, a "Downtown Campus" in San Francisco, and a field campus in the Sierra Nevada foothills. There are eight colleges: Behavioral and Social Sciences; Business; Creative Arts; Education; Ethnic Studies; Health and Human Services; Humanities; and Science and Engineering. Bachelor's, master's and doctoral programs are offered.

### **San José State University**

Founded in 1857, San José State is the oldest public institution of higher education on the West Coast. San José State began as Minns' Evening Normal School in San Francisco in 1857 and became a state school — the California Normal School — created by the State Legislature in 1862. San José was selected by the State Legislature in 1870 for the campus location. In 1921 San José State Normal School then became San José State Teachers College, and after several changes to the name, the present name San José State University was adopted through legislation in 1974. The main campus is located on 154 acres in downtown San José with more than 50 major buildings on 19 city blocks. A sports and physical education campus is approximately two miles to the south of the main campus. Auxiliary sites are located at the Mineta San José International Airport (Aviation Department), the Art Foundry on South Fifth Street, Moss Landing Marine Laboratories in Moss Landing, and International and Extended Studies on South Second Street. The campus is comprised of seven colleges: Applied Sciences and Arts; Business; Education; Engineering; Humanities and the Arts; Science; and Social Sciences.

### **California Polytechnic State University, San Luis Obispo**

California Polytechnic State University, San Luis Obispo was established in 1901 by the State Legislature as a school at San Luis Obispo mandated to provide practical instruction in many technical fields. The main campus site is adjacent to the city of San Luis Obispo, midway between San Francisco and Los Angeles and approximately 12 miles from the Pacific Ocean. An additional campus site is located nearby and is used for agricultural, architecture, and natural studies. The campus is comprised of seven colleges: Agriculture, Food and Environmental Sciences; Architecture and Environmental Design; Business; Education; Engineering; Liberal Arts; and Science and Mathematics.

### **California State University, San Marcos**

Established in 1989, California State University, San Marcos is located on 304 rolling acres in the foothills of north San Diego County, overlooking the city of San Marcos and a short distance from the beaches and an hour from the U.S.-Mexico border. The campus is composed of three colleges: Business Administration; Arts and Sciences; and Education.

### **Sonoma State University**

Sonoma State University, established by the State Legislature in 1960, first opened in 1961 in temporary facilities located in Rohnert Park. The move to its permanent campus site took place in 1966. The campus is organized into six schools: Arts and Humanities; Business and Economics; Education; Extended Education; Science and Technology; and Social Sciences.

### **California State University, Stanislaus**

California State University, Stanislaus was established by the State Legislature in 1957 and first offered classes in September of 1960 in temporary quarters at the Stanislaus County Fairgrounds in Turlock. The campus moved to its permanent site in Turlock in 1965. It also has a permanent off-campus center called the Stockton Center. The campus is organized into six colleges: Arts; Business Administration; Education; Human and Health Sciences; Humanities and Social Sciences, and Natural Sciences.

**APPENDIX C-1**  
**AUDITED FINANCIAL STATEMENTS**  
**OF THE CALIFORNIA STATE UNIVERSITY**  
**AS OF JUNE 30, 2009**

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**CALIFORNIA STATE UNIVERSITY**

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY

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KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

## Independent Auditors' Report

The Board of Trustees  
California State University:

We have audited the accompanying financial statements of the California State University (the University), an agency of the State of California (the State), and its aggregate discretely presented component units as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the accompanying 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 87 of the 90 aggregate discretely presented component units, which statements reflect total assets constituting 92% and total revenues constituting 99% of the aggregate discretely presented totals. 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 87 discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 1 to the financial statements, the financial statements of the University are intended to present the financial position, and the changes in financial position and, where applicable, 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 are attributable to the transaction of the University. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 18 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

Orange County, California  
December 17, 2009

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following discussion and analysis provides an overview of the financial position and performance of the California State University as of and for the year ended June 30, 2009, including 23 campuses and the Chancellor's Office (together referred to as the University), and 90 recognized auxiliary organizations.<sup>1</sup> The discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the individual campuses.

The financial statements of the University for the year ended June 30, 2009 have been prepared in accordance with 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 in business-type activities.

### Financial Statements

This discussion and analysis is intended to serve as an introduction to the University's financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The financial statements are designed to provide readers with a broad overview of the University's finances from all sources of revenue, in a manner similar to the private sector. The University's recognized auxiliary organizations are presented in a separate column to enable the reader to distinguish between the University and these separate but related not-for-profit organizations.

The **Statement of Net Assets** is the University's balance sheet. It presents information on all of the University's assets and liabilities, with the difference between the two reported as net assets (equity). Assets and liabilities are generally reported at their book value, except investments, which are reported at their fair market value, on an accrual basis, as of the statement date, and classified between current and noncurrent. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the University.

The University's net assets are classified into three categories:

- Invested in capital assets, net of related debt
- Restricted
- Unrestricted

Changes from one year to the next in total net assets as presented on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets.

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<sup>1</sup> Although the CSUCI Financing Authority, California State University, Channel Islands Site Authority and the Bulldog Foundation (Fresno) are technically not recognized auxiliary organizations, they are included here for financial reporting purposes since they are still discretely presented component units whose exclusion would cause the financial statements to be misleading or incomplete.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The **Statement of Revenues, Expenses, and Changes in Net Assets** is the University's income statement. Revenues earned and expenses incurred during the year on an accrual basis are classified as either operating or nonoperating. This distinction results in operating deficits, as the GASB Statement No. 35 reporting model requires classification of state appropriations, a significant revenue stream to fund current operations, as nonoperating revenue.

The **Statement of Cash Flows** presents the changes in the University's cash and cash equivalents during the most recent fiscal year. This statement is prepared using the direct method of cash flows. The statement breaks out the sources and uses of the University's cash and cash equivalents into four categories:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

The University's routine activities appear in the operating and noncapital financing categories. Capital and related financing sources include debt proceeds, state appropriations, gifts, and grants. Within the capital and related financing activities, uses of funds consist of acquisition of capital assets, debt repayments, issuance of notes receivable, and transfers to escrow agent. Sales and purchases of investments are part of investing activities.

The Statement of Cash Flows for the discretely presented component units is not included in the University's financial statements.

### Financial Highlights

In year four of a six-year higher education financing compact agreement between the Governor of the State and the California State University, the Compact funding commitments were not met due to the severe economic difficulty in the State. The University's state noncapital appropriations budget was decreased by \$817 million to \$2.15 billion during fiscal year 2009 from the fiscal year 2008 funding level of \$2.97 billion. Of the \$817 million reduction, \$715.5 million was going to be offset by a funding from the Federal American Recovery and Reinvestment Act (ARRA) to be provided in fiscal years 2009 and 2010. The University received \$268.5 million in fiscal year 2009 as the first phase of the ARRA fund. The remaining of \$448 million ARRA fund is expected to be received in fiscal year 2010. Fee revenues increased by \$101 million due to a 10% increase in the systemwide mandatory student fee and also enrollment growth.

# CALIFORNIA STATE UNIVERSITY

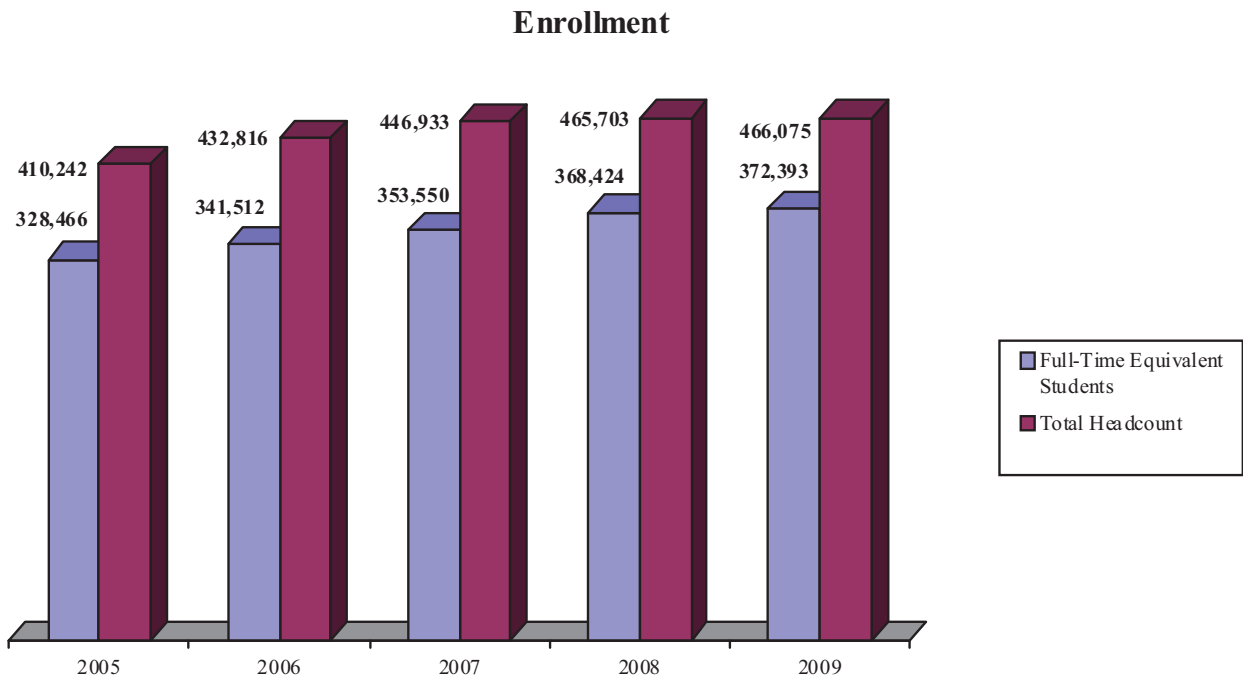
## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

Headcount enrollment increased from 465,703 in fiscal year 2008 to 466,075 in fiscal year 2009, as reflected in the following chart. At the same time, Full-Time Equivalent Students (FTE) increased from 368,424 in 2008 to 372,393 in 2009.

The following chart displays the University's historical enrollment data by fiscal year:



Note: Prior to 2007, no distinction was made between undergraduate students and graduate students in the formula to calculate the number of FTE. Beginning in 2007, however, the calculation of FTE for graduate students was revised to reflect the fact that full-time graduate students take fewer academic units than full-time undergraduate students during the term and also to adopt an industry standard calculation method used by other colleges and universities for greater comparability. Before 2007, the number of FTE was calculated by dividing semester units attempted by 30 and quarter units attempted by 45 for all students. For comparison purposes, however, the FTE above for all years is recalculated based on lower denominators of 24 for semester and 36 for quarter, respectively, for graduate students. There are no changes in the calculation method for undergraduate students.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

### Financial Analysis

The following sections provide additional details on the University's financial position and activities for fiscal years 2009 and 2008 and a look ahead at economic conditions that are expected to affect the University in the future:

#### I. Condensed Schedule of Net Assets

#### II. Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

#### I. Condensed Schedule of Net Assets

June 30, 2009 and 2008

(In thousands)

	University		Discretely presented component units	
	2009	2008	2009	2008
Current assets	\$ 2,159,568	1,915,503	926,647	936,325
Capital assets, net	6,958,932	6,538,105	874,560	727,009
Other noncurrent assets	2,234,903	1,949,432	1,317,467	1,444,924
Total assets	11,353,403	10,403,040	3,118,674	3,108,258
Current liabilities	1,792,705	1,107,136	346,206	365,433
Noncurrent liabilities	4,165,137	3,716,111	1,131,036	917,102
Total liabilities	5,957,842	4,823,247	1,477,242	1,282,535
Net assets:				
Invested in capital assets, net of related debt	3,831,878	3,684,795	220,793	199,132
Restricted:				
Nonexpendable	23,351	22,811	680,792	683,242
Expendable	867,981	770,380	519,955	578,316
Unrestricted	672,351	1,101,807	219,892	365,033
Total net assets	\$ 5,395,561	5,579,793	1,641,432	1,825,723

### Current and Other Noncurrent Assets

Current and other noncurrent assets are assets that are used to meet the University's current and noncurrent obligations. These assets consist of cash and cash equivalents, restricted cash and cash equivalents, investments, accounts receivable, notes receivable, leases receivable, student loans receivable, pledges receivable, prepaid expenses, and other assets totaling \$4.4 billion and \$3.9 billion at June 30, 2009 and 2008, respectively. The net increase of \$529.5 million in current and other noncurrent assets is attributable to an increase of \$297.1 million in



# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

cash and investments, an increase of \$239.0 million in receivables, offset by a decrease of \$6.6 million in prepaid and other assets.

The increase in cash and investments is mainly attributable to the unspent bond proceeds from the issuance of the 2009A Systemwide Revenue Bonds. The increase in receivables consists primarily of a \$209 million increase in leases and notes receivable from the California State University, Channel Islands Site Authority and a \$30.5 million increase in notes receivable with the auxiliary organizations resulted from the new issued 2009A Systemwide Revenue Bond and Bond Anticipation Notes.

### Capital Assets

The University's capital assets, net of accumulated depreciation, as of June 30, 2009 and 2008, comprise the following:

#### Capital Assets

June 30, 2009 and 2008

(At historical cost, net of accumulated depreciation)

(In thousands)

	2009	2008
Land and land improvements	\$ 230,815	226,744
Buildings and building improvements	4,813,114	4,145,062
Infrastructure	546,976	517,882
Improvements other than buildings	109,133	90,698
Equipment	177,180	160,725
Library books and materials	52,214	58,274
Works of art and historical treasures	23,608	21,660
Intangible assets	62,240	54,084
Construction work in progress	943,652	1,262,976
Total	\$ 6,958,932	6,538,105

Major capital asset additions during 2009 include the following projects:

- Completion of the \$300 million San Luis Obispo Poly Canyon Village.
- Completion of the \$105 million Fresno Library Addition and Renovation.
- Completion of the \$74 million Fullerton Business and Economics Building.
- Completion of the \$66 million Monterey Bay Library.
- Completion of the \$51 million San Bernardino College of Education.
- Completion of the \$47 million Los Angeles Science Building, Wing A.

## **CALIFORNIA STATE UNIVERSITY**

### **Management's Discussion and Analysis**

June 30, 2009

(Unaudited)

- Completion of the \$47 million Chico Student Services Center.
- Construction in progress on the \$143 million Fullerton Student Housing Phase 3 and 4.
- Construction in progress on the \$117 million San Francisco J. Paul Leonard Library/Sutro Library.
- Construction in progress on the \$112 million Long Beach Peterson Hall 3 Replacement Building.
- Construction in progress on the \$100 million Northridge Performing Arts Center.
- Construction in progress on the \$80 million Pomona Student Housing Phase II.
- Construction in progress on the \$71 million Sacramento Recreation/Wellness Center.
- Construction in progress on the \$65 million Chico Wildcat Activity Center.
- Construction in progress on the \$64 million Dominguez Hills Education Resource Center Addition.
- Construction in progress on the \$57 million Sonoma Music/Faculty Office/Green Music Center.
- Construction in progress on the \$54 million Fresno Campus Pointe Multi-Housing.
- Construction in progress on the \$51 million Northridge Science I Replacement.
- Construction in progress on the \$44 million Humboldt Forbes PE Complex Renovation Phase II.
- Construction in progress on the \$43 million East Bay Student Services Replacement Building.

Due to the State's budget crisis and its difficulty issuing bonds in the financial market, the State suspended funding for most State-funded capital projects, including General Obligation and Lease Revenue Bond financed projects, and froze disbursements on these projects starting in December 2008. The State lifted the suspension of the funding for the General Obligation bond projects in April 2009. The Lease Revenue bond projects were without additional funding from the State as of June 2009. Among the projects listed above, Monterey Bay Library, Los Angeles Science Building Wing A, and San Francisco J. Paul Leonard Library/Sutro Library were financed by Lease Revenue bonds. Monterey Bay Library and Los Angeles Science Building Wing A projects were completed. During the suspension in fiscal year 2009, San Francisco J. Paul Leonard Library/Sutro Library project was restarted and funded by the campus operating fund.

#### **Current and Noncurrent Liabilities**

Current liabilities (liabilities due within one year) and noncurrent liabilities (liabilities due in more than one year) include accounts payable, accrued salaries and benefits payable, accrued compensated absences, deferred revenue, grants refundable, capitalized lease obligations, long-term debt obligations, self-insurance claims liability, depository accounts, other postemployment benefit obligations, and other liabilities. Current liabilities for the University increased by \$685.6 million in 2009 mainly due to a \$715.5 million increase in accounts payable primarily associated with the refund of state noncapital appropriation to the State based on the latest revised State budget. Noncurrent liabilities for the University increased by \$449.0 million in 2009 mainly due to the \$425.2 increase in long-term debt obligations (net of repayments). The major contributing factors to the increase were the issuance of \$465.4 million of Systemwide Revenue Bonds Series 2009A. Moreover, other postemployment benefits (OPEB) liabilities increased by \$26.5 million in 2009.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

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(Unaudited)

Noncurrent liabilities for the auxiliary organizations increased by \$213.9 million in 2009. The increase consists primarily of a \$209 million increase in capitalized lease and long-term debt obligations from the California State University, Channel Islands Site Authority and a \$30.5 million increase in long-term debt obligations resulted from the new issued 2009A bond and Bond Anticipation Notes for the auxiliary organizations. These increases were offset by paydowns in debt and capitalized lease obligations.

### Long-Term Debt

As of June 30, 2009 and 2008, the University's outstanding long-term debt obligations totaled \$3.3 billion and \$2.9 billion, respectively, and are summarized as follows (In thousands):

	2009	2008
Systemwide Revenue Bonds	\$ 3,130,488	2,706,828
Bond Anticipation Notes	41,410	37,352
Other	99,274	92,983
Total	3,271,172	2,837,163
Unamortized bond premium/discount	45,028	59,877
Unamortized loss on refundings	(14,798)	(20,880)
Total long-term debt	3,301,402	2,876,160
Less current portion	(84,147)	(85,791)
Long-term debt, net of current portion	\$ 3,217,255	2,790,369

The University's total long-term debt obligations (net of repayments) increased by \$425.2 million in 2009, mainly due to the issuance of Systemwide Revenue Bonds Series 2009A. The 2009A bond proceeds were used to fund the construction of new campus facilities and related site development, refund commercial paper used for construction of new campus facilities, and also refund auxiliary organization revenue bonds.

The table above does not include the University's capitalized lease obligations. Capitalized lease obligations for the University increased by \$3.4 million in 2009, consisting of new capital lease obligations of \$76.7 million, offset by current year repayments.

In addition, the State General Obligation Bond program has provided capital funding for various projects of the University. The debt related to these projects is not allocated to the University by the State and thus is not recorded in the University's financial statements. Total General Obligation Bond debt carried by the State related to the University projects is approximately \$2.4 billion and \$1.5 billion at June 30, 2009 and 2008, respectively.

No fundamental changes occurred in the revenues and expenditures of the revenue bond programs during fiscal year 2009. Repayment of specific programmatic revenue bonds is legally limited to the sources of revenue from operations of the projects including specific mandatory fees pledged to the revenue bond programs. For the Systemwide Revenue Bonds, revenues pledged generally include student housing fees, parking fees, student union fees, health center facilities fees, and continuing education fees, as well as other revenues designated by the Board of Trustees for inclusion in the Systemwide Revenue Bonds program. Moody's Investors Service

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

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(Unaudited)

currently provides an intrinsic rating of Aa3, 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, and Series 2008A, and Series 2009A, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa3 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service.

#### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the University's financial position. As of June 30, 2009 and 2008, assets exceeded liabilities by \$5.4 billion and \$5.6 billion, respectively, for the University. The decrease in net assets occurred mostly in "Unrestricted" as described below in more detail.

The net asset category "Invested in capital assets, net of related debt" represents the University's capital assets, net of accumulated depreciation, and also net of outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The University uses these capital assets in its day-to-day operations. This category is the largest portion of the University's net assets. The University experienced a net increase of \$147.1 million in this net asset category in the current year mainly due to campus expansions.

The restricted net asset category consists of two subcategories: "Restricted nonexpendable" and "Restricted expendable." The restricted nonexpendable net assets are made up of the permanent endowment funds. Generally speaking, the University's foundations, which are recognized auxiliary organizations, hold the significant majority of the University-related endowments. In the current year, there was no significant change in the University's restricted nonexpendable net assets. Restricted expendable net assets represent resources that are subject to external restrictions on how they may be used. Such restrictions are primarily related to scholarships, capital projects, loans, and debt service funds. In the current year, the University experienced a net increase of \$97.6 million in restricted expendable net assets in current year mainly due to the transfer of capital project debts of California State University, Channel Islands Site Authority.

The "Unrestricted" net asset category represents all other net resources available to the University for general and educational obligations. This category of the University decreased by \$429.5 million to \$672.4 million as of June 30, 2009 from \$1.1 billion as of June 30, 2008. The decrease was mainly caused by the budget reduction of a total of \$817 million during fiscal year 2009. It was offset by an increase in net student tuition and fees of \$101 million due to a combination of higher fees and larger enrollment, and the \$268.5 million in a one-time allocation from the Education Stabilization Fund created by the ARRA. Moreover, the "Unrestricted" net asset category of the auxiliary organizations also experienced a decrease of \$145.1 million mainly due to the endowment and investment loss resulted from the downturn in the financial market.

The \$672.4 million unrestricted net assets of the University as of June 30, 2009 consist of \$1.0 billion designated resources and a deficit of \$348 million undesignated resource.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

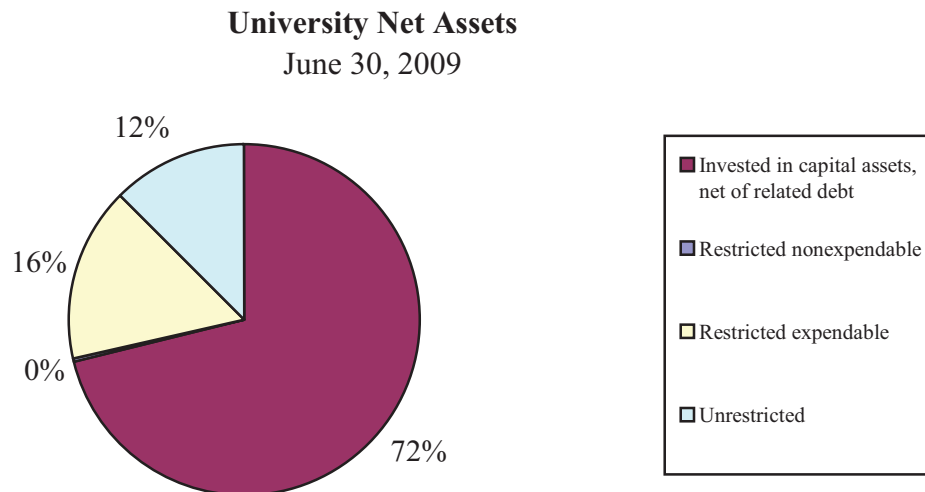
June 30, 2009

(Unaudited)

### Designated Resources

The designated resources come from fee collections and other activities that are designated for very specific purposes and are not to be repurposed and spent for other activities. For example, students pay fees and campus activities generate fees, which are to be used for specific designated purposes. Additionally, State Lottery allocations are received by the University with the requirement that the resources be used for the benefit of public education. The University also has certain resources that represent amounts needed to support the Systemwide Revenue Bond programs.

Of the \$1.0 billion designated resources, approximately 49.7% was designated for supporting enterprise activities, 20.9% was designated for campus-based projects or programs, and 13.9% was designated for special capital projects. The remaining 15.5% was designated for supporting activities related to education, financial aid, and future liability claims. Funds designated to enterprise activities are used for any activity for which a fee is charged to external users for goods or services (e.g., Housing, Parking, Student Union, etc.).



**Total net assets: \$5,395,561,000**

Overall, the University's net assets decreased by \$184.2 million in the current fiscal year.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

### II. Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

(In thousands)

	University		Discretely presented component units	
	2009	2008	2009	2008
Operating revenues:				
Student tuition and fees, net	\$ 1,460,136	1,359,322	130,501	123,101
Grants and contracts, noncapital	97,295	103,400	493,551	483,139
Sales and services of educational activities	33,972	32,523	32,069	26,900
Sales and services of auxiliary enterprises, net	335,922	307,447	494,043	515,214
Other operating revenues	156,826	142,255	109,542	98,462
Total operating revenues	2,084,151	1,944,947	1,259,706	1,246,816
Operating expenses	5,718,713	5,634,846	1,396,277	1,377,862
Operating loss	(3,634,562)	(3,689,899)	(136,571)	(131,046)
Nonoperating revenues, net:				
State appropriations, noncapital	2,153,251	2,970,515	—	—
Federal financial aid grants, noncapital	470,528	407,516	—	—
State financial aid grants, noncapital	210,587	195,288	—	—
Nongovernmental and other financial aid grants, noncapital	8,032	6,733	—	—
Other federal nonoperating grants, noncapital	268,500	—	—	—
Gifts, noncapital	50,414	45,592	137,956	128,075
Investment income (loss), net	91,936	114,187	(49,758)	8,750
Endowment income (loss), net	516	1,024	(109,971)	(41,336)
Interest expenses	(139,243)	(124,634)	(32,788)	(23,938)
Other nonoperating revenues (expenses)	70,427	97,182	(43,622)	(10,412)
Net nonoperating revenues (expenses)	3,184,948	3,713,403	(98,183)	61,139
Income (loss) before other revenues and expenses	(449,614)	23,504	(234,754)	(69,907)
State appropriations, capital	224,543	426,572	—	—
Grants and gifts, capital	40,839	73,349	15,600	3,995
Additions to permanent endowments	—	81	34,863	54,234
Change in net assets	(184,232)	523,506	(184,291)	(11,678)
Net assets – beginning of year	5,579,793	5,056,287	1,825,723	1,837,401
Net assets – end of year	\$ 5,395,561	5,579,793	1,641,432	1,825,723

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

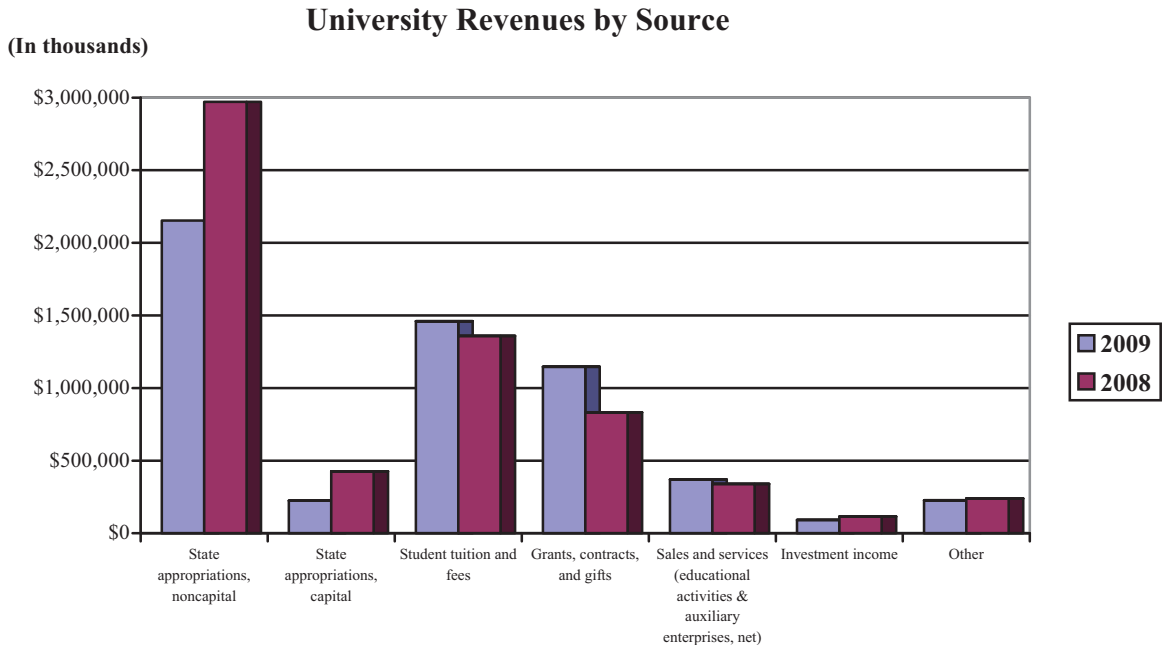
June 30, 2009

(Unaudited)

Certain reclassifications have been made to the 2008 financial information to conform to the 2009 financial information presented. The changes were primarily related to the classification of cost recovery between the universities and their auxiliaries from a reduction of operating expenses to other operating revenues and gifts, noncapital. There was no impact on the previously reported changes in net assets or total net assets of the University.

### Revenues (Operating and Nonoperating)

The following chart displays the components of the University's revenues for fiscal years 2009 and 2008:



# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

### University Revenues (Operating and Nonoperating)

Years ended June 30, 2009 and 2008

(In thousands)

	2009	Percentage of total	2008	Percentage of total
State appropriations, noncapital	\$ 2,153,251	38.0%	\$ 2,970,515	47.3%
State appropriations, capital	224,543	4.0	426,572	6.8
Student tuition and fees, net	1,460,136	25.7	1,359,322	21.6
Grants, contracts , and gifts	1,146,195	20.2	831,959	13.2
Sales and services (educational activities and auxiliary enterprises, net)	369,894	6.5	339,970	5.4
Investment income, net	92,452	1.6	115,211	1.8
Other	227,253	4.0	239,437	3.9
Total revenues (operating and nonoperating)	<u>\$ 5,673,724</u>	<u>100.0%</u>	<u>\$ 6,282,986</u>	<u>100.0%</u>

The largest component of revenues continues to be state appropriations, which accounted for 42.0% of the University's revenues in fiscal year 2009. State appropriations are received for both noncapital and capital purposes. Noncapital appropriations decreased by \$817.3 million, or 27.5%, due to the State's budget reductions. Capital appropriations decreased by \$202.0 million, or 47.4%, which resulted from less capital appropriations, the temporary suspension of General Obligation Bond and Revenue Lease Bond projects, and the deallocations of the state capital appropriation.

Student tuition and fees increased by \$100.8 million, or 7.4%, from fiscal year 2008 mainly due to a combination of increases in student fees and enrollment growth.

A significant portion of the University's contracts and grants revenue is managed through its auxiliary organizations. Of the total reporting entity's contracts and grants revenue (\$1.5 billion), 31.9% is managed by these related organizations. Contracts and grants revenue for the total reporting entity has increased \$352.4 million, or 29.5% in fiscal year 2009 mainly due to federal funding under the ARRA and an increase in federal and state financial aid grants awarded.

Total gift income for the University and the auxiliary organizations (which includes operating and capital gifts, as well as additions to permanent endowments) reached \$238.6 million, or 3.4% of the reporting entity's total revenues in the current year, a decrease of \$13.9 million from \$252.5 million, or 4.0% of the reporting entity's total revenues in fiscal year 2008 mainly due to a decrease in capital gift donations. Gifts are used to support a variety of projects, including capital improvements, scholarships, and endowments for various academic and research programs.



# **CALIFORNIA STATE UNIVERSITY**

## **Management's Discussion and Analysis**

June 30, 2009

(Unaudited)

Auxiliary enterprise operations such as student housing may be run by the University or by auxiliary organizations depending on the campus, whereas student unions are run by auxiliary organizations. Sales and services of auxiliary enterprises for the University are reported at \$335.9 million, an increase of \$28.5 million, or 9.3%, from fiscal year 2008, which is attributable to an increase in student housing rates and parking fees, coupled with higher housing occupancy and additional bed spaces. Sales and services of auxiliary enterprises for the auxiliary organizations reached \$494.0 million, a decrease of \$21.2 million, or 4.1%, from fiscal year 2008, primarily due to revenue decline in bookstore and food services operations and the decrease in the number of faculty and staff housing units.

Total investment and endowment income for the University decreased by \$22.8 million, or 19.8%, to \$92.5 million for the current year from \$115.2 million for the prior year. The University's investment portfolio consists primarily of investments held in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. Total investment and endowment loss for the auxiliary organizations increased by \$127.1 million from prior year. The decrease in income for the University and the increase in loss for the auxiliary organizations were primarily due to downturns in the financial market.

Other revenues consist of operating and nonoperating activities. The University's total other revenues decreased by \$12.2 million, from \$239.4 million in 2008 to \$227.3 million in 2009. The increase in other operating revenues of \$14.6 million was mainly due to the increase in cost recovery from the auxiliary organizations. The decrease in other nonoperating revenues of \$26.8 million was mainly due to the additional \$21.0 million California State University Risk Management Authority (CSURMA) reinsurance, worker's compensation, and general insurance premium expenses and the \$3.5 million reduction in lottery revenue in current year.

# CALIFORNIA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

### Operating Expenses

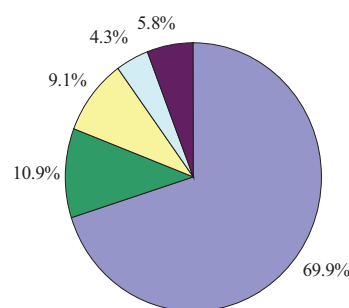
Approximately 38% of the University's total operating expenses in fiscal year 2009 directly support the primary function of the University, which is instruction. These direct expenses include only faculty and instructional support staff salaries, benefits, and their direct expenses. When the mission-critical educational support activities of student services, academic support, grants and scholarships, public service, and research are added to direct classroom instruction, total instruction and educational support activities account for nearly 70% of the total operating expenses of the University as shown below:

#### University Operating Expenses

Year ended June 30, 2009

(In thousands)

Instruction	\$ 2,154,701	37.7%
Research	28,446	0.5
Public service	60,030	1.0
Academic support	594,716	10.4
Student services	578,389	10.1
Student grants and scholarships	584,491	10.2
Total instruction and educational support activities	4,000,773	69.9
Institutional support	620,660	10.9
Operation and maintenance of plant	519,158	9.1
Auxiliary enterprises expenses	244,963	4.3
Depreciation	333,159	5.8
Total operating expenses	\$ 5,718,713	100.0%



Total operating expenses for the University increased by \$83.9 million in the current year. The increase was primarily due to the increase in student grants and scholarships expenses by \$66.8 million resulted from an increase in federal and state grants awarded. Moreover, there were additional other postemployment benefit (OPEB) expenses allocated from the State. The increases were partially offset by overall cost savings in various functional categories.

# CALIFORNIA STATE UNIVERSITY

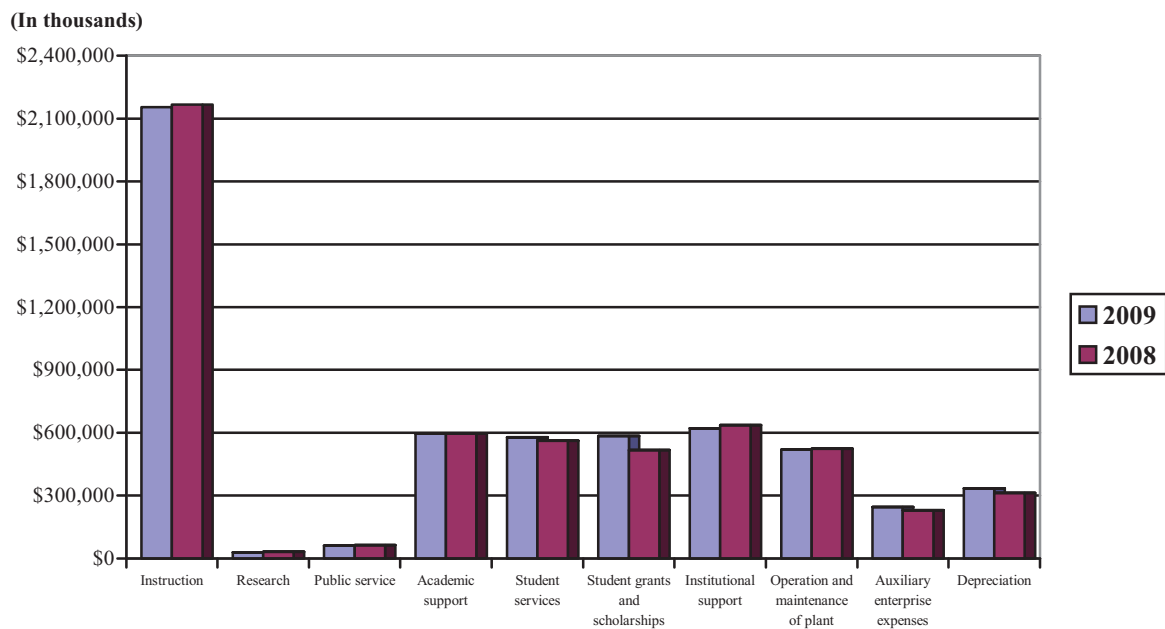
## Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following chart displays the University's operating expenses by program for fiscal years 2009 and 2008:

### University Operating Expenses by Program



### Future Economic Factors

The Higher Education Compact (the Compact), which was reached on May 11, 2004, proposes to fund 2.5% annual enrollment growth through fiscal year 2011. The Compact, which took effect in fiscal year 2006, calls for increases in funding for the California State University for each year through 2011. The upcoming fiscal year represents the fifth year of a six year higher education financing compact agreement between the Governor of the State and the University. In fiscal years 2009 and 2010, the Higher Education Compact commitments were not funded by the State.

The University's state noncapital appropriations budget for fiscal year 2010 approved by the legislative process is \$2.34 billion. Although this is an increase of \$185 million over the fiscal year 2009 funding level of \$2.15 billion, it is still \$633 million below the fiscal year 2008 funding level of \$2.97 billion before the economic downturn. The University will receive the remaining \$448 million of ARRA funds intended to mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2009. However, it will not mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2010. Reductions in operating expenses and an increase in student fees in fiscal year 2010 will partly offset the funding loss from the State. The student fee increase is expected to generate \$257.4 million during fiscal year 2010 in new revenue, net of financial aid. In addition, all University employees, except public safety personnel, will be on furlough work schedules to reduce up to \$273 million in operating expenses and narrow the budget gap in fiscal year 2010.

## CALIFORNIA STATE UNIVERSITY

### Management's Discussion and Analysis

June 30, 2009

(Unaudited)

#### Subsequent Events

The following Bond Anticipation Notes (BAN) were issued:

- In September 2009, a \$27.4 million BAN was authorized for the construction of Recreation and Wellness Center at the East Bay campus. In October 2009, \$16.2 million of commercial paper was issued, leaving an unused BAN amount of \$11.2 million.
- In September 2009, a \$6.9 million BAN was authorized for the acquisition and renovation of the Dobbs Street Apartments at the Los Angeles campus. Commercial paper has not been issued for this project.
- In September 2009, a \$26.7 million BAN was authorized for the acquisition of Albert's College Apartment at the San Diego campus. In November 2009, \$25.3 million of commercial paper was issued, leaving an unused BAN amount of \$1.4 million.
- In November 2009, a \$49.8 million BAN was authorized for the construction of Student Recreation Center at the Northridge campus. Commercial paper has not yet been issued for this project.
- In November 2009, a \$80.8 million BAN was authorized for the construction of Recreation Center Expansion at the San Luis Obispo campus. In December 2009, \$9.3 million of commercial paper was issued, leaving an unused BAN amount of \$71.5 million.
- In November 2009, a \$6.0 million BAN was authorized for the construction of Public Safety Building at the San Marcos campus. Commercial paper has not yet been issued for this project.

In July 2009, the CSURMA entered into a reinsurance contract with AIU Holdings, Inc in the amount of \$18.5 million. This will reinsure the CSU's workers' compensation claims liability for claims incurred during fiscal year 2010. While such losses are reinsured, the CSURMA will not be relieved of its primary obligation to the policyholder in this reinsurance transaction.

The State will be deferring some payments to the CSU, \$290 million due in July 2009 was deferred until October 2009. It is anticipated that \$250 million due in February 2010 and \$150 million due in March 2010 will both be deferred until May 2010.

In August 2009, the CSU began furloughing all employees (with the exception of public safety personnel) two days per month. The furloughs will reduce up to \$273 million in expenditures, in fiscal year 2010.

In September 2009, \$3.4 million of commercial paper was issued by the California State University Institute, a California State University auxiliary, for equipment financing to the Dominguez Hills and Humboldt campuses.

In December 2009, \$2.5 million of commercial paper was issued by the California State University Institute, a California State University auxiliary, for equipment financing to the Humboldt and San Marcos campuses.

In December 2009, \$152 million in new capital lease obligations were issued for the J. Paul Leonard Library/Sutro Library project at the San Francisco campus.

# CALIFORNIA STATE UNIVERSITY

## Statement of Net Assets

June 30, 2009

Assets	University	Discretely presented component units	Total
Current assets:			
Cash and cash equivalents	\$ 9,029,000	182,563,000	191,592,000
Short-term investments	1,976,372,000	390,130,000	2,366,502,000
Accounts receivable, net	139,812,000	243,766,000	383,578,000
Leases receivable, current portion	4,207,000	5,141,000	9,348,000
Notes receivable, current portion	1,150,000	487,000	1,637,000
Pledges receivable, net	251,000	52,102,000	52,353,000
Prepaid expenses and other assets	28,747,000	52,458,000	81,205,000
Total current assets	<u>2,159,568,000</u>	<u>926,647,000</u>	<u>3,086,215,000</u>
Noncurrent assets:			
Restricted cash and cash equivalents	883,000	99,086,000	99,969,000
Accounts receivable, net	821,515,000	118,258,000	939,773,000
Leases receivable, net of current portion	396,791,000	13,245,000	410,036,000
Notes receivable, net of current portion	133,136,000	14,626,000	147,762,000
Student loans receivable, net	106,367,000	540,000	106,907,000
Pledges receivable, net	242,000	106,824,000	107,066,000
Endowment investments	23,534,000	659,658,000	683,192,000
Other long-term investments	742,397,000	223,745,000	966,142,000
Capital assets, net	6,958,932,000	874,560,000	7,833,492,000
Other assets	10,038,000	81,485,000	91,523,000
Total noncurrent assets	<u>9,193,835,000</u>	<u>2,192,027,000</u>	<u>11,385,862,000</u>
Total assets	<u>11,353,403,000</u>	<u>3,118,674,000</u>	<u>14,472,077,000</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	985,147,000	69,353,000	1,054,500,000
Accrued salaries and benefits payable	267,097,000	25,069,000	292,166,000
Accrued compensated absences, current portion	113,356,000	13,849,000	127,205,000
Deferred revenue	200,729,000	56,501,000	257,230,000
Capitalized lease obligations, current portion	59,347,000	4,000,000	63,347,000
Long-term debt obligations, current portion	84,147,000	89,663,000	173,810,000
Self-insurance claims liability, current portion	17,875,000	15,000	17,890,000
Other liabilities	65,007,000	87,756,000	152,763,000
Total current liabilities	<u>1,792,705,000</u>	<u>346,206,000</u>	<u>2,138,911,000</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	85,179,000	3,131,000	88,310,000
Deferred revenue	13,169,000	21,732,000	34,901,000
Grants refundable	103,594,000	3,084,000	106,678,000
Capitalized lease obligations, net of current portion	604,343,000	370,965,000	975,308,000
Long-term debt obligations, net of current portion	3,217,255,000	510,743,000	3,727,998,000
Self-insurance claims liability, net of current portion	52,873,000	—	52,873,000
Depository accounts	20,767,000	60,778,000	81,545,000
Other postemployment benefits obligation	55,578,000	110,166,000	165,744,000
Other liabilities	12,379,000	50,437,000	62,816,000
Total noncurrent liabilities	<u>4,165,137,000</u>	<u>1,131,036,000</u>	<u>5,296,173,000</u>
Total liabilities	<u>5,957,842,000</u>	<u>1,477,242,000</u>	<u>7,435,084,000</u>
Net assets:			
Invested in capital assets, net of related debt	3,831,878,000	220,793,000	4,052,671,000
Restricted for:			
Nonexpendable – endowments	23,351,000	680,792,000	704,143,000
Expendable:			
Scholarships and fellowships	21,844,000	89,259,000	111,103,000
Research	—	9,298,000	9,298,000
Loans	26,003,000	1,877,000	27,880,000
Capital projects	762,769,000	51,432,000	814,201,000
Debt service	49,797,000	41,618,000	91,415,000
Other	7,568,000	326,471,000	334,039,000
Unrestricted	<u>672,351,000</u>	<u>219,892,000</u>	<u>892,243,000</u>
Total net assets	<u>\$ 5,395,561,000</u>	<u>1,641,432,000</u>	<u>7,036,993,000</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2009

	University	Discretely presented component units	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$467,555,000)	\$ 1,460,136,000	130,501,000	(4,699,000)	1,585,938,000
Grants and contracts, noncapital:				
Federal	58,348,000	298,676,000	(346,000)	356,678,000
State	21,813,000	107,480,000	(6,180,000)	123,113,000
Local	9,549,000	15,219,000	(728,000)	24,040,000
Nongovernmental	7,585,000	72,176,000	(146,000)	79,615,000
Sales and services of educational activities	33,972,000	32,069,000	—	66,041,000
Sales and services of auxiliary enterprises (net of scholarship allowances of \$23,687,000)	335,922,000	494,043,000	(6,713,000)	823,252,000
Other operating revenues	156,826,000	109,542,000	(1,630,000)	264,738,000
Total operating revenues	<u>2,084,151,000</u>	<u>1,259,706,000</u>	<u>(20,442,000)</u>	<u>3,323,415,000</u>
Expenses:				
Operating expenses:				
Instruction	2,154,701,000	150,909,000	(620,000)	2,304,990,000
Research	28,446,000	192,405,000	(630,000)	220,221,000
Public service	60,030,000	154,356,000	(1,844,000)	212,542,000
Academic support	594,716,000	62,019,000	(344,000)	656,391,000
Student services	578,389,000	121,363,000	(12,255,000)	687,497,000
Institutional support	620,660,000	104,758,000	(25,014,000)	700,404,000
Operation and maintenance of plant	519,158,000	21,018,000	(549,000)	539,627,000
Student grants and scholarships	584,491,000	41,235,000	(14,848,000)	610,878,000
Auxiliary enterprise expenses	244,963,000	503,602,000	(8,010,000)	740,555,000
Depreciation and amortization	333,159,000	44,612,000	—	377,771,000
Total operating expenses	<u>5,718,713,000</u>	<u>1,396,277,000</u>	<u>(64,114,000)</u>	<u>7,050,876,000</u>
Operating loss	<u>(3,634,562,000)</u>	<u>(136,571,000)</u>	<u>43,672,000</u>	<u>(3,727,461,000)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	2,153,251,000	—	—	2,153,251,000
Federal financial aid grants, noncapital	470,528,000	—	(655,000)	469,873,000
State financial aid grants, noncapital	210,587,000	—	—	210,587,000
Nongovernmental and other financial aid grants, noncapital	8,032,000	—	(3,365,000)	4,667,000
Other federal nonoperating grants, noncapital	268,500,000	—	—	268,500,000
Gifts, noncapital	50,414,000	137,956,000	(12,152,000)	176,218,000
Investment income (loss), net	91,936,000	(49,758,000)	—	42,178,000
Endowment income (loss)	516,000	(109,971,000)	—	(109,455,000)
Interest expenses	(139,243,000)	(32,788,000)	—	(172,031,000)
Other nonoperating revenues (expenses)	70,427,000	(43,622,000)	1,428,000	28,233,000
Net nonoperating revenues (expenses)	<u>3,184,948,000</u>	<u>(98,183,000)</u>	<u>(14,744,000)</u>	<u>3,072,021,000</u>
Loss before other revenues and expenses	<u>(449,614,000)</u>	<u>(234,754,000)</u>	<u>28,928,000</u>	<u>(655,440,000)</u>
State appropriations, capital	224,543,000	—	—	224,543,000
Grants and gifts, capital	40,839,000	15,600,000	(28,928,000)	27,511,000
Additions to permanent endowments	—	34,863,000	—	34,863,000
Decrease in net assets	<u>(184,232,000)</u>	<u>(184,291,000)</u>	<u>—</u>	<u>(368,523,000)</u>
Net assets:				
Net assets at beginning of year	<u>5,579,793,000</u>	<u>1,825,723,000</u>	<u>—</u>	<u>7,405,516,000</u>
Net assets at end of year	<u>\$ 5,395,561,000</u>	<u>1,641,432,000</u>	<u>—</u>	<u>7,036,993,000</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY**

Statement of Cash Flows

Year ended June 30, 2009

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 1,459,588,000
Federal grants and contracts	53,970,000
State grants and contracts	21,511,000
Local grants and contracts	11,053,000
Nongovernmental grants and contracts	9,786,000
Payments to suppliers	(951,905,000)
Payments to employees	(3,824,814,000)
Payments to students	(591,847,000)
Collections of student loans	7,002,000
Sales and services of auxiliary enterprises	331,858,000
Sales and services of educational activities	31,061,000
Other receipts	152,540,000
Net cash used in operating activities	<u>(3,290,197,000)</u>
Cash flows from noncapital financing activities:	
State appropriations	2,842,392,000
Federal financial aid grants	470,467,000
State financial aid grants	208,191,000
Nongovernmental and other financial aid grants	8,065,000
Other federal nonoperating grants	268,500,000
Gifts and grants received for other than capital purposes	49,474,000
Federal loan program receipts	899,432,000
Federal loan program disbursements	(903,472,000)
Monies received on behalf of others	119,659,000
Monies disbursed on behalf of others	(118,526,000)
Other noncapital financing activities	42,536,000
Net cash provided by noncapital financing activities	<u>3,886,718,000</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	544,102,000
State appropriations	237,267,000
Capital grants and gifts	32,104,000
Proceeds from sale of capital assets	420,000
Acquisition of capital assets	(820,101,000)
Issuance of notes receivable	(25,601,000)
Principal paid on capital debt and leases	(242,888,000)
Interest paid on capital debt and leases	(152,428,000)
Principal payments received on capital leases receivable	3,321,000
Interest payments received on capital leases receivable	7,715,000
Principal payments received on notes receivable	8,735,000
Interest payments received on notes receivable	1,721,000
Net cash used in capital and related financing activities	<u>(405,633,000)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	6,672,518,000
Purchases of investments	(6,962,163,000)
Investment income proceeds	79,526,000
Net cash used in investing activities	<u>(210,119,000)</u>
Net decrease in cash and cash equivalents	(19,231,000)
Cash and cash equivalents at beginning of year	29,143,000
Cash and cash equivalents at end of year	\$ <u>9,912,000</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 9,029,000
Restricted cash and investments	883,000
Total cash and cash equivalents at end of year	\$ <u>9,912,000</u>

**CALIFORNIA STATE UNIVERSITY**

Statement of Cash Flows

Year ended June 30, 2009

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,634,562,000)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	333,159,000
Change in assets and liabilities:	
Accounts receivable, net	(5,914,000)
Student loans receivable, net	98,000
Pledges receivable, net	(110,000)
Prepaid expenses and other assets	616,000
Accounts payable	2,063,000
Accrued salaries and benefits	(3,046,000)
Accrued compensated absences	5,385,000
Deferred revenue	(2,692,000)
Self-insurance claims liability	(33,310,000)
Depository accounts	476,000
Other postemployment benefits obligation	36,446,000
Other liabilities	11,194,000
Net cash used in operating activities	<u>\$ (3,290,197,000)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 15,818,000
Acquisition of capital assets through capital lease	17,890,000
Acquisition of capital assets through long-term debt obligation (other than capital lease)	53,971,000
Change in accrued capital assets purchases	12,857,000
Other miscellaneous noncash transactions related to prior year adjustments and others	2,752,000
Gifts in kind	1,254,000
Amortization of bond premium and discount	3,565,000
Amortization of loss on refundings	1,212,000
Reclassification of capital lease to notes payable	8,619,000
Other miscellaneous noncash transactions related to debt and others	5,103,000
Transfer of California State University, Channel Islands Site Authority net assets	59,025,000
Loss on land acquisition	11,822,000
Payments made by auxiliary organizations	1,230,000

See accompanying notes to financial statements.



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### (1) Organization

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California (the State), the University is also included in the State's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, and the University Presidents, the chief executive officers of the respective campuses. In addition to the Office of the Chancellor, the following 23 campuses comprise the California State University at June 30, 2009:

- California State University, Bakersfield
- California State University, Channel Islands
- California State University, Chico
- California State University, Dominguez Hills
- California State University, East Bay
- California State University, Fresno
- California State University, Fullerton
- Humboldt State University
- California State University, Long Beach
- California State University, Los Angeles
- California Maritime Academy
- California State University, Monterey Bay
- California State University, Northridge
- California State Polytechnic University, Pomona
- California State University, Sacramento
- California State University, San Bernardino
- San Diego State University
- San Francisco State University
- San Jose State University
- California Polytechnic State University, San Luis Obispo
- California State University, San Marcos
- Sonoma State University
- California State University, Stanislaus

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

The University provides instruction for baccalaureate, masters', doctorate, and certificate programs, and operates various auxiliary enterprises, such as student housing and parking facilities. In addition, the University administers a variety of financial aid programs that 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 present the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the 23 campuses and the Office of the Chancellor of the California State University.

In addition, the accompanying financial statements include the accounts of the 90 University-related recognized auxiliary organizations.<sup>1</sup> These organizations are legally separate entities that provide services primarily to the University's students. Such organizations include foundations, associated students, student unions, food service entities, bookstores, and similar organizations. Foundations, whose net assets comprise approximately 81% of the discretely presented component unit totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research, as well as soliciting and accepting donations, gifts, and bequests for University-related use. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the individual campuses.

The recognized auxiliary organizations are as follows:

- California State University, Bakersfield, Foundation
- Associated Students, Inc., California State University, Bakersfield
- California State University, Bakersfield Student Union
- California State University Institute
- California State University Foundation
- California State University, Channel Islands Foundation
- Associated Students of California State University, Channel Islands, Inc.
- CSUCI Financing Authority

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<sup>1</sup> Although the CSUCI Financing Authority, California State University, Channel Islands Site Authority and the Bulldog Foundation (Fresno) are technically not recognized auxiliary organizations, they are included here for financial reporting purposes since they are still discretely presented component units whose exclusion would cause the financial statements to be misleading or incomplete.

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2009

- California State University, Channel Islands Site Authority
- The CSU, Chico Research Foundation
- The University Foundation, California State University, Chico
- Associated Students of California State University, Chico
- California State University Dominguez Hills Foundation
- Associated Students, Inc., California State University, Dominguez Hills
- The Donald P. and Katherine B. Loker University Student Union, Inc., California State University, Dominguez Hills
- California State University, East Bay Foundation, Inc.
- Associated Students, Inc. of California State University, East Bay
- Cal State East Bay Educational Foundation, Inc.
- California State University, Fresno Foundation
- Associated Students, California State University, Fresno
- California State University, Fresno Association, Inc.
- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Athletic Corporation
- The Bulldog Foundation (Fresno)
- Fresno State Programs for Children, Inc.
- Cal State Fullerton Philanthropic Foundation
- Associated Students, California State University, Fullerton, Inc.
- Titan Student Union Associated Students California State University, Fullerton, Inc.
- CSU Fullerton Housing Authority
- CSU Fullerton Auxiliary Services Corporation
- Humboldt State University Sponsored Programs Foundation
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Advancement Foundation
- California State University, Long Beach Foundation
- Associated Students, Inc., California State University, Long Beach
- Forty-Niner Shops, Inc. (Long Beach)

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2009

- Cal State L.A. University Auxiliary Services, Inc.
- California State University, Los Angeles Foundation
- Associated Students of California State University, Los Angeles, Inc.
- University – Student Union Board, California State University, Los Angeles
- California Maritime Academy Foundation, Inc.
- Associated Students of the California Maritime Academy
- University Corporation at Monterey Bay
- CSUMB Employee Housing, Inc.
- California State University, Northridge Foundation
- Associated Students, Inc., California State University, Northridge
- University Student Union, Inc., California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- The University Corporation (Northridge)
- Cal Poly Pomona Foundation, Inc.
- Associated Students, Inc., California State Polytechnic University, Pomona
- Cal Poly Pomona University Educational Trust
- The University Foundation at Sacramento State
- University Enterprises, Inc. (Sacramento)
- University Enterprises Development Group (Sacramento)
- Associated Students of California State University, Sacramento
- University Union Operation of California State University, Sacramento
- Capital Public Radio, Inc. (Sacramento)
- Santos Manuel Student Union of California State University, San Bernardino
- The Foundation for California State University, San Bernardino
- Associated Students, Incorporated, California State University, San Bernardino
- San Diego State University Research Foundation
- The Campanile Foundation (San Diego)
- Associated Students of San Diego State University
- Aztec Shops, Ltd. (San Diego)

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2009

- The University Corporation, San Francisco State
- Associated Students of San Francisco State University
- San Francisco State University Student Center
- Franciscan Shops (Operating as SFSU Bookstore)
- Associated Students of San Jose State University
- The Student Union of San Jose State University
- The Tower Foundation (San Jose)
- San Jose State University Research Foundation
- Spartan Shops, Inc. (San Jose)
- California Polytechnic State University Foundation (San Luis Obispo)
- Cal Poly Housing Corporation (San Luis Obispo)
- Cal Poly Corporation (San Luis Obispo)
- Associated Students, Inc., California Polytechnic State University, San Luis Obispo
- University Auxiliary and Research Services Corporation (San Marcos)
- Associated Students, Inc. of California State University, San Marcos
- San Marcos University Corporation
- Sonoma State University Academic Foundation, Inc.
- Associated Students, Incorporated of Sonoma State University
- Sonoma Student Union Corporation
- Sonoma State Enterprises, Inc.
- California State University, Stanislaus Foundation
- Associated Students Incorporated of California State University, Stanislaus
- University Student Union of California State University, Stanislaus
- California State University, Stanislaus Auxiliary and Business Services

The auxiliary organizations are presented in the accompanying financial statements as discretely presented component units of the University 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 their close affiliation with the University. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish between the University and the auxiliary organizations. None of the auxiliary organizations are considered individually significant to the total discretely presented auxiliary organizations.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

All significant interentity transactions have been eliminated.

The accompanying financial statements also include the California State University Risk Management Authority (CSURMA); Stockton Center Site Authority; and California State Student Association, which are included as blended component units. These entities primarily provide services to the University in the areas of risk management, asset management, and debt financing. The University is financially accountable for these organizations.

**(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. 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.

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 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. The effect of internal activity between funds or groups of funds has been eliminated from these financial statements.

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

The University has elected to follow standards of accounting and financial reporting issued by the Financial Accounting Standards Board (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 net assets date are considered to be current. All other assets and liabilities are considered 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 component units.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

**(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 investments.

**(g) Capital Assets**

Capital assets are stated at cost or estimated historical cost if purchased, or, if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with an original value of \$5,000 or more and with a useful life of one year or more, are capitalized. Such cost includes, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all University 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, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost, if purchased, or the fair market value at the date of donation, if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

**(h) Deferred Revenue**

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

**(i) Compensated Absences**

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

**(j) Grants Refundable**

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



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

considered 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 in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.
  - **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 have legislative or bond indenture requirements associated with their use or may be designated for use by management of the University. 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. University housing programs are a primary example of operations that have unrestricted net assets with designated uses.

### **(l) Classification of Revenues and Expenses**

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. 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 federal American Recovery and Reinvestment Act (ARRA) grants, net investment income, noncapital gifts, interest expense, and capital grants and gifts.

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

In fiscal year 2009, the State received Federal education grants that were passed on to school districts and the state's universities to restore state appropriations. The Governor had filed an application with the Federal government to receive California's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The Federal education grants have been



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

appropriated to the University by the State and reported separately as 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 service 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 University is an agency of the State and is treated as a governmental entity for tax purposes. As such, 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 net income from any unrelated trade or business. If there is a net income, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

**(o) New Accounting Pronouncements**

On July 1, 2008, the University adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. To provide governments with better accounting guidance and consistency, GASB Statement No. 49 identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The adoption of the statement did not have a material impact on the University's financial statements.

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

**(p) Eliminations**

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### **(q) Use of Estimates**

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

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

The University's cash, cash equivalents, and investments as of June 30, 2009 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 9,029,000
Restricted cash and cash equivalents	883,000
Total cash and cash equivalents	9,912,000
Short-term investments	1,976,372,000
Endowment investments	23,534,000
Other long-term investments	742,397,000
Total investments	2,742,303,000
Total cash and investments	\$ 2,752,215,000

### **(a) Cash and Cash Equivalents**

At June 30, 2009, cash and cash equivalents consisted of demand deposits held at the State Treasury and commercial banks, and petty cash. Total cash and cash equivalents of \$9,912,000 had a corresponding carrying balance with the State Treasury and commercial banks of \$4,622,000 at June 30, 2009. The difference was primarily related to deposits in transit and outstanding checks.

### **Custodial Credit Risk for Deposits**

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

### **(b) Investments**

At June 30, 2009, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2009

### **Investment Policy**

State law and regulations require that surplus monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, 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. 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 monitors 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, 2009 is presented in the following table.

### **Credit Risk**

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2009:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end						Not rated
			AAA	AA	A	BBB	BB	B	
Money market	\$ 87,752,000	—	\$ 76,751,000	—	3,584,000	—	—	—	7,417,000
Certificates of deposit	41,495,000	0.27	4,936,000	—	36,559,000	—	—	—	—
Cal Trust	17,474,000	0.52	11,269,000	1,318,000	4,473,000	237,000	—	—	177,000
U.S. agency securities	591,019,000	0.63	193,979,000	—	397,040,000	—	—	—	—
State of California Local									
Agency Investment Fund	35,000	0.64	—	—	—	—	—	—	35,000
State of California Surplus									
Money Investment Fund	1,263,241,000	0.64	—	—	—	—	—	—	1,263,241,000
Corporate and fixed income									
securities	619,803,000	1.88	312,099,000	100,886,000	164,045,000	32,123,000	148,000	157,000	10,345,000
U.S. Treasury securities	67,717,000	3.89	—	—	—	—	—	—	67,717,000
Municipal securities	515,000	6.76	—	—	515,000	—	—	—	—
Mortgage-backed securities	53,252,000	15.05	39,781,000	—	—	—	—	—	13,471,000
Total Investments	\$ <u>2,742,303,000</u>		\$ <u>638,815,000</u>	<u>102,204,000</u>	<u>606,216,000</u>	<u>32,360,000</u>	<u>148,000</u>	<u>157,000</u>	<u>1,362,403,000</u>

### Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2009, the following investments (excluding U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Freddie Mac notes (\$234,199,000 or 8.5%) and Fannie Mae notes (\$216,734,000 or 7.9%).

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### Discretely Presented Component Units Investments

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2009:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State of California Local Agency			
Investment Fund	\$ 196,258,000	8,905,000	205,163,000
US Bank SWIFT pool	21,786,000	—	21,786,000
Common Fund Short Term Fund	8,448,000	747,000	9,195,000
Common Fund others	5,427,000	68,783,000	74,210,000
Debt securities	171,000	80,008,000	80,179,000
Equity securities	27,546,000	140,824,000	168,370,000
Fixed income securities	19,583,000	104,732,000	124,315,000
Real estate	395,000	26,369,000	26,764,000
Certificates of deposit	43,731,000	14,853,000	58,584,000
Notes receivable	10,000	7,302,000	7,312,000
Money market fund	2,461,000	7,908,000	10,369,000
Mutual funds	45,729,000	349,499,000	395,228,000
Other	18,585,000	73,473,000	92,058,000
Total	<u>\$ 390,130,000</u>	<u>883,403,000</u>	<u>1,273,533,000</u>

Approximately \$11 million of the investments reported by the University in the statement of net assets at June 30, 2009 is invested under contractual agreements on behalf of the discretely presented component units of the University.

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

### (4) Accounts Receivable

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 1,006,000	804,610,000	805,616,000
Auxiliary organizations	50,873,000	15,799,000	66,672,000
Student accounts	38,333,000	62,000	38,395,000
Government grants and contracts	31,315,000	175,000	31,490,000
Other	39,022,000	1,661,000	40,683,000
	160,549,000	822,307,000	982,856,000
Less allowance for doubtful accounts	(20,737,000)	(792,000)	(21,529,000)
Total	<u>\$ 139,812,000</u>	<u>821,515,000</u>	<u>961,327,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### (5) Leases Receivable

The University has entered into 30-year capital lease agreements with certain auxiliary organizations to lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2003A, 2005A, 2005C, 2007A, 2007B, and 2008A were used to finance such facilities. Lease payments are due twice a year on May 1 and November 1.

Under the lease agreements, lease payments are due to the University as follows:

Fiscal year ending:	
2010	\$ 23,493,000
2011	23,667,000
2012	24,076,000
2013	27,663,000
2014	28,975,000
2015 – 2019	207,437,000
2020 – 2024	119,495,000
2025 – 2029	119,457,000
2030 – 2034	93,786,000
2035 – 2039	31,959,000
2040 – 2044	22,465,000
2045 – 2049	4,494,000
Total minimum lease payments to be received	726,967,000
Less amounts representing interest	(325,969,000)
Present value of future minimum lease payments to be received	400,998,000
Less current portion	(4,207,000)
Long-term lease receivable, net of current portion	\$ <u>396,791,000</u>

### (6) Notes Receivable

The University has entered into 14- to 30-year note agreements with certain auxiliary organizations to finance existing and newly constructed facilities for the auxiliary organizations. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2008A and 2009A were used to finance such facilities. Note payments are due twice a year, on May 1 and November 1.

**CALIFORNIA STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2009

Under the note agreements, note payments are due to the University as follows:

Fiscal year ending:	
2010	\$ 6,808,000
2011	20,990,000
2012	7,211,000
2013	7,311,000
2014	14,734,000
2015 – 2019	38,671,000
2020 – 2024	40,127,000
2025 – 2029	37,947,000
2030 – 2034	36,041,000
2035 – 2039	20,945,000
Total minimum note payments to be received	230,785,000
Less amounts representing interest	(96,499,000)
Present value of future minimum note payments to be received	134,286,000
Less current portion	(1,150,000)
Long-term notes receivable, net of current portion	\$ <u>133,136,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### (7) Capital Assets

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

	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land and land improvements	\$ 226,744,000	3,946,000	(21,000)	146,000	230,815,000
Works of art and historical treasures	21,660,000	486,000	(37,000)	1,499,000	23,608,000
Construction work in progress	1,262,976,000	757,502,000	(8,862,000)	(1,067,964,000)	943,652,000
Total nondepreciable capital assets	1,511,380,000	761,934,000	(8,920,000)	(1,066,319,000)	1,198,075,000
Depreciable capital assets:					
Buildings and building improvements	7,144,301,000	26,823,000	(110,829,000)	937,388,000	7,997,683,000
Improvements other than buildings	380,872,000	10,872,000	(509,000)	22,267,000	413,502,000
Infrastructure	730,736,000	43,322,000	(58,964,000)	77,525,000	792,619,000
Personal property:					
Equipment	596,717,000	52,723,000	(29,674,000)	6,220,000	625,986,000
Library books and materials	371,466,000	8,654,000	(9,557,000)	—	370,563,000
Intangible assets	253,076,000	10,073,000	(2,615,000)	22,919,000	283,453,000
Total depreciable capital assets	9,477,168,000	152,467,000	(212,148,000)	1,066,319,000	10,483,806,000
Total cost	10,988,548,000	914,401,000	(221,068,000)	—	11,681,881,000
Less accumulated depreciation:					
Buildings and building improvements	(2,999,239,000)	(204,801,000)	19,471,000	—	(3,184,569,000)
Improvements other than buildings	(290,174,000)	(14,204,000)	9,000	—	(304,369,000)
Infrastructure	(212,854,000)	(38,450,000)	5,661,000	—	(245,643,000)
Personal property:					
Equipment	(435,992,000)	(39,811,000)	26,997,000	—	(448,806,000)
Library books and materials	(313,192,000)	(11,293,000)	6,136,000	—	(318,349,000)
Intangible assets	(198,992,000)	(24,600,000)	2,379,000	—	(221,213,000)
Total accumulated depreciation	(4,450,443,000)	(333,159,000)	60,653,000	—	(4,722,949,000)
Net capital assets	\$ 6,538,105,000	581,242,000	(160,415,000)	—	6,958,932,000



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

Capital assets activity of the discretely presented component units of the University for the year ended June 30, 2009 consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable capital assets:					
Land and land improvements \$	83,526,000	382,000	(2,555,000)	191,000	81,544,000
Works of art and historical treasures	3,984,000	1,332,000	—	—	5,316,000
Construction work in progress	51,030,000	22,183,000	(8,995,000)	(18,625,000)	45,593,000
Total nondepreciable capital assets	138,540,000	23,897,000	(11,550,000)	(18,434,000)	132,453,000
Depreciable capital assets:					
Buildings and building improvements	617,776,000	111,120,000	(4,406,000)	12,330,000	736,820,000
Improvements other than buildings	84,968,000	12,389,000	(86,000)	2,995,000	100,266,000
Infrastructure	4,728,000	58,965,000	(532,000)	12,000	63,173,000
Personal property:					
Equipment	180,878,000	12,884,000	(9,206,000)	3,041,000	187,597,000
Intangible assets	4,732,000	6,058,000	(586,000)	56,000	10,260,000
Total depreciable capital assets	893,082,000	201,416,000	(14,816,000)	18,434,000	1,098,116,000
Total cost	1,031,622,000	225,313,000	(26,366,000)	—	1,230,569,000
Less accumulated depreciation:					
Buildings and building improvements	(135,547,000)	(33,567,000)	1,306,000	—	(167,808,000)
Improvements other than buildings	(39,403,000)	(5,033,000)	88,000	—	(44,348,000)
Infrastructure	(292,000)	(7,242,000)	2,000	—	(7,532,000)
Personal property:					
Equipment	(127,449,000)	(14,193,000)	7,611,000	—	(134,031,000)
Intangible assets	(1,922,000)	(463,000)	95,000	—	(2,290,000)
Total accumulated depreciation	(304,613,000)	(60,498,000)	9,102,000	—	(356,009,000)
Net capital assets \$	<u>727,009,000</u>	<u>164,815,000</u>	<u>(17,264,000)</u>	<u>—</u>	<u>874,560,000</u>

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### (8) Lease Obligations

The University is obligated under various capital and operating leases and installment purchase agreements for the acquisition of equipment and facility rentals. A substantial amount of the capital leases is a result of the University's participation with the State in the State Public Works Board (SPWB) Lease Revenue Bond program. The University has participated in this program since 1986 in connection with the construction of campus facilities and related equipment. Current California law permits SPWB to authorize the sale of bonds to construct certain state facilities if there is a revenue stream that can be pledged to repay the obligations. The process is described in brief as follows:

- The University and the State of California Department of Finance agree to the construction of one or more facilities to be funded by SPWB bonds. The projects are approved as part of the University's capital outlay budget.
- The SPWB approves the sale of bonds for the project(s) and the University agrees to execute certain legal documents in connection with the financing, including a site lease to the SPWB, a construction agreement to construct the facility for the SPWB, and a facility lease to lease the completed facility from the SPWB for annual rental payments.
- Prior to the execution of the facility lease, the University receives a short-term loan from the State of California Pooled Money Investment Board to provide working capital for initial phases of the construction and in some cases the construction.
- Generally, during the construction phase of the project, the bonds are sold by the SPWB, the construction loan is repaid, and site leases and facility leases are executed requiring semiannual lease payments, beginning upon completion of the facilities, by the Trustees that are used to pay principal and interest on the bonds.
- As part of the annual budget process, the State of California Department of Finance augments the University's operating budget to provide additional funds for the required lease payments.

The University also enters into capital leases with financial institutions and via commercial paper issued by the California State University Institute.

Overall capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency, and telecommunications equipment. Total assets related to capital leases have a carrying value of \$584,905,000 at June 30, 2009. The leases bear interest at rates ranging from 1.0% to 7.7% and have terms expiring in various years through 2034.

Operating leases consist primarily of leases for the use of real property. The University's operating leases expire in various fiscal years through 2099. The leases can be canceled if the State does not provide adequate funding. Some of these leases are with related auxiliary organizations for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended June 30, 2009 were \$25,408,000 of which \$12,469,000 was paid to related auxiliary organizations.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 2009 are as follows:

	<b>Capital leases</b>	<b>Operating leases</b>
Year ending June 30:		
2010	\$ 90,882,000	25,478,000
2011	81,882,000	15,542,000
2012	80,299,000	12,811,000
2013	78,425,000	9,649,000
2014	76,478,000	8,943,000
2015 – 2019	297,618,000	31,987,000
2020 – 2024	112,780,000	14,318,000
2025 – 2029	59,375,000	619,000
2030 – 2034	36,776,000	412,000
2035 – 2039	—	310,000
2040 – 2044	—	310,000
2045 – 2049	—	310,000
2050 – 2054	—	142,000
2055 – 2059	—	30,000
2060 – 2064	—	30,000
2065 – 2069	—	30,000
2070 – 2074	—	30,000
2075 – 2079	—	30,000
2080 – 2084	—	30,000
2085 – 2089	—	30,000
2090 – 2094	—	30,000
2095 – 2099	—	27,000
Total minimum lease payments	914,515,000	\$ <u>121,098,000</u>
Less amount representing interest	(256,544,000)	
Present value of future minimum lease payments	657,971,000	
Unamortized bond premium	7,613,000	
Unamortized loss on refundings	(1,894,000)	
Total capital lease obligation	663,690,000	
Less current portion	(59,347,000)	
Capital lease obligation, net of current portion	\$ <u>604,343,000</u>	

### (9) 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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

the University, the University of California, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the University by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the State related to the University projects is approximately \$2,424,162,000 as of June 30, 2009.

### **(b) Revenue Bond Programs**

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

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

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

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

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Board of 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 at the University. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the revenue-producing projects. The University's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$3,130,488,000 at June 30, 2009.

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

### **(c) Bond Anticipation Notes**

The Trustees have authorized the issuance of Revenue Bond Anticipation Notes (BANs) to provide short-term financing to the University System for certain projects. The BANs are issued to the California State University Institute, an auxiliary organization of the System, to secure the issuance of its commercial paper. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. Interest is variable and changes based upon the cost of the Institute's commercial paper program. The weighted average interest rate for the year ended June 30, 2009 was 1.05%. Amounts outstanding under the BANs totaled \$41,410,000 at June 30, 2009. The not-to-exceed amounts related to the outstanding amounts totaled \$56,520,000 of which \$11,356,000 has not been issued and \$3,754,000 has been issued and paid back.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

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

Description	Interest rate %	Final maturity date	Original issue amount	Amount outstanding
Systemwide Revenue Bonds, Housing Series J – Y	3.00	2012/13 – 2021/22	\$ 21,693,000	9,593,000
Systemwide Revenue Bonds, Series 2002A	4.00 – 5.50	2012/13 – 2033/34	174,750,000	154,200,000
Systemwide Revenue Bonds, Series 2003A	3.00 – 5.38	2033/34 – 2035/36	320,040,000	311,220,000
Systemwide Revenue Bonds, Series 2004A	2.50 – 5.25	2018/19 – 2034/35	158,010,000	139,805,000
Systemwide Revenue Bonds, Series 2005A	3.00 – 5.00	2013/14 – 2037/38	667,105,000	637,305,000
Systemwide Revenue Bonds, Series 2005B	5.00	2015/16 – 2021/22	134,805,000	105,975,000
Systemwide Revenue Bonds, Series 2005C	3.25 – 5.25	2017/18 – 2038/39	540,900,000	525,965,000
Systemwide Revenue Bonds, Series 2007A	4.00 – 5.00	2024/25 – 2044/45	254,770,000	253,195,000
Systemwide Revenue Bonds, Series 2007B	5.27 – 5.55	2027/28 – 2037/38	13,165,000	12,905,000
Systemwide Revenue Bonds, Series 2007C	5.00	2020/21 – 2028/29	63,275,000	61,455,000
Systemwide Revenue Bonds, Series 2007D	4.00 – 5.00	2037/38	80,360,000	78,795,000
Systemwide Revenue Bonds, Series 2008A	3.50 – 5.00	2022/23 – 2039/40	375,160,000	374,710,000
Systemwide Revenue Bonds, Series 2009A	2.50 – 6.00	2015/16 – 2040/41	465,365,000	465,365,000
			3,269,398,000	3,130,488,000
Bond Anticipation Notes (Note 9c)	Variable	2008/09 – 2011/12	45,164,000	41,410,000
Other	Variable	Various	132,921,000	99,274,000
Total			<u>\$ 3,447,483,000</u>	3,271,172,000
Unamortized bond premium/discount				45,028,000
Unamortized loss on refundings				(14,798,000)
Total long-term debt				3,301,402,000
Less current portion				(84,147,000)
Long-term debt, net of current portion				<u>\$ 3,217,255,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

Long-term debt principal and interest are payable and mature in the following fiscal years:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 84,147,000	159,252,000
2011	77,213,000	154,290,000
2012	73,741,000	151,709,000
2013	81,026,000	148,633,000
2014	86,098,000	145,113,000
2015 – 2019	480,699,000	659,809,000
2020 – 2024	563,608,000	531,200,000
2025 – 2029	619,320,000	383,821,000
2030 – 2034	670,040,000	217,032,000
2035 – 2039	453,885,000	71,246,000
2040 – 2044	77,000,000	6,332,000
2045 – 2049	4,395,000	99,000
	<u>\$ 3,271,172,000</u>	<u>2,628,536,000</u>

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

### (10) Advanced Refundings

#### *Prior Years Refundings*

In prior years, the University defeased certain Housing System Revenue Bonds Series AY, certain Student Union Revenue Bonds Series B and C, certain Systemwide Revenue Bonds Series 2003A, and certain CSUCI Financing Authority bonds (Revenue Bonds 2001 Series A) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A, 2005C, and 2007A 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. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The amount of prior years' defeased bonds outstanding as of June 30, 2009 totaled \$114,875,000.



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### (11) Long-Term Liabilities Activity

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

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Current portion</b>
Accrued compensated absences	\$ 193,151,000	133,446,000	(128,062,000)	198,535,000	113,356,000
Self-insurance claims liability (note 13)	103,997,000	17,019,000	(50,268,000)	70,748,000	17,875,000
Capitalized lease obligations (note 8)	660,257,000	76,679,000	(73,246,000)	663,690,000	59,347,000
Long-term debt obligations (note 9):					
Systemwide Revenue Bonds	2,706,828,000	465,365,000	(41,705,000)	3,130,488,000	46,415,000
Bond Anticipation Notes	37,352,000	130,982,000	(126,924,000)	41,410,000	27,119,000
Other	92,983,000	19,151,000	(12,860,000)	99,274,000	10,613,000
	2,837,163,000	615,498,000	(181,489,000)	3,271,172,000	84,147,000
Unamortized bond premium (discount)	59,877,000	(6,050,000)	(8,799,000)	45,028,000	—
Unamortized loss on refundings	(20,880,000)	(850,000)	6,932,000	(14,798,000)	—
Total long-term debt obligations	2,876,160,000	608,598,000	(183,356,000)	3,301,402,000	84,147,000
Total long-term liabilities	\$ 3,833,565,000	835,742,000	(434,932,000)	4,234,375,000	274,725,000

Long-term liabilities activity of the individual discretely presented component units of the University for the year ended June 30, 2009 was as follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Current portion</b>
Accrued compensated absences	\$ 16,551,000	8,253,000	(7,824,000)	16,980,000	13,849,000
Self-insurance claims liability	64,000	—	(49,000)	15,000	15,000
Capitalized lease obligations	231,156,000	147,927,000	(4,118,000)	374,965,000	4,000,000
Long-term debt obligations:					
Revenue bonds	289,898,000	15,135,000	(5,500,000)	299,533,000	10,376,000
Other bonds	2,146,000	—	(871,000)	1,275,000	910,000
Commercial paper	126,605,000	878,839,000	(879,736,000)	125,708,000	38,280,000
Other	106,282,000	108,311,000	(36,811,000)	177,782,000	40,097,000
	524,931,000	1,002,285,000	(922,918,000)	604,298,000	89,663,000
Unamortized bond premium (discount)	1,721,000	69,000	(307,000)	1,483,000	—
Unamortized loss on refundings	(5,612,000)	—	237,000	(5,375,000)	—
Total long-term debt obligations	521,040,000	1,002,354,000	(922,988,000)	600,406,000	89,663,000
Total long-term liabilities	\$ 768,811,000	1,158,534,000	(934,979,000)	992,366,000	107,527,000

For additional information regarding the long-term liabilities of the individual discretely presented component units of the University, refer to their separately issued financial statements.



# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### (12) 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 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 16.6% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2007	\$ 366,544,000
2008	392,557,000
2009	400,106,000

#### (b) *Postretirement Healthcare Plan*

The GASB has issued 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 the University employees, through the programs administered by the CalPERS. The State's substantive plan represents a substantive single-employer defined benefit OPEB Plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The

# **CALIFORNIA STATE UNIVERSITY**

## **Notes to Financial Statements**

June 30, 2009

University provides dental benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with 5 years of service credit.

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

The contribution requirements of retirees and the State are established and may be amended by the State legislature. For healthcare benefits, the State makes a contribution toward 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.

### **Funding Policy**

For healthcare benefits, responsibility for funding the cost of the employer share of premiums is apportioned between the State and the University 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 University reimburses the State for retiree's health benefit costs allocated to billable accounts but not for costs allocated to nonbillable accounts. The University 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 University.

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

The University is responsible for funding the cost of dental benefits for all University retirees. The University makes payments directly to Delta Dental for the retiree's monthly dental premiums. The University is funding these benefits on a pay-as-you-go basis.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC):	
Billable accounts	\$ 21,723,000
Nonbillable accounts (dental only)	26,733,000
Total ARC	<u>48,456,000</u>
Contributions:	
Billable accounts	(8,354,000)
Nonbillable accounts (dental only)	(13,612,000)
Total contributions	<u>(21,966,000)</u>
Increase in net OPEB obligation (NOO)	\$ <u>26,490,000</u>
NOO – beginning of year	\$ 29,088,000
NOO – end of year:	
Billable accounts	29,791,000
Nonbillable accounts (dental only)	25,787,000
Total NOO	\$ <u>55,578,000</u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2009	45%

### 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 a portion related to billable accounts is allocated to the University. Since the ARC allocated by the SCO does not provide a breakdown of the ARC for health and dental benefits separately, the ARC for the nonbillable accounts, which related only to dental benefits, was estimated based on dental contributions as a percentage of the total OPEB contributions.

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2008 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2009 and 8.50% in 2010, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

Funding progress information specifically related to the University'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 Report (CAFR) for the fiscal year ended 2009.

### (13) Self-Insurance Claims Liability

The University and certain auxiliary organizations have established a public entity risk pool, the CSURMA, a blended component unit of the University, to centrally manage 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, 2009. 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 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 a reasonable estimate at June 30, 2009.

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

Liability at June 30, 2007	\$ 108,192,000
Incurred claims and changes in estimates	28,487,000
Claim payments	(32,682,000)
Liability at June 30, 2008	103,997,000
Incurred claims and changes in estimates	17,019,000
Claim payments	(50,268,000)
Liability at June 30, 2009	70,748,000
Less current portion	(17,875,000)
Long-term liability at June 30, 2009, net of current portion	<u>\$ 52,873,000</u>

For the year ended June 30, 2009, the CSURMA purchased excess insurance to protect the Members from catastrophic losses. The CSURMA previously maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of \$2,500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF. The CSURMA remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. For the years ended June 30, 2009 and 2008, this assessment totaled \$19,914,000 and \$19,834,000, respectively.

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

For the year June 30, 2009, the CSURMA entered into a reinsurance contract with Insurance Company of the State of Pennsylvania (Reinsurer). This transaction reinsured the CSU's workers' compensation claims liability for claims incurred during the fiscal year 2008 – 2009 up to \$27,704,000. While sure losses are reinsured, the CSURMA will not be relieved of its primary obligations to the policyholder in this reinsurance transaction. The estimated amount that is recoverable from the Reinsurer and that reduces the liabilities as of June 30, 2009 for unpaid claims is \$15,421,000.

### (14) Commitments and Contingencies

The State is a defendant in multiple lawsuits involving University matters not covered by the risk pool discussed in note 13. An accrual has been made for certain liabilities considered probable of assertion. Management of the University is of the opinion that the remaining liability, if any, arising from litigation will not have a material effect on the financial position of the University.

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 reviews would not have a material effect on the financial position of the University.

Authorized but unexpended expenditures for construction projects as of June 30, 2009 totaled \$648,412,000. These expenditures will be funded primarily by State appropriations and bond proceeds.

### (15) Classification of Operating Expenses

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

	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:						
Instruction	\$ 1,485,877,000	519,891,000	—	148,933,000	—	2,154,701,000
Research	12,477,000	3,308,000	—	12,661,000	—	28,446,000
Public service	26,789,000	8,493,000	—	24,748,000	—	60,030,000
Academic support	327,794,000	124,040,000	—	142,882,000	—	594,716,000
Student services	332,542,000	129,126,000	—	116,721,000	—	578,389,000
Institutional support	350,021,000	142,604,000	—	128,035,000	—	620,660,000
Operation and maintenance of plant	205,255,000	97,279,000	—	216,624,000	—	519,158,000
Student grants and scholarships	—	—	584,491,000	—	—	584,491,000
Auxiliary enterprise expenses	62,307,000	36,574,000	—	146,082,000	—	244,963,000
Depreciation and amortization	—	—	—	—	333,159,000	333,159,000
Total	<u>\$ 2,803,062,000</u>	<u>1,061,315,000</u>	<u>584,491,000</u>	<u>936,686,000</u>	<u>333,159,000</u>	<u>5,718,713,000</u>

# CALIFORNIA STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2009

As discussed in note 2(m), the internal services activities between the University departments and the sales and service units have been eliminated in the accompanying financial statements. As a result, salaries and benefits of those internal services activities and sales and service units are reported as supplies and other services in the University departments, which received the services.

### **(16) Transactions with Related Entities**

The University is an agency of the State and receives about 42% of total revenues through state appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed through the Office of the California State Controller. State appropriations allocated to the University aggregated approximately \$2.4 billion for the year ended June 30, 2009. The state appropriation revenue, noncapital, included a refund to the State based on the latest revised State budget. The refund to the State is a retroactive reduction of the System's fiscal 2009 state appropriation revenue. The refund was \$715,500,000 and was recorded as a reduction in state appropriation revenue, noncapital, in the accompanying statement of revenues, expenses, and changes in net assets for the year ended June 30, 2009 and was included in accounts payable in the accompanying statement of net assets as of June 30, 2009. State appropriations receivable aggregated \$805,616,000 at June 30, 2009.

Moreover, the State recovers statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from the University. Central service agencies (e.g., Department of Finance, Office of the State Controller, State Personnel Board, and Legislature) provide budgeting, accounting, auditing, payroll, and other services to all state agencies. The State's pro rata process apportions the costs of providing central administrative services to all state departments that benefit from the services. This apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund. The amount allocated to each fund is classified as "billable" accounts or "nonbillable" accounts. Billable accounts (1) have special revenue sources such as fees, licenses, penalties, assessments, interest, etc. and (2) support a state department. By the end of fiscal year ended 2009, the University reimbursed the State a total of \$9.7 million for the billable accounts through pro rata allocations, mainly for the retiree's health benefit costs. The University did not reimburse the State for the nonbillable accounts.

### **(17) Subsequent Events**

The following BAN were issued:

- In September 2009, a \$27.4 million BAN was authorized for the construction of Recreation and Wellness Center at the East Bay campus. In October 2009, \$16.2 million of commercial paper was issued, leaving an unused BAN amount of \$11.2 million.
- In September 2009, a \$6.9 million BAN was authorized for the acquisition and renovation of the Dobbs Street Apartments at the Los Angeles campus. Commercial paper has not yet been issued for this project.
- In September 2009, a \$26.7 million BAN was authorized for the acquisition of Albert's College Apartment at the San Diego campus. In November 2009, \$25.3 million of commercial paper was issued, leaving an unused BAN amount of \$1.4 million.

## CALIFORNIA STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2009

- In November 2009, a \$49.8 million BAN was authorized for the construction of Student Recreation Center at the Northridge campus. Commercial paper has not yet been issued for this project.
- In November 2009, a \$80.8 million BAN was authorized for the construction of Recreation Center Expansion at the San Luis Obispo campus. In December 2009, \$9.3 million of commercial paper was issued, leaving an unused BAN amount of \$71.5 million.
- In November 2009, a \$6.0 million BAN was authorized for the construction of Public Safety Building at the San Marcos campus. Commercial paper has not yet been issued for this project.

In July 2009, the CSURMA entered into a reinsurance contract with AIU Holdings, Inc in the amount of \$18.5 million. This will reinsure the CSU's workers' compensation claims liability for claims incurred during fiscal year 2010. While such losses are reinsured, the CSURMA will not be relieved of its primary obligation to the policyholder in this reinsurance transaction.

The State will be deferring some payments to the CSU, \$290 million due in July 2009 was deferred until October 2009. It is anticipated that \$250 million due in February 2010 and \$150 million due in March 2010 will both be deferred until May 2010.

In August 2009, the CSU began furloughing all employees (with the exception of public safety personnel) two days per month. The furloughs will reduce up to \$273 million in expenditures, in fiscal year 2010.

In September 2009, \$3.4 million of commercial paper was issued by the California State University Institute, a California State University auxiliary, for equipment financing to the Dominguez Hills and Humboldt campuses.

In December 2009, \$2.5 million of commercial paper was issued by the California State University Institute, a California State University auxiliary, for equipment financing to the Humboldt and San Marcos campuses.

In December 2009, \$152 million in new capital lease obligations were issued for the J. Paul Leonard Library/Sutro Library project at the San Francisco campus.

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**APPENDIX C-2**  
**AUDITED FINANCIAL STATEMENTS**  
**OF THE CALIFORNIA STATE UNIVERSITY**  
**SYSTEMWIDE REVENUE BOND PROGRAM FUND**  
**AS OF JUNE 30, 2009**

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**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Financial Statements and  
Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

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

## **Independent Auditors' Report**

The Board of Trustees  
California State University:

We have audited the accompanying financial statements of the California State University Systemwide Revenue Bond Program Fund (bond issuances of the California State University) as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the California State University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 California State University Systemwide Revenue Bond Program Fund'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 provides a reasonable basis for our opinion.

The accompanying financial statements present only the financial position and the changes in financial position and cash flows of the California State University Systemwide Revenue Bond Program Fund and do not purport to, and do not, present fairly the financial position of the California State University as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State University Systemwide Revenue Bond Program Fund as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 5 to the financial statements, the cost of equipment, buildings, and improvements financed by the California State University Systemwide Revenue Bond Program Fund is not capitalized in this fund, as the constructed assets are not owned by the fund and are not pledged as security for the outstanding bonds, resulting in liabilities exceeding assets in the amount of \$2,340,192,110 at June 30, 2009. Certain future revenues are pledged to the retirement of the outstanding bonds.

The California State University has not presented the management's discussion and analysis that U.S. generally accepted accounting principles require to be supplemented, although not to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

December 11, 2009

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Net Assets (Deficit)

June 30, 2009

Assets:

Current assets:

Cash and cash equivalents	\$ 686,517
Short-term investments	702,576,810
Accounts receivable, net of allowance for doubtful accounts of \$4,295,369	17,150,154
Interest receivable	6,904,027
Bond issuance costs	28,006,329
Prepaid expenses	568,227
Other assets	<u>3,050</u>

Total current assets 755,895,114

Noncurrent assets:

Other long-term investments	<u>368,448,359</u>
-----------------------------	--------------------

Total assets 1,124,343,473

Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	67,673,976
Deferred revenue	62,286,347
Due to CSU Trust Fund	10,109,276
Due to CSU Operating Fund	2,845,560
Due to student union	937,671
Due to other CSU Funds	2,220,008
Loan payable to Affordable Student Housing – current portion	65,709
Loans payable – others	883,365
Revenue Bond Anticipation Notes interest payable	12,802
Interest payable	27,925,504
Revenue Bond Anticipation Notes payable	23,344,696
Revenue Bonds payable – current portion	49,556,889
Deposits	4,902,593
Other current liabilities	2,713,353
Arbitrage rebate payable	<u>1,872,887</u>

Total current liabilities 257,350,636

Noncurrent liabilities:

Loan payable to Affordable Student Housing, net of current portion	2,060,213
Other long term liabilities	22,176
Other postemployment benefits liability	25,796,279
Revenue Bond Anticipation Notes payable, net of current portion	18,047,433
Revenue Bonds payable, net of current portion	<u>3,161,258,846</u>

Total liabilities 3,464,535,583

Net assets (deficit):

Restricted for:

Building maintenance and repair	38,239,390
Capital projects	330,208,969

Unrestricted (2,708,640,469)

Total net deficit \$ (2,340,192,110)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended June 30, 2009

Operating revenues:	
Residence and dining halls fees	\$ 232,623,317
Continuing education fees	165,162,726
Student union fees	113,001,254
Parking fees	85,257,900
Health facility fees	6,805,000
Auxiliary lease revenue	5,740,000
Recreation center fees	1,501,963
Other operating revenues	10,962,237
	<hr/>
Total operating revenues	621,054,397
	<hr/>
Operating expenses:	
Salaries, wages, and benefits	199,652,276
Construction	444,874,083
Repair and replacement	32,243,991
Supplies and services	44,049,794
General and administrative	25,103,278
Utilities and communications	24,106,190
Contractual services	25,864,705
Printing	3,003,936
Travel	4,081,227
Equipment	2,362,729
Postage and freight	1,163,299
Information technology	5,718,034
Arbitrage rebate	(451,769)
Other operating costs	24,829,824
Interest on Affordable Student Housing Loan	141,853
Interest on Revenue Bond Anticipation Notes	1,002,626
Interest on bonds payable	132,591,477
	<hr/>
Total operating expenses	970,337,553
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Operating loss	(349,283,156)
	<hr/>
Nonoperating revenues:	
Investment income, net	22,313,923
Other lease income	24,727,771
	<hr/>
Total nonoperating revenues	47,041,694
	<hr/>
Loss before transfers	(302,241,462)
	<hr/>
Transfer to other funds, net	(90,909,125)
	<hr/>
Increase in net deficit	(393,150,587)
	<hr/>
Net deficit:	
Net deficit – beginning of year	(1,947,041,523)
	<hr/>
Net deficit – end of year	\$ (2,340,192,110)
	<hr/> <hr/>

See accompanying notes to financial statements.



**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Residence and dining hall fees	\$ 235,963,222
Continuing education fees	166,121,551
Student union fees	114,561,817
Parking fees	84,488,542
Health facility fees	7,143,335
Auxiliary lease revenue	5,841,667
Recreation center fees	1,514,934
Other operating revenues	10,962,237
Salaries, wages, and benefits	(199,652,276)
Construction costs	(420,202,550)
Financial aid	(22,500)
Advertising and promotional publications	(69,434)
Repair and replacement costs	(30,620,531)
Supplies and services	(44,049,794)
General and administrative costs	9,058,463
Utilities and communications	(24,106,190)
Contractual services	(25,864,705)
Printing	(3,003,936)
Travel	(4,081,227)
Library acquisitions	(285,428)
Equipment	(2,362,729)
Postage and freight	(1,163,299)
Information technology	(5,718,034)
Other operating costs	(22,714,172)
Arbitrage expense	(282,100)
Interest paid	(133,013,469)
Net cash used in operating activities	<u>(281,556,606)</u>
Cash flows from noncapital financing activities:	
Deposits	535,268
Transfer to other CSU funds, net	(36,378,920)
Transfer to campus student unions	(53,592,534)
Net cash used in noncapital financing activities	<u>(89,436,186)</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of Revenue Bonds and Revenue Bond Anticipation Notes	597,661,047
Bond issuance costs paid from bond proceeds	(3,204,462)
Retirement of indebtedness	(173,287,205)
Net cash provided by capital and related financing activities	<u>421,169,380</u>
Cash flows from investing activities:	
Proceeds from the sale and maturities of investments	2,628,304,840
Purchases of investments	(2,727,419,552)
Interest received	48,686,338
Net cash used in investing activities	<u>(50,428,374)</u>
Net decrease in cash and cash equivalents	(251,786)
Cash and cash equivalents at beginning of year	<u>938,303</u>
Cash and cash equivalents at end of year	<u>\$ 686,517</u>

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Cash Flows

Year ended June 30, 2009

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (349,283,156)
Amortization of bond issuance costs	952,712
Amortization of bond premium/discount	(3,254,038)
Changes in assets and liabilities:	
Accounts receivable	3,702,799
Due from/to other CSU funds	5,439,929
Due from/to other governments	(4,236,992)
Due from/to CSU Operating Fund	2,901,729
Other assets	462,223
Prepaid expenses	(375,157)
Accounts payable and accrued liabilities	33,423,859
Deferred revenue	1,840,109
Due from/to CSU Trust Fund	478,800
Due from/to other appropriations	(1,414,700)
Revenue Bond Anticipation Notes interest payable	4,479
Arbitrage rebate payable	(733,869)
Loans payable – others	276,911
Interest payable	4,492,976
Other liabilities	23,764,780
Total adjustments	67,726,550
Net cash used in operating activities	\$ (281,556,606)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(1) Summary of Significant Accounting Policies**

**(a) *Description of the Program***

Beginning in May 1980, the Board of Trustees, for the benefit of the California State University Housing System, issued bonds to finance the construction, repair, and maintenance of student housing facilities. The Systemwide Revenue Bond Program Fund (the Program), formerly the Housing Revenue Bond program, was approved by the Board of Trustees in April 2003 concurrent with the issuance of the Systemwide Revenue Bonds, Series 2003A. The 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 at campuses within the system. Rather than relying on specific pledged revenues to support specific debt obligations, the Program pools several sources of revenue as the pledge for the related revenue producing projects.

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

The accompanying financial statements of the Program, which include the Systemwide Revenue Bonds Series J to Y, the Systemwide Revenue Bonds Series 2002A, 2003A, 2004A, 2005A, 2005B, 2005C, 2007A, 2007B, 2007C, 2007D, 2008A, and 2009A (Systemwide), and the Revenue Bond Anticipation Notes, have been prepared under the standards promulgated by the Governmental Accounting Standards Board (GASB) using the accrual basis of accounting and economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The financial statements required by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, include a statement of net assets (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows. The Program is considered a special-purpose government under the provisions of GASB Statement No. 35. The Program records revenue primarily from fees collected from students 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 Program to be reported in a single column in each of the financial statements. In accordance with the business-type activities reporting model, the Program prepares its statement of cash flows using the direct method.

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

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

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

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

The Program 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 (deficit) date. Liabilities that reasonably can be expected, as part of the Program's normal business operations, to be liquidated within 12 months of the statement of net assets (deficit) date are considered to be current. All other assets and liabilities are considered to be noncurrent.

**(e) *Bond Issuance Costs***

Bond issuance costs are capitalized and amortized on a straight-line basis over the life of the bonds.

**(f) *Deferred Revenue***

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

**(g) *Accounts Payable and Accrued Liabilities***

Accounts payable and accrued liabilities consist primarily of amounts owed to third-party vendors for goods purchased and services performed in the construction and operations of the facilities of the pledged programs.

**(h) *Net Assets (Deficit)***

The Program's net assets (deficit) are classified into the following net asset categories:

**Restricted** – Net assets subject to restriction based on the bond indenture document for such requirements such as future maintenance and repair of the constructed facilities, and the capital projects for which the bond was issued.

**Unrestricted** – All other categories of net assets. In addition, unrestricted net assets may be designated for use by the Program or have legislature 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. The Program's net deficit is a result of the constructed asset costs recorded by the Program as construction expenses, whereas the asset is capitalized by the individual campus.

The Program has adopted a policy of utilizing restricted funds, when available, prior to unrestricted funds.

**(i) *Statement of Cash Flows***

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

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(j) Revenue Sources**

Revenues pledged under the Program include student residence and dining halls fees, continuing education fees, student union fees, parking fees, health facility fees, and auxiliary organization lease revenues derived from the projects designated by the trustees of the California State University (CSU) for inclusion in the Program. These projects are located at all 23 campuses of the CSU system and the Chancellor's Office.

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

The student union program provides facilities and programs aimed at creating and enhancing learning experiences outside the classroom by promoting interaction among students, faculty, and staff. The student union program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. After payment of all authorized charges, the balances of these funds are available for transfer to the campus auxiliary organization that has contracted with the University to operate the facility. The operating entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income. Student union fees, which are collected at 22 of the 23 campuses of the CSU system, ranged from \$42 to \$408 per student for the year ended June 30, 2009.

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for construction, repair and maintenance, and 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 health facilities program provides facilities on campus to provide health services to students. The health facilities program derives its revenues primarily from student fees and interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs. Health facility fees are charged at 22 of the 23 campuses of the CSU system, 14 of the campuses charged fees of \$6, and at the remaining 8 campuses, fees ranged from \$8 to \$50 during the fiscal year ended June 30, 2009.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

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

The Systemwide Revenue Bonds are payable solely from continuing education, health facilities, housing, parking and student union, and designated auxiliary net income available for debt service. The Program has pledged future continuing education, health facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,269,398,000 in System Revenue Bonds issued in 1980 through 1984 for old housing bonds and 2002 through 2009 for Systemwide Revenue Bonds. Proceeds from the bonds provided financing for the construction of the continuing education, health facilities, housing, parking, student union, and auxiliary projects. The bonds are payable solely from continuing education, health facilities, housing, parking and student union, and designated auxiliary net income available for debt service and are payable through 2044/2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the Program is \$5,730,812,770. In fiscal year 2009, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the Program were \$172,972,000 and \$199,426,000, respectively.

***(k) Classification of Revenues and Expenses***

The Program considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets (deficit) to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Program's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 35. These nonoperating activities primarily include the Program's net investment income, other lease income, and transfers.

***(l) Transfers to Other Funds, Net***

The Program records transfers to other funds primarily to support the operations of the programs discussed in note 1(j).

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(m) Fiscal Year, Principal, and Interest Payment Dates**

The end of the fiscal year of the Program is specified in the bond resolution as June 30. Interest ranging from 2.50% to 6.00% on the bonds is paid semiannually on May 1 and November 1. The principal payments are made on November 1 of each year with the final payment due November 1, 2045.

**(n) 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.

**(o) 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 investments.

**(2) Cash and Investments**

The deposits of the Program that are maintained at financial institutions are fully insured or collateralized as required by state law. At June 30, 2009, the Program's cash balance consisted of demand deposits held at financial institutions, at the State Treasury, and petty cash. Cash and cash held at the State Treasury had a carrying value of \$686,517 at June 30, 2009.

At June 30, 2009, the Program's cash and investments are as follows:

Cash (deposits and petty cash)	\$	583,102
Cash held in State Treasury		103,415
State of California Surplus Money		
Investment Fund		505,809,528
California State University Investment Pool		565,215,641
		<hr/>
Total cash and investments	\$	<u>1,071,711,686</u>



**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(a) Investments**

At June 30, 2009, the Program's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool, an internal investment pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

**Investment Policy**

State law and regulations require that surplus moneys of the Program must be invested. The primary objective of the Program's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Program. The third objective is to return an acceptable yield. The Program'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 Program'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 any investment. Generally, the longer the maturity of any investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Program 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 Program monitors 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 callable investments will not be called. The weighted average maturity of the Program's investment portfolio for each investment type as of June 30, 2009 is presented in the table on the following page.

**Credit Risk**

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



**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the Program's investment portfolio as of June 30, 2009:

Investment type	Fair value	Weighted average maturity (in years)	AAA	Aa	A	BBB	Not rated
Money market	\$ 26,752,913	—	\$ 26,752,913	—	—	—	—
Commercial paper	—	—	—	—	—	—	—
Certificates of deposit	17,474,648	0.27	2,078,547	—	15,396,101	—	—
U.S. agency securities	242,508,764	0.56	75,308,041	—	167,205,723	—	—
U.S. Treasury Securities	13,660,917	0.64	—	—	—	—	13,660,917
Corporate and fixed income securities	248,065,242	1.60	128,788,446	40,946,743	61,352,617	12,823,183	4,154,253
Mortgage-backed securities	16,753,158	10.85	16,753,158	—	—	—	—
State of California Surplus Money Investment Fund	505,809,528	0.64	—	—	—	—	505,809,528
Total	\$ 1,071,025,170		\$ 249,676,105	40,946,743	243,954,441	12,823,183	523,624,698

**Concentration of Credit Risk**

The Program's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2009, the following investments represented 5% or more of the Program's investment portfolio: Freddie Mac notes (\$91,016,309 or 8.5%) and Fannie Mae notes (\$85,957,690 or 8.0%).

**Risks and Uncertainties**

The Program 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 statements of financial position.

The Program 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 of defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(3) Bonds Payable**

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

<u>Description</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds, Housing Series J-Y	3.00%	2012/13 – 2021/22	\$ 21,693,000	9,593,000
Systemwide Revenue Bonds, Series 2002A	4.00% – 5.50%	2012/13 – 2033/34	174,750,000	154,200,000
Systemwide Revenue Bonds, Series 2003A	3.00% – 5.38%	2033/34 – 2035/36	320,040,000	311,220,000
Systemwide Revenue Bonds, Series 2004A	2.50% – 5.25%	2018/19 – 2034/35	158,010,000	139,805,000
Systemwide Revenue Bonds, Series 2005A	3.00% – 5.00%	2013/14 – 2037/38	667,105,000	637,305,000
Systemwide Revenue Bonds, Series 2005B	5.00%	2015/16 – 2021/22	134,805,000	105,975,000
Systemwide Revenue Bonds, Series 2005C	3.25% – 5.25%	2017/18 – 2038/39	540,900,000	525,965,000
Systemwide Revenue Bonds, Series 2007A	4.00% – 5.00%	2024/25 – 2044/45	254,770,000	253,195,000
Systemwide Revenue Bonds, Series 2007B	5.27% – 5.55%	2027/28 – 2037/38	13,165,000	12,905,000
Systemwide Revenue Bonds, Series 2007C	5.00%	2020/21 – 2028/29	63,275,000	61,455,000
Systemwide Revenue Bonds, Series 2007D	4.00% – 5.00%	2037/38	80,360,000	78,795,000
Systemwide Revenue Bonds, Series 2008A	3.50% – 5.00%	2022/23 – 2039/40	375,160,000	374,710,000
Systemwide Revenue Bonds, Series 2009A	2.50% – 6.00%	2015/16 – 2040/41	<u>465,365,000</u>	<u>465,365,000</u>
Total bonds payable			<u>\$ 3,269,398,000</u>	3,130,488,000
Less current portion				<u>(46,415,000)</u>
Bonds payable, net of current portion				<u>\$ 3,084,073,000</u>

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

Bonds payable activity for the year ended June 30, 2009 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Bonds payable	\$ 2,706,828,000	465,365,000	(41,705,000)	3,130,488,000	46,415,000
Discount on bonds	(1,484,193)	(3,983,365)	100,128	(5,367,430)	(191,165)
Premium on bonds	88,330,541	718,790	(3,354,166)	85,695,165	3,333,054
	<u>\$ 2,793,674,348</u>	<u>462,100,425</u>	<u>(44,959,038)</u>	<u>3,210,815,735</u>	<u>49,556,889</u>

Bonds payable at June 30, 2009 mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2010	\$ 46,415,000	154,955,725
2011	52,790,000	150,572,338
2012	63,370,000	148,282,912
2013	71,605,000	145,632,386
2014	77,990,000	142,384,715
2015 – 2019	449,710,000	651,996,039
2020 – 2024	545,348,000	528,398,918
2025 – 2029	617,940,000	383,421,431
2030 – 2034	670,040,000	217,003,343
2035 – 2039	453,885,000	71,245,987
2040 – 2044	77,000,000	6,332,088
2045	4,395,000	98,888
	<u>\$ 3,130,488,000</u>	<u>2,600,324,770</u>

As specified in the bond resolution, the bonds payable at June 30, 2009 are secured by the future revenue streams rather than by the constructed assets. Additionally, the bonds are subject to special mandatory redemption prior to their respective maturity dates, in whole or in part, at a redemption price equal to the principal amount, and accrued interest to the redemption date, plus a premium as specified in the bond resolution.

In April 2003, concurrent with the issuance of the Systemwide Revenue Bonds Series 2003A, the Board of Trustees completed the conversion of the old Housing System Revenue Bonds into the Systemwide Revenue Bond Program. The Systemwide Revenue Bonds are secured by the Program's gross revenues. Also, upon the conversion, excess revenues from campus student union fees were pledged to the Systemwide Revenue Bond Program.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(4) Revenue Bond Anticipation Notes Payable**

The CSU Board of Trustees has authorized the issuance of Revenue Bond Anticipation Notes (BANs) to provide short-term financing to the System for certain projects. The BANs are issued to the CSU Institute, an auxiliary organization of the System, to secure the issuance of commercial paper (CP) by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. Interest is variable and changes based upon the cost of the Institute's commercial paper program. The commercial paper interest rate is determined by the commercial paper dealer at each issuance of the commercial paper. The maximum and minimum weighted average interest rates for the year ended June 30, 2009 were 1.71% and 0.34%, respectively.

Short-term financing activity for the year ended June 30, 2009 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue Bond Anticipation Notes \$	37,352,000	136,578,030	(132,537,901)	41,392,129	23,344,696

**(5) Buildings, Improvements, Equipment, and Construction in Progress**

The original capitalized cost of buildings, improvements, and equipment, during construction and upon completion of construction, is recorded by the CSU. As the constructed assets are not owned by the Program and do not act as security for the Systemwide Revenue Bond Program debt, construction costs are recorded as expenses in the accompanying statement of revenues, expenses, and changes in net assets (deficit).

**(6) Affordable Student Housing Loan**

At June 30, 2009, the Program had an outstanding loan from the Affordable Student Housing Program bearing interest at rates ranging from 6.33% to 6.80%. The loan is to be repaid over a 40-year period, primarily from future residence and dining hall revenues and interest earned thereon.

Affordable Student Housing Loan activity for the year ended June 30, 2009 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Affordable Student Housing Loan \$	2,187,633	—	(61,711)	2,125,922	65,709

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

Payments on the Affordable Student Housing Loan are scheduled as follows:

	<u>Principal amount</u>
Fiscal years:	
2010	\$ 65,709
2011	69,967
2012	74,502
2013	79,329
2014	84,471
2015 – 2019	511,946
2020 – 2024	700,883
2025 – 2027	<u>539,115</u>
	2,125,922
Less current portion	<u>(65,709)</u>
	<u>\$ 2,060,213</u>

**(7) Advanced Refundings**

In April 2005, the Program defeased certain Housing Revenue Bond Series AY (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The net proceeds from the Series 2005A refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matures. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The total amount of refunded bonds outstanding as of June 30, 2009 totaled \$34,360,000.

On October 12, 2005, the Program issued \$540,900,000 in Systemwide Revenue Bonds Series 2005C. Of this amount, \$398,220,000 was to fund new construction projects allowed under the Bond Indenture. The Program issued \$142,680,000 in Systemwide Revenue Bonds Series 2005C refunding certain Housing Revenue Bond Series AZ, and Systemwide Revenue Bonds Series 2003A (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 net proceeds from the Series 2005C refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matures. Accordingly, the refunded bonds were considered defeased and have been removed as a liability from the accompanying financial statements. The amount of the defeased bonds outstanding as of June 30, 2009 totaled \$11,385,000.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(8) Other Postemployment Benefits (OPEB)**

The Program has adopted GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, relating to Other Postemployment Benefits (OPEB). 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.

**(a) Plan Description**

The State of California provides retiree healthcare benefits to statewide employees, including employees of the California State University, (the University), through the programs administered by the California Public Employees' Retirement System (CalPERS). The State's substantive plan represents a substantive single-employer defined benefit OPEB Plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The University provides dental benefits to eligible University 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 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.

**(b) Funding Policy**

For healthcare benefits, responsibility for funding the cost of the employer share of premiums is apportioned between the State and the University 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 University reimburses the State for retiree's health benefit costs allocated to billable accounts but not for costs allocated to nonbillable accounts. The University 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 University.

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

The University is responsible for funding the cost of dental benefits for all University retirees. The University makes payments directly to Delta Dental for the retiree's monthly dental premiums. The University is funding these benefits on a pay-as-you-go basis.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

**(c) Annual OPEB Cost and Net OPEB Obligation for the Program**

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

ARC:	
Housing	\$ 7,345,000
Student union	43,000
Parking	2,850,000
Continuing education	8,152,000
Auxiliary organizations	25,000
Total ARC	<u>18,415,000</u>
Contributions:	
Housing	(2,828,000)
Student union	(17,000)
Parking	(1,097,000)
Continuing education	(3,137,000)
Auxiliary organizations	(10,000)
Total contributions	<u>(7,089,000)</u>
Increase in NOO	11,326,000
NOO – beginning of year	<u>14,470,000</u>
NOO – end of year	<u><u>\$ 25,796,000</u></u>

**(d) Actuarial Methods and Assumptions and Plan Funding Information**

As an agency of the State, the CSU and the Program were 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 a portion related to billable accounts is allocated to the University. Since the ARC allocated by the SCO does not provide a breakdown of the ARC for health and dental benefits separately, the ARC for the nonbillable accounts, which related only to dental benefits, was estimated based on the percentage of dental contributions compared to the total OPEB contributions.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Notes to Financial Statements

June 30, 2009

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2008 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2009 and 8.50% in 2010, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the Program'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 Report (CAFR) for the fiscal year ended 2009.

**(9) Subsequent Events**

In September 2009, a \$27.4 million BAN was authorized for the construction of a Recreation and Wellness Center at the East Bay campus. In October 2009, \$16.2 million of commercial paper was issued, leaving an unissued amount of \$11.2 million.

In September 2009, a \$6.9 million BAN was authorized for the acquisition and renovation of the Dobbs Street Apartments at the Los Angeles campus. Commercial paper has not yet been issued for this project.

In September 2009, a \$26.7 million BAN was authorized for the acquisition of Albert's College Apartment at the San Diego campus. In November 2009, \$25.3 million of commercial paper was issued, leaving an unissued amount of \$1.4 million.

In November 2009, a \$49.8 million BAN was authorized for the construction of a Student Recreation Center at the Northridge campus. Commercial paper has not yet been issued for this project.

In November 2009, a \$80.8 million BAN was authorized for the expansion of the Recreation Center at the San Luis Obispo campus. In December 2009, \$9.3 million of commercial paper was issued, leaving an unissued amount of \$71.5 million.

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



**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Residence and Dining Halls Operating Data by Campus

Year ended June 30, 2009

(Unaudited)

	Operating and other revenue	Operating expenditures	Excess (deficiency) of revenue over (under) expenditures	Design capacity	Operational capacity (1)	Average number of spaces occupied	Percentage of spaces occupied	Average annual rates per academic year (2)					
								Residence halls			Apartments		
								Single	Double	Suite	Single	Double	Suite
CSU, Bakersfield	\$ 1,762,230	1,682,909	79,321	348	296	297	100%	\$ 3,426	2,866	—	—	—	—
CSU, Channel Islands	6,409,186	2,094,174	4,315,012	820	800	777	97	8,000	7,450	—	8,600	—	—
CSU, Chico	12,586,614	9,334,310	3,252,304	1,737	1,954	1,865	95	7,286	6,536	—	6,404	6,272	—
CSU, Dominguez Hills	2,710,798	2,501,040	209,758	712	580	569	98	—	—	—	7,260	6,210	—
CSU, East Bay	6,556,897	2,383,219	4,173,678	1,286	1,286	1,187	92	—	—	—	7,518	5,233	6,282
CSU, Fresno	—	—	—	—	—	—	—	—	—	—	—	—	—
CSU, Fullerton	5,406,697	1,622,483	3,784,214	832	821	814	99	—	—	—	7,375	5,498	—
Humboldt State University	8,740,172	6,492,905	2,247,267	1,594	1,621	1,601	99	5,530	4,467	—	5,655	4,569	—
CSU, Long Beach	10,788,711	6,404,105	4,384,606	1,962	1,962	1,944	99	5,920	4,928	—	—	—	—
CSU, Los Angeles	4,992,061	2,463,609	2,528,452	1,008	977	872	89	—	—	—	—	5,118	—
Maritime	2,089,538	932,468	1,157,070	459	504	486	96	5,030	4,200	—	—	—	—
CSU, Northridge	15,503,963	8,536,737	6,967,226	3,019	2,468	2,434	99	8,680	5,119	—	7,578	4,973	—
CSPU, Pomona	11,413,262	6,538,923	4,874,339	1,616	1,856	1,708	92	7,908	5,580	—	7,434	6,144	9,054
CSU, Sacramento	6,738,718	6,398,463	340,255	1,066	1,044	976	93	6,726	6,356	6,956	—	—	—
CSU, San Bernardino	8,614,644	4,134,828	4,479,816	1,553	1,470	1,249	85	5,373	4,311	—	6,606	—	7,281
San Diego State University	24,845,663	17,116,450	7,729,213	3,100	2,864	2,480	87	5,688	5,688	9,816	6,688	—	—
San Francisco State University (3)	36,349,250	21,678,472	14,670,778	2,425	2,409	2,383	99	—	6,908	—	9,842	8,750	—
San Jose State University	21,559,788	14,474,654	7,085,134	3,470	3,566	3,407	96	5,563	5,658	—	10,497	8,580	—
CPSU, San Luis Obispo	28,482,714	19,349,153	9,133,561	5,110	5,293	5,241	99	7,836	5,218	—	6,025	—	—
Sonoma State University	16,258,296	7,894,707	8,363,589	2,459	2,451	2,303	94	6,914	5,262	—	8,158	6,219	—
CSU, Stanislaus	3,993,391	2,327,966	1,665,425	460	475	444	93	6,426	5,036	—	7,054	—	—
	<u>235,802,592</u>	<u>144,361,575</u>	<u>91,441,017</u>	<u>35,036</u>	<u>34,697</u>	<u>33,037</u>	<u>95%</u>	<u>\$ 6,420</u>	<u>5,349</u>	<u>8,386</u>	<u>7,513</u>	<u>6,142</u>	<u>7,539</u>
Systemwide offices	—	(118,029)	118,029										
Interest income	3,987,457	—	3,987,457										
Total	<u>\$ 239,790,049</u>	<u>144,243,545</u>	<u>95,546,504</u>										

(1) This column reflects capacity adjusted for increase or decrease in permanent conversions and temporary adjustments.

(2) This section primarily reflects an average of the more traditional rates to students. Each campus has different rates depending on accommodation, such as super doubles, cluster occupancy, etc.

(3) The operational capacity does not include 902 apartment units available to students, faculty, and staff. The annual rates for the one-bedroom, two-bedroom, or three-bedroom units (not bed-spaces) vary between \$1,275 and \$3,150.

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Statement of Insurance Coverage

June 30, 2009

(Unaudited)

<u>Expiration date</u>	<u>Coverage</u>	<u>Amount</u>	<u>Company</u>	<u>Policy number</u>
July 1, 2009*	CSU Master Property Policy, "All Risk" Building, Equipment, and Rental Income	\$ 1,000,000,000 per occurrence	California Public Entity Insurance Program	PPROP0809
July 1, 2009*	CSU Master Property Policy, Boiler and Machinery	100,000,000	Hartford	PBOILER0809
July 1, 2009*	Bodily Injury and Property Damage Liability (Primary)	3,000,000 per occurrence	CSURMA	RMA-SYST-0809-1
July 1, 2009*	Bodily Injury and Property Damage Liability (Excess)	5,000,000	Everest National	71P2040000-081
July 1, 2009*	Bodily Injury and Property Damage Liability (Excess)	10,000,000	SELF Pool	19J1247

\* Additional insurance policies are maintained for the period from July 1, 2009 to June 30, 2010. These policies provide the same coverage indicated above.

See accompanying independent auditor's report.

**CALIFORNIA STATE UNIVERSITY  
SYSTEMWIDE REVENUE BOND PROGRAM FUND**

Income and Expenses Pledged Against Systemwide Revenue Bonds

Year ended June 30, 2009

(Unaudited)

Gross revenues (1):	
Housing system	\$ 239,780,749
Student unions (2)	116,262,622
Parking (3)	87,731,985
Health centers (2)	7,583,375
Continuing education	172,414,922
Auxiliary (4)	414,443,016
Related governmental entities (5)	12,011,771
Total gross revenues	<u>\$ 1,050,228,440</u>
Debt service:	
Auxiliary – other (6)	\$ 11,217,398
Systemwide Revenue Bonds (7)	139,817,637
Total debt service	<u>\$ 151,035,035</u>
Operating expenditures (8) (10):	
Housing system	\$ 163,421,315
Student unions	54,530,405
Parking	55,495,237
Health centers (9)	5,573,552
Continuing education	157,339,013
Auxiliary (4)	373,930,210
Related governmental entities	—
Total operating expenditures	<u>\$ 810,289,732</u>

- (1) Includes interest income.
- (2) Gross Revenues shown here are derived solely from certain mandatory student fees – not revenues derived from operations of student unions or student health centers.
- (3) Excludes fines and forfeitures collected separately from parking fees.
- (4) Revenues and expenditures shown are for those auxiliary organizations that have financed with Systemwide Revenue Bonds through a lease or loan and exclude research grant and contract activity and restricted gifts. Gross Revenues pledged under the Bond Indenture are a smaller amount derived from payments under certain leases or loans with the Board.
- (5) Includes revenues derived from leases with California State University, Channel Islands Site Authority, and the Headquarters Building Authority, which are used solely to pay debt service on Systemwide Revenue Bonds. therefore, operating expenditures are not applicable.
- (6) Since June 30, 2004, certain auxiliary organizations have participated in financing and refinancing facilities through the Systemwide Revenue Bond program. Debt service noted includes outstanding auxiliary organization debt that is not part of the Systemwide Revenue Bond program.
- (7) Debt service shown excludes interest, which has been funded from bond proceeds.
- (8) Operating expenditures also include extraordinary maintenance and repair projects, and other postemployment benefit liability, which are generally paid from existing program fund balances.
- (9) Operating expenditures shown here are only such expenditures that are paid from certain mandatory student fees shown under total gross revenue.
- (10) GASB Statement No. 45, which requires the accrual of costs related to other postemployment benefits were included in operating expenses in the cumulative amount of \$25,796,279 for the fiscal year ended June 30, 2009.

See accompanying independent auditors' report.

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## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

*The following is a brief summary of certain provisions contained in the Indenture and is not to be considered as a full statement thereof. Reference is made to the Indenture for full details of the terms of the Systemwide Revenue Bonds, the application of Gross Revenues and the security provisions.*

#### **CERTAIN DEFINED TERMS**

The terms defined below are among those used in the Indenture. The definitions set forth below are intended to generally restate the corresponding definitions in the Indenture unless the context hereof requires otherwise. Because of these contextual variations, the definitions set forth below are not necessarily either definitive or comprehensive for purposes of interpreting the Indenture and are therefore qualified in their entirety by reference to the Indenture for such purposes.

“Act” means The State University Revenue Bond Act of 1947, codified at California Education Code Sections 90010 and following, as in force on the date of the initial execution and delivery of the Indenture and as it may thereafter be amended from time to time.

“Additional Bonds” means Bonds issued pursuant to a Supplemental Indenture.

“Aggregate Debt Service” means, as of any date of calculation and with respect to any period, the sum of amounts of Debt Service for the Indebtedness specified herein for such period.

“Balloon Indebtedness” means Indebtedness or Designated Auxiliary Debt having an original maturity greater than one year or renewable at the option of the Board for a period of greater than one year from the date of original incurrence or issuance thereof, 25% or more of the original principal of which becomes due (either by maturity or mandatory redemption) or may be tendered for purchase or payment at the option of the holder during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness or Designated Auxiliary Debt to be amortized below 25% by mandatory redemption prior to such date.

“Board” means the Trustees of the California State University, an agency of the State of California, its successors and assigns organized and existing under and by virtue of the laws of the State of California.

“Bond Payment Date” means each Interest Payment Date and Principal Payment Date.

“Bonds” means any or all of the Trustees of the California State University Systemwide Revenue Bonds authorized under and secured by the Indenture. The term “Serial Bonds” shall mean the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided. The term “Term Bonds” shall mean the Bonds, if any, payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Business Day” means any day of the year other than (i) a Saturday or Sunday, (ii) a State legal holiday, or (iii) any day on which Banks located in Sacramento, California, or the city in which any co-trustee or the relevant office of any paying agent or registrar is located, are required or authorized by law to remain closed, or, with respect to any Series of Bonds, as may be provided by Supplemental Indenture.

“Code” means the Internal Revenue Code of 1986, as amended.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed and delivered by the Board on the date of issuance and delivery of the Series 2010A Bonds or the Series 2010B (Taxable – Build America Bonds), respectively, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Debt Enhancement Agreement” means any loan agreement, revolving credit agreement, insurance contract, commitment to purchase, purchase or sale agreement, or commitments or other contracts or agreements,

including, without limitation, interest rate agreements, including interest rate swap agreements, entered into by the Board in connection with the issuance, payment, sale, resale or exchange of any Indebtedness or Designated Auxiliary Debt to enhance the security for or provide for the payment, prepayment or remarketing of such Indebtedness or Designated Auxiliary Debt and the interest thereon or to reduce or manage the interest thereon.

“Debt Service” means, when used with respect to any Indebtedness or Designated Auxiliary Debt, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due on such Indebtedness or Designated Auxiliary Debt during such period (except to the extent that such interest is payable from the proceeds of such Indebtedness or Designated Auxiliary Debt or other moneys specifically set aside for such purpose), and (2) the principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Indebtedness or Designated Auxiliary Debt during such period (except to the extent that such principal is payable from the proceeds of such Indebtedness or Designated Auxiliary Debt or other moneys specifically set aside for such purpose); computed on the assumption that no portion of such Indebtedness or Designated Auxiliary Debt shall cease to be outstanding during such period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation if any of the Indebtedness or Designated Auxiliary Debt is Balloon Indebtedness, the computation of Debt Service shall, at the option of the Board, assume that such Balloon Indebtedness is to be amortized over thirty (30) years beginning on the date of maturity of such Balloon Indebtedness or such earlier date as may be specified by the Board, assuming level debt service and the rate of interest on such Balloon Indebtedness; and provided further that if interest on Indebtedness or Designated Auxiliary Debt is payable pursuant to a variable interest rate formula, the interest rate on such Indebtedness or Designated Auxiliary Debt for periods when the actual interest rate cannot be yet determined shall be assumed to be equal to the greater of (a) the current interest rate calculated pursuant to the provisions of such agreement or, (b) if available, the daily average interest rate on such Indebtedness or Designated Auxiliary Debt during the preceding 36 months preceding the date of calculation or, (c) if such Indebtedness or Designated Auxiliary Debt has not been Outstanding for such 36-month period, such daily average interest rate on comparable debt of a state or political subdivision of a state which debt is then rated by a nationally recognized bond rating agency with a rating similar to the rating on such Indebtedness or Designated Auxiliary Debt; and provided further that if any such Indebtedness or Designated Auxiliary Debt is bearing interest at other than a fixed rate and the payments received and made by the Board under a Debt Enhancement Agreement with respect to such Indebtedness or Designated Auxiliary Debt is expected to produce a fixed rate to be paid by the Board, then such Indebtedness or Designated Auxiliary Debt shall be treated as bearing interest at such fixed rate.

“Defeasance Securities” means (i) moneys or noncallable securities of the category specified in clauses (1) or (2) of the definition of the term Investment Securities, or (ii) any other securities, provided that a Rating Agency has rated the defeased Bonds “AAA” or equivalent, without regard to any insurance policy or other credit enhancement securing payment of such defeased Bonds, or (iii) any other securities, with the written consent of the Credit Facility Provider.

“Designated Auxiliary Debt” means any bond, note, lease, installment purchase agreement or other obligation of a Designated Auxiliary Organization which is secured by a pledge of or lien upon Designated Auxiliary Revenues and which is designated in a Certificate of the Board filed with the Trustee; provided that such debt does not constitute Indebtedness under the Indenture.

“Designated Auxiliary Organization” means any duly qualified and recognized auxiliary organization of the Board designated in a Certificate of the Board filed with the Trustee.

“Designated Auxiliary Revenues” means any revenues, income, receipts, or other moneys of a Designated Auxiliary Organization which have been pledged to, or are subject to a lien securing the repayment of, Designated Auxiliary Debt and which are designated in a Certificate of the Board filed with the Trustee; provided that such revenues do not constitute Gross Revenues under the Indenture.

“Escrow Fund” means the escrow fund into which proceeds of the Series 2010A Bonds are deposited in order to provide for the defeasance and refunding of the Prior Bonds.

“Excluded Facilities” means any facilities which may be designated from time to time by the Board as Excluded Facilities in a Certificate of the Board which is filed with the Trustee.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year of the Board.

“Gross Revenues” means (i) all income, including interest income on Gross Revenues, rentals, fees, rates, charges, insurance proceeds, condemnation proceeds and other moneys derived from the ownership or operation of the Projects, but excluding any refundable deposits, fines or forfeitures or operating revenues from student unions or student centers that are not mandatory student center fees, and (ii) any other revenues, receipts, income or other moneys from time to time designated by the Board for the payment of principal of and interest on the Bonds, in each case subject to the provisions of the Security Documents governing any Indebtedness secured by a Senior Lien.

“Gross Revenue Fund Depositories” means such banking, governmental, financial or other institutions (which may include the Trustee) as the Board shall designate from time to time as the depositories of the funds and accounts comprising the Gross Revenue Fund, all as set forth in a Certificate of the Board filed with the Trustee.

“Indebtedness” means any indebtedness or obligation of the Board which is: (1) secured by a pledge of or other encumbrance on Gross Revenues; and (2) is either (a) classified as a liability on a balance sheet in accordance with generally accepted accounting principles for colleges and universities; or (b) is a Debt Enhancement Agreement.

“Interest Payment Date” means November 1, 2010 and each May 1 and November 1 thereafter, until the principal and interest on all Bonds has been paid or payment has been duly provided for such amounts, and such other interest payment date or dates as may be specified in a Supplemental Indenture for a Series of Bonds.

“Investment Securities” means any of the following which at the time are legal investments under the laws of the State of California for moneys held under the Indenture and then proposed to be invested therein: (i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest; (ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States; (iii) bonds of the State of California or bonds for which the faith and credit of the State of California are pledged for the payment of principal and interest; (iv) bonds or warrants, including but not limited to revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the State of California, municipal utility district or school district of the State of California; (v) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by general land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended, and the bonds of any federal home loan bank established under said act, obligations of the Federal Home Loan Mortgage Corporation, and bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended; (vi) commercial paper rated within the top rating designation by a nationally recognized rating agency and issued by corporations (1) organized and operating within the United States, (2) having total assets in excess of \$500,000,000 and (3) approved by the Pooled Money Investment Board, provided, however that eligible commercial paper may not exceed 180 days’ maturity, represent more than ten percent (10%) of the outstanding paper of an issuing corporation nor exceed thirty percent (30%) of the resources of an investment program, and that at the request of the Pooled Money Investment Board, such investment shall be secured by the issuer by depositing with the State Treasurer securities authorized by Section 53651 of the California Government Code of a market value of at least ten percent (10%) in excess of the amount of the State’s investment; (vii) bills of exchange or time drafts drawn on and accepted by a commercial bank the general obligations of which are rated within the top two rating categories by a nationally recognized rating agency, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System; (viii) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association or by a state-licensed branch of a foreign bank which, to the extent they are not insured by federal deposit insurance are issued by an institution the general obligations of which are rated in one of the top two rating categories by a nationally recognized rating agency; (ix) bonds, debentures and notes issued by corporations organized and operating within the United States which securities are rated in one of the top two rating categories by a nationally recognized rating agency; (x) interest-bearing accounts in state or national banks or in state or federal savings and loan associations having principal offices in the State of California, the deposits of which shall be secured at all times and in the same manner as state moneys are by law required to be secured; (xi) deposits in the Surplus Money Investment Fund referred to in Section 15487 of the California Government Code; (xii) repurchase agreements or reverse repurchase agreements, as such terms are defined and pursuant to the terms of Section 16480.4 of the California Government Code; (xiii) collateralized or uncollateralized investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that

the senior long-term debt of such corporations, institutions or associations is rated within the top two rating categories by a nationally recognized rating agency; or (xiv) money market funds that invest solely in obligations described in clause (i) of this definition; or commercial paper rated within the top rating designation by a nationally recognized rating agency and issued by corporations (1) organized and operating within the United States, (2) having total assets in excess of \$500,000,000, and (3) approved by the Pooled Money Investment Board, provided, however, that eligible commercial paper may not exceed 180 days' maturity or represent more than ten percent (10%) of the outstanding paper of an issuing corporation, and at the request of the Pooled Money Investment Board, such investment shall be secured by the issuer by depositing with the State Treasurer securities authorized by Section 53651 of the California Government Code of a market value of at least ten percent (10%) in excess of the State's investment.

"Maintenance and Operation Expenses" means necessary operating expenses, maintenance charges, expenses of reasonable upkeep and extraordinary repairs, a properly allocated share of charges for insurance, direct or special administrative expenses directly chargeable to the Projects and all other expenses incident to the operation of the Projects, but shall not include interest, amortization and depreciation expense and other non-cash charges, nor any general administrative expenses of the Board or of the State.

"Mandatory Sinking Account Payment" means, with respect to Bonds of any Series and maturity, the amount required by the Indenture or any Supplemental Indenture to be paid by the Board on any single date for the retirement of Term Bonds of such Series and maturity.

"Net Income Available for Debt Service" means with respect to any period, the sum of: (1) the excess of Gross Revenues over Maintenance and Operation Expenses (before extraordinary items), determined in accordance with generally accepted accounting principles, each item determined in accordance with such generally accepted accounting principles, and excluding (a) any profits or losses on the sale or disposition, not in the ordinary course of business, of investments or fixed or capital assets relating to the Projects or resulting from the early extinguishment of Indebtedness or Designated Auxiliary Debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service, and (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; plus (2) Designated Auxiliary Revenues.

"Parity Lien" means any pledge, lien, security interest, encumbrance or charge of any kind, on or in any Gross Revenues which is equal and ratable to the lien of the Indenture on or in such Gross Revenues; provided, that the Security Document creating such and equal and ratable lien provides that an Event of Default under the Indenture shall constitute and event of default under such Security Document.

"Principal Payment Date" means November 1 in each year until the principal on all Bonds has been paid or payment has been duly provided for such amounts, and such other principal payment date or dates as may be specified in a Supplemental Indenture for a Series of Bonds.

"Prior Bonds" means those certain revenue bonds issued by certain auxiliary organizations of the Board, refunded with a portion of the proceeds of the Series 2010A Bonds, as described in Appendix H hereto.

"Projects" means, on any given date, all of the housing, parking, student union, student center, student health center and continuing education facilities owned or operated by the Board and any other facilities designated by the Board as Projects under the Indenture in a Certificate of the Board filed with the Trustee, except in all cases the Excluded Facilities.

"Record Date" means the fifteenth day of the month next preceding each Interest Payment Date or such other record date as may be established by a Supplemental Indenture with respect to a Series of Bonds.

"Security Documents" means all of the instruments, documents and agreements which, as of any date, have been executed and are then binding upon the Board in connection with any Senior Lien or Parity Lien or Subordinate Lien, including without limitation any indenture, trust agreement, loan agreement, credit agreement or security agreement.

"Senior Lien" means any pledge, lien, security interest, encumbrance or charge of any kind on or in any Gross Revenues which is senior in priority and superior to the lien of the Indenture on or in such Gross Revenues.



“Subordinate Lien” means any pledge, lien, security interest, encumbrance or charge of any kind on or in any Gross Revenues which is subordinate in priority and junior to the lien of the Indenture on or in such Gross Revenues.

“Supplemental Indenture” or “Indenture supplemental hereto” means any indenture hereafter duly authorized and entered into between the Board and the Trustee in accordance with the provisions of the Indenture.

“Tax Certificate” means the certificate signed by the Board on the date any Series of Bonds are issued relating to the requirements of the Code.

“Thirteenth Supplemental Indenture” means the Thirteenth Supplemental Indenture, dated as of March 1, 2010, by and between the Board and the Trustee.

“Twelfth Supplemental Indenture” means the Twelfth Supplemental Indenture, dated as of March 1, 2010, by and between the Board and the Trustee.

“Trustee” means the State Treasurer, any agent of the State Treasurer as provided in the Indenture, or any successor as Trustee under the Indenture as provided in the Indenture.

#### **Application of Proceeds of the Series 2010A Bonds and the Series 2010B Bonds**

The Board shall deposit the proceeds from the sale of the Series 2010A Bonds and the Series 2010B Bonds in the State Treasury of the State to the credit of the Program Fund within the fund designated as the “California State University Dormitory Construction Fund,” which fund was created by Section 90073 of the Education Code of the State and is referred to as the “Program Fund.” The Board shall account separately in the Program Fund for the proceeds from the sale of the Series 2010A Bonds and the Series 2010B Bonds.

Proceeds from the sale of the Series 2010A Bonds shall be deposited in an account established within the Program Fund and designated as the “Series 2010A Project Account.” Immediately after the receipt of the proceeds from the sale of the Series 2010A Bonds, the Trustee, upon the order of the Controller of the State, and in accordance with the Certificate of the Board, shall withdraw certain moneys from the Series 2010A Project Account and deposit such moneys in separate accounts relating to the Series 2010A Bonds which the Trustee will establish in accordance with the Twelfth Supplemental Indenture. Except as described in this section, the moneys remaining in the Series 2010A Project Account shall be used and applied solely to meet the costs of acquisition or construction of the Series 2010A Projects and expenses and costs incidental to the acquisition and construction of the Series 2010A Projects, including the repayment of the principal of and interest on any interim loan or other financing of such costs and costs and expenses incident to the issuance and sale of the Series 2010A Bonds (including transfer to any fund or funds from which advances have been made for any such costs and expenses mentioned in this sentence, in repayment of such advances). Moneys shall be paid from the Series 2010A Project Account within the Program Fund, as herein described, upon claims filed by the Board with the Controller of the State and after audit by the Controller of the State in the manner provided by law and upon warrants drawn by the Controller of the State.

Proceeds from the sale of the Series 2010B Bonds shall be deposited in an account established within the Program Fund and designated as the “Series 2010B Project Account.” Immediately after the receipt of the proceeds from the sale of the Series 2010B Bonds, the Trustee, upon the order of the Controller of the State, and in accordance with the Certificate of the Board, shall withdraw certain moneys from the Series 2010B Project Account and deposit such moneys in separate accounts relating to the Series 2010B Bonds which the Trustee will establish in accordance with the Thirteenth Supplemental Indenture. Except as described in this section, the moneys remaining in the Series 2010B Project Account shall be used and applied solely to meet the costs of acquisition or construction of the Series 2010B Projects and expenses and costs incidental to the acquisition and construction of the Series 2010B Projects, including the repayment of the principal of and interest on any interim loan or other financing of such costs and costs and expenses incident to the issuance and sale of the Series 2010B Bonds (including transfer to any fund or funds from which advances have been made for any such costs and expenses mentioned in this sentence, in repayment of such advances). Moneys shall be paid from the Series 2010B Project Account within the Program Fund, as herein described, upon claims filed by the Board with the Controller of the State and after audit by the Controller of the State in the manner provided by law and upon warrants drawn by the Controller of the State.

Any moneys remaining in the Series 2010A Series Project Account and the 2010B Project Account within the Program Fund after all costs and expenses described in this section have been paid or provided for shall be used

for such other purposes permitted under the Act as the Board may determine. The application of proceeds herein shall be subject in all respects to the terms and conditions of the Tax Certificate.

#### **Program Fund; Project Accounts and Costs of Issuance Accounts; Series Project Accounts**

The Board shall maintain the Program Fund with the Trustee and, if permitted by law, at such banking institution or other financial, governmental or other institutions as the Board may determine. To the extent required by the Act as determined by the Board, the Program Fund shall constitute an account within the California State University Dormitory Construction Fund required to be maintained under the Act.

With respect to the Series 2010A Bonds and the Series 2010B Bonds, the Board shall establish and maintain a separate account within the Program Fund designated as the "Series 2010A Project Account" and the "Series 2010B Project Account," respectively. The moneys in the Series 2010A Project Account and the Series 2010B Project Account shall be used and withdrawn by the Board to pay Costs of Issuance, the cost of acquisition and construction of the Projects or to refund obligations used to pay such cost.

The Trustee shall be under no duty with respect to the use and application of moneys in the Program Fund and shall not be liable for the manner or method in which moneys withdrawn by the Board are in fact used and applied by the Board. Subject to certain conditions of the Indenture, the moneys deposited to the Program Fund may be invested by the Board in Investment Securities or any other lawful investment for funds of the Board. Subject to certain conditions of the Indenture, any moneys remaining in the Program Fund after completion of the Projects shall be promptly deposited to the Revenue Fund.

The amount initially deposited in the Series 2010A Project Account and the Series 2010B Project Account and any investment earnings thereon shall be held by the Trustee. Moneys in the Series 2010A Project Account shall be used and withdrawn by the Board to pay Costs of Issuance, the cost of the acquisition or construction of the Series 2010A Projects, including reimbursements of any sums advanced by the Board for such purposes and refunding bond anticipation notes or other borrowings of the Board incurred for such purposes, and to pay interest on the Series 2010A Bonds in such amounts and on such dates as may be determined by the Board. Moneys in the Series 2010B Project Account shall be used and withdrawn by the Board to pay Costs of Issuance, the cost of the acquisition or construction of the Series 2010B Projects, including reimbursements of any sums advanced by the Board for such purposes and refunding bond anticipation notes or other borrowings of the Board incurred for such purposes, and to pay interest on the Series 2010B Bonds in such amounts and on such dates as may be determined by the Board. Notwithstanding any other provision of the Indenture, amounts in the Series 2010A Project Account and the Series 2010B Project Account may be invested in Investment Securities or any other lawful investment for funds of the Board.

#### **Issuance of Additional Series of Bonds**

In addition to the Series 2010A Bonds and the Series 2010B Bonds, the Board may by Supplemental Indenture establish one or more other Series of Bonds, and the Board may issue, and the Trustee may authenticate and deliver to, or upon the Written Order of, the Board, Bonds of any Series so established, in such principal amount as shall be determined by the Board, subject to the requirements of the Indenture, and subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such additional Series of Bonds:

(a) The Supplemental Indenture providing for the issuance of such Series shall specify the purposes for which such Series is being issued, which shall be one or more of the following: (1) to provide moneys needed to acquire, implement, install, construct or complete Projects, including reimbursements of any sums advanced by the Board for such purposes, by depositing into the Program Fund the proceeds of such Series to be so applied, (2) to refund all or part of the Bonds of any one or more Series then Outstanding, or (3) to provide moneys needed to refund all or part of any other Indebtedness or Designated Auxiliary Debt. Such Supplemental Indenture may, but is not required to, provide for the payment of expenses incidental to such purposes, including the costs of issuance of such Series, interest on Bonds of such series and, in the case of Bonds issued to refund other Bonds or Indebtedness or Designated Auxiliary Debt, expenses incident to calling, redeeming, paying or otherwise discharging the Bonds or Indebtedness or Designated Auxiliary Debt to be refunded.

(b) The Board shall be in full compliance with all covenants and undertakings set forth in the Indenture or any indenture supplemental hereto and with all covenants and undertakings in connection with any Bonds then Outstanding.

(c) Such additional Series of Bonds shall be equally and ratably secured with all other Bonds herein authorized, without preference or priority of any of the Bonds over any other Bonds, except as expressly provided in the Indenture.

(d) Such additional Series of Bonds shall satisfy the requirements for the issuance of Indebtedness secured by a Parity Lien provided in the Indenture.

(e) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by the Act or by any Supplemental Indenture.

Nothing in the Indenture contained shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of Additional Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such Additional Bonds or the Bonds or any portion thereof.

### **Pledge and Assignment; Gross Revenue Fund; Revenue Fund**

Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth herein, the Board hereby pledges to the Trustee to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture, all of the Gross Revenues, all of the proceeds of the Bonds and any other amounts held in any fund or account established pursuant to the Indenture, excluding the Rebate Fund. Said pledge shall constitute a lien on and security interest in such assets and shall attach and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act, against all parties having claims of any kind in tort, contract or otherwise against the Board or the Trustee, irrespective of whether the parties have notice thereof; provided, however, that the pledge of Gross Revenues set forth in this section shall in all respects be junior to any Indebtedness secured by a Senior Lien.

The Board agrees that, so long as any of the Bonds remain Outstanding, (i) all of the Gross Revenues not encumbered by any Senior Lien shall be deposited as soon as practicable upon receipt in a fund designated as the "Trustees of the California State University Systemwide Revenue Bonds Gross Revenue Fund" (the "Gross Revenue Fund") which the Board shall establish and maintain and (ii) funds equal to Gross Revenues encumbered by any Senior Lien shall be deposited in the Gross Revenue Fund at the earliest practicable time and to the extent such funds are available pursuant to the terms of the Security Documents evidencing such Senior Lien. To the extent Gross Revenues to be deposited in the Gross Revenue Fund pursuant to the immediately preceding sentence are encumbered by Indebtedness (other than Additional Bonds) secured by a Parity Lien, the Board agrees to allocate and deposit in the Gross Revenue Fund an amount of such Gross Revenues equal to the product of (A) such Gross Revenues multiplied by (B) a fraction, the numerator of which shall be (i) the proceeds of the Bonds, and the denominator of which shall be (ii) the sum of (x) the proceeds of the Bonds and (y) the proceeds of Indebtedness secured by a Parity Lien. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, the Board grants a security interest to the Trustee in the Gross Revenue Fund to secure the payment of the principal of and interest on the Bonds outstanding and the pledge of Gross Revenues under the Indenture.

To the extent required by the Act, as determined by the Board, the Gross Revenue Fund shall constitute an account within the California State University Dormitory Revenue Fund required to be maintained under the Act.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Board at any time for any lawful purpose (including any use required by a Security Document establishing a Senior Lien or Parity Lien), except as hereinafter described. In the event of the occurrence of an Event of Default of which the Trustee has actual knowledge or has received written notice, the Trustee shall notify the Board and the Gross Revenue Fund Depositories of such delinquency, and the Board shall cause the Gross Revenue Fund Depositories to, and the Gross Revenue Fund Depositories shall, transfer the Gross Revenue Fund to the name and credit of the Trustee. All Gross Revenues shall continue to be deposited by the Board in the Gross Revenue Fund as described herein until all Events of Default known to the Trustee shall have been made good or cured or provision deemed by the Trustee to be

adequate shall have been made therefor, whereupon the Gross Revenue Fund shall be returned to the name and credit of the Board. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said fund first to pay fees, expenses and disbursements of the Trustee and its agents in the event such fees, disbursements or expenses have not otherwise been paid by the Board, second to the payment of Maintenance and Operation Expenses, and third to make the transfers and deposits required under the section "Allocation of Gross Revenues to Funds" below. The Trustee will make payments for Maintenance and Operation Expenses upon receipt from the Board of a Certificate stating the nature and amount of such expenses, and the person or persons to whom such expenses are payable, and certifying that such expenses constitute Maintenance and Operation Expenses properly payable from the Gross Revenue Fund. The Board agrees to execute and deliver all instruments as may be required to implement the Section. The Board further agrees that a failure to comply with the terms of this section shall cause irreparable harm to the owners from time to time of the Bonds and shall entitle the Trustee, with or without notice, to take immediate action to compel the specific performance of the obligations of the Board as described in this section.

On or before the fifteenth day of the month preceding any Bond Payment Date for so long as any of the Bonds remain Outstanding, the Board shall pay to the Trustee for deposit in a special fund designated as "Trustees of the California State University Systemwide Revenue Bonds Revenue Fund" (the "Revenue Fund"), which the Trustee shall establish, maintain and hold in trust, such amount as is required by the Trustee to make or cause the Board to make the transfers and deposits required on such dates under the section "Allocation of Gross Revenues to Funds" below (or to replenish the amounts required to be on deposit in any fund under the Indenture). Each transfer by the Board to the Trustee under the Indenture shall be in lawful money of the United States of America and paid to the Trustee at its Designated Office. All such moneys shall be promptly deposited by the Trustee upon receipt thereof in the Revenue Fund. All moneys deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. If the Board fails to make timely payment of all amounts required to be made pursuant to this section, the Board shall promptly make such payments in full as soon as possible.

To the extent required by the Act, as determined by the Board, the Revenue Fund shall constitute an account within the California State University Dormitory Interest and Redemption Fund required to be maintained under the Act.

#### **Allocation of Gross Revenues to Funds**

The Trustee shall transfer or shall cause the Board to transfer from the Revenue Fund, and deposit into one or more of the following respective funds (each of which the Trustee shall establish and maintain and hold in trust, and each of which shall be disbursed and applied only as hereinafter authorized), on or before the fifteenth day of each month preceding any Bond Payment Date, the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Gross Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

First: Into the Interest Fund, the amount, if any, needed to increase the amount in the Interest Fund to the aggregate amount of interest becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date (less the amounts, if any, to be paid from Capitalized Interest Accounts on such date).

Second: Into the Principal Fund, the amount, if any, needed to increase the amount in the Principal Fund to the aggregate amount of principal and Mandatory Sinking Account Payments becoming due and payable on the Outstanding Bonds on the next succeeding Principal Payment Date.

So long as no Event of Default has occurred and is continuing under the Indenture, the Trustee shall transfer, or shall cause the Board to transfer, any moneys remaining in the Revenue Fund on June 30 in each year which are not required for the payment of the Bonds (assuming for purposes of this sentence that the Board shall continue to make the deposits into the Revenue Fund at the times and in the amounts required under this section and the immediately preceding section) to the Board free and clear of the lien of the Indenture to be applied for any lawful purpose of the Board, and the Trustee shall have no obligation or duty to inquire or investigate how such moneys are being used.

## **Allocation of Interest Fund**

All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), and otherwise as described in the section “Investment of Moneys in Funds” below.

With respect to each Series of Bonds for which proceeds of the sale thereof are required to be set aside to pay interest on the Bonds, the Trustee (if so instructed by the Supplemental Indenture providing for the issuance of such Series) shall establish and maintain a separate account within the Interest Fund, designated as the “Series \_\_ Capitalized Interest Account” (inserting therein the Series designation of such Bonds) (a “Capitalized Interest Account”). The Trustee shall transfer, or shall cause the Board to transfer, any moneys in a Capitalized Interest Account for deposit in the Interest Fund in the amounts and at the times specified herein or in the Supplemental Indenture providing for the issuance of such Series.

Moneys in the Series 2010A Capitalized Interest Account established pursuant to the Indenture shall be transferred to the Bond Interest Fund in the amounts and on or before the Interest Payment Dates set forth in the Twelfth Supplemental Indenture, and shall be used solely for the purpose of paying a portion of the interest on the Series 2010A Bonds Outstanding as the same shall become due and payable (including accrued interest on any Bonds of Series 2010A purchased or redeemed prior to maturity).

Moneys in the Series 2010B Capitalized Interest Account established pursuant to the Indenture shall be transferred to the Bond Interest Fund in the amounts and on or before the Interest Payment Dates set forth in the Thirteenth Supplemental Indenture, and shall be used solely for the purpose of paying a portion of the interest on the Series 2010B Bonds Outstanding as the same shall become due and payable (including accrued interest on any Bonds of Series 2010B purchased or redeemed prior to maturity).

## **Application of Principal Fund**

All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of purchasing or redeeming or paying at maturity the Serial Bonds and the Term Bonds as described in this section, and otherwise as described in the section “Investment of Moneys in Funds” below.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds, if any, of each Series and maturity, designated as the “Series \_\_ 20\_\_ Sinking Account” (the “Sinking Account”), inserting therein the Series and maturity (if more than one such account is established for such Series) designation of such Bonds. On or before each November 1, commencing as specified in the Indenture or any Supplemental Indenture, the Trustee shall transfer or shall cause the Board to transfer the amount deposited in the Principal Fund pursuant to the section “Allocation of Gross Revenues to Funds” above, for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee shall apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as may be directed by the Board, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Board has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this subsection shall be cancelled and delivered by the Trustee to or upon the Written Request of the Board. The Trustee shall withdraw, or shall cause the Board to withdraw, any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer outstanding and shall

transfer, or cause the Board to transfer, such amounts to the Revenue Fund. Subject to a different allocation provided for in a Certificate of the Board filed with the Trustee, all Term Bonds purchased from a Sinking Account or deposited by the Board with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Bonds, then pro rata to the remaining Mandatory Sinking Account Payments required for such Series and maturity of Bonds in proportion to the amount of such Mandatory Sinking Account Payments.

The Trustee shall establish and maintain and hold in trust separate accounts for each maturity of Series 2010A Term Bonds (the "Series 2010A Sinking Accounts"). Moneys shall be deposited into the Series 2010A Sinking Accounts in accordance with this section. Moneys on deposit in the Series 2010A Sinking Accounts shall be applied in accordance with this section to provide for the redemption of each maturity of the Series 2010A Term Bonds, respectively, in accordance with the "Schedule of Mandatory Sinking Account Payments" contained in this Official Statement.

The Trustee shall establish and maintain and hold in trust separate accounts for each maturity of Series 2010B Term Bonds (the "Series 2010B Sinking Accounts"). Moneys shall be deposited into the Series 2010B Sinking Accounts in accordance with this section. Moneys on deposit in the Series 2010B Sinking Accounts shall be applied in accordance with this section to provide for the redemption of each maturity of the Series 2010B Term Bonds, respectively, in accordance with the "Schedule of Mandatory Sinking Account Payments" contained in this Official Statement.

### **Establishment and Application of Redemption Fund**

The Trustee shall establish and maintain within the Redemption Fund (which the Trustee shall establish, maintain and hold in trust) an Optional Redemption Account. All amounts deposited in the Optional Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds Outstanding, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the redemption prices then applicable to redemptions from the Optional Redemption Account; provided that, at any time prior to giving such notice of redemption, the Trustee shall apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as may be directed by the Board, except that the purchase price (exclusive of accrued interest) may not exceed the par value of such Bonds. Any Supplemental Indenture may provide for the establishment of such additional accounts or subaccounts within the Redemption Fund as may be applicable to the Series of Bonds authorized by such Supplemental Indenture. Subject to a different allocation provided for such subaccounts by Supplemental Indentures, all Term Bonds of any Series purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments pro rata to the Mandatory Sinking Account Payments required for such Series and maturity of Bonds in proportion to the amount of such Mandatory Sinking Account Payments. Notwithstanding the foregoing, for a description of special redemption features relating to the Series 2010B Bonds, see "THE 2010 BONDS – Redemption."

### **Investment of Moneys in Funds**

All moneys in any of the funds and accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee in Investment Securities as directed by the Board. All moneys in any of the funds and accounts established pursuant to the Indenture and held by the Board shall be invested by the Board in any lawful investment for funds of the Board. All Investment Securities shall be purchased subject to the limitations described in the section "Particular Covenants of the Board of Trustees - Tax Covenants" below, to the limitations as to maturities in this section set forth and to such additional limitations or requirements, consistent with the foregoing, as may be established by Request of the Board (or a telephone request which is promptly confirmed by such Request of the Board). The Trustee shall only invest funds under the Indenture in accordance with directions from the Board and shall have no liability whatsoever with respect to the selection of such investments by the Board.

Investment Securities purchased as an investment of moneys in any fund or account established pursuant to the Indenture shall be credited to such fund or account, subject to the provisions of the immediately succeeding paragraph. Unless otherwise specified in a Supplemental Indenture, for the purpose of determining the amount in any such fund or account, all Investment Securities credited to such fund or account shall be valued at cost plus or minus accreted discount or amortized premium except that in the case of zero-coupons, Investment Securities shall be valued at cost. The moneys on deposit in the Interest Fund and the Principal Fund shall be invested in Investment

Securities such that the principal of such Investment Securities at maturity shall be sufficient to pay the interest on and principal of the Bonds, respectively, payable from the Interest Fund and the Principal Fund, respectively, on the next succeeding Bond Payment Date.

Unless otherwise provided in the Indenture or in a Supplemental Indenture for a Series of Bonds issued pursuant to such Supplemental Indenture and except as described in the section “Rebate Fund” below, the Trustee shall (1) prior to completion of the acquisition and construction of the Projects, transfer, or cause to be transferred by the Board, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture to the Board for deposit into the related Project Account within the Program Fund, and (2) after completion of the Projects, deposit, or cause the Board to deposit, in the Revenue Fund when received all such interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture. Notwithstanding anything to the contrary contained in this paragraph, except as described in the section “Rebate Fund” below, an amount of interest received with respect to an Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell at the best price reasonably obtainable or present for redemption, any Investment Security so purchased whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment. Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Trustee under the Indenture, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Indenture.

#### **Rebate Fund**

The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the Rebate Fund. The Board shall cause to be deposited in the Rebate Fund the rebate requirement as provided in the Tax Certificate for each Series of Bonds other than the Series 2010B Bonds. Subject to the provisions of this section, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States government, and the Board and the owners shall have no rights in or claim to such moneys. The Trustee shall invest all amounts held in the Rebate Fund pursuant to the Request of the Board.

Upon receipt of the rebate instructions required to be delivered to the Trustee by the Tax Certificate, the Trustee shall remit part or all of the balance held in the Rebate Fund to the United States government as so directed. In addition, if the rebate instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of, or shall cause the Board to deposit moneys into or transfer moneys out of, the Rebate Fund from or into such accounts or funds as the rebate instructions direct.

The Trustee shall conclusively be deemed to have complied with the provisions of this section if it follows the directions of the Board set forth in the rebate instructions and shall not be required to take any actions thereunder in the absence of rebate instructions from the Board.

Notwithstanding any provisions of this section, if the Board shall provide to the Trustee any opinion of Bond Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, the Trustee and the Board may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the Indenture shall be deemed to be modified to that extent.

#### **Funds and Accounts and Subaccounts**

The Trustee and the Board may from time to time establish such additional funds and accounts under the Indenture and such subfunds or subaccounts therein as the Trustee or the Board may determine to be necessary, appropriate or convenient for the purposes of administering the Gross Revenues or the proceeds of the Bonds or any other moneys related thereto.

## Particular Covenants of the Board of Trustees

### *Additional Indebtedness.*

- (a) The Board shall not issue or incur any Indebtedness secured by a Senior Lien.
- (b) So long as no Event of Default has occurred or is continuing under the Indenture, the Board may issue or incur Indebtedness secured by a Parity Lien if there is filed with the Trustee a Certificate of the Board confirming its expectation that, for the first full Fiscal Year following the date the Project financed or refinanced with the proceeds of such Indebtedness secured by a Parity Lien is placed in service, Net Income Available for Debt Service for such Fiscal year shall be in an amount at least equal to Aggregate Debt Service for such Fiscal Year on all Indebtedness and Designated Auxiliary Debt.
- (c) Nothing in the Indenture shall limit the power of the Board to issue or incur (a) any Indebtedness secured by a Subordinate Lien; or (b) any Indebtedness which is not secured by any pledge, lien or encumbrance on Gross Revenues.

*Power to Issue Bonds and Make Pledge and Assignment.* The Board is duly authorized pursuant to the Act to issue the Bonds and to execute and deliver the Indenture and to pledge and assign the Gross Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding limited obligations of the Board in accordance with their terms, and the Board shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Gross Revenues and other assets and all the rights of the Bondholders under the Indenture against all claims and demands of all persons whomsoever.

*Payment of Taxes and Claims.* The Board or the Trustee shall, from time to time, but solely from Gross Revenues, duly pay and discharge, or cause to be paid and discharged, any property taxes, assessments or other governmental charges that may be lawfully imposed upon the Gross Revenues or other assets pledged or assigned under the Indenture, when the same shall become due, as well as any lawful claim which, if unpaid, might by law become a lien or charge upon the Gross Revenues or such other assets or which might impair the security of the Bonds.

### *Accounting Records and Financial Statements.*

(a) The Board shall keep or cause to be kept proper books of record and account in which complete and accurate entries shall be made in accordance with industry standards of all transactions relating to the proceeds of Bonds, the Gross Revenues, and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Trustee and by any Bondholder, or its agent or representative duly authorized in writing, during any Business Day at reasonable hours and under reasonable circumstances, including at least 24 hours notice.

(b) Not later than two hundred ten (210) days after the end of each Fiscal Year of the Board, commencing with the Fiscal Year ending June 30, 2010, the Board will furnish to the Trustee a detailed, certified report of audit, based on an examination sufficiently complete to comply with generally accepted auditing standards, prepared by an Independent Certified Public Accountant, covering the operations of the Projects for the Fiscal Year next preceding, and showing the Gross Revenues and expenses (by major classification) for such period. There shall also be included with each audit report a written opinion of the Independent Certified Public Accountant, to the effect that in making the examination necessary in connection with said audit, no knowledge of any default by the Board in the fulfillment of any of the terms, covenants, provisions and conditions of the Indenture, or any Supplemental Indenture, was obtained or, if said accountant shall have obtained knowledge of any such default, a statement of the default or defaults thus discovered and the nature thereof.

(c) Not later than two hundred ten (210) days after the end of each Fiscal Year of the Board, the Board shall also furnish to the Trustee a certified report of audit, prepared by an Independent Certified Public Accountant, reflecting the financial condition and record of operation of the Board.

*Tax Covenants.* The Board will not make any use of the proceeds of the Bonds or any other funds of the Board or of the Projects which will cause any Bond to be an "arbitrage bond" subject to federal income taxation by



reason of Section 148 of the Code, or a “federally-guaranteed obligation” under Section 149(b) of the Code, or a “private activity bond” as described in Section 141 of the Code. To that end, the Board, with respect to such proceeds and such other funds and the Projects, will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The Board further covenants that it will not use or permit the use of the Projects by any person for a “private business use” within the meaning of Section 141(b) of the Code, in such manner or to such extent as would result in the inclusion of interest received on the Bonds in gross income for federal income tax purposes under Section 103 of the Code.

If at any time the Board is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on or change in any way the investment of any moneys held by the Trustee or under the Indenture, the Board shall so instruct the Trustee or the appropriate officers of the Board in writing, and the Trustee or the appropriate officers of the Board, as the case may be, shall take such actions as may be necessary in accordance with such instructions.

In furtherance of the covenants of the Board set forth above, the Board will comply with the Tax Certificate and will cause the Trustee to comply with the Tax Certificate.

The Board may provide in a Supplemental Indenture for a Series of Bonds that all or a portion of the provisions of this sub-section shall not apply to such Series of Bonds.

The Thirteenth Supplemental Indenture for the Series 2010B Bonds provides similar tax covenants for those described in this subsection for the Series 2010B Bonds.

*Compliance with Indenture, Contracts, Laws and Regulations.* The Board shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture, shall not issue any Bonds in any manner other than in accordance with the Indenture, and shall not suffer or permit any default to occur under the Indenture, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Indenture. Subject to the limitations end consistent with the covenants, conditions and requirements contained in the Indenture, the Board and the Trustee shall comply with the terms, covenants and provisions of all contracts concerning or affecting the application of proceeds of Bonds or the Gross Revenues.

*Maintenance of Projects.* The Board shall maintain the Projects in good condition and repair, such condition and repair to be comparable with that of similar types of properties. The Board may from time to time enter into leases of the Projects to a Person upon such terms and conditions as the Board may determine.

*Insurance; Use of Insurance or Condemnation Proceeds.* The Board shall maintain or cause to be maintained insurance or risk management programs of such type, in such amounts and against such risks as are appropriate, as determined by the Board, for facilities of similar size and nature as the Projects (and in any event as are consistent with the amounts and risks applicable to other similar properties of the Board), including, but not limited to, fire and extended coverage insurance, public liability insurance, workers’ compensation insurance and business interruption insurance, in the event and to the extent such insurance is customarily maintained by the Board for facilities of similar size and nature as the Projects. The Board shall pay as the same become due all premiums in respect thereto. In the event of any damage to, or destruction or condemnation of, any Project, the Board will promptly arrange for the application of the insurance proceeds or condemnation awards for the repair, reconstruction or replacement of the damaged, destroyed or taken portion thereof, or for the payment of Indebtedness or such other purpose as the Board may determine.

*Rate Covenant.* The Board shall set rates, charges, and fees for the Projects for the then current Fiscal Year so as to cause Net Income Available for Debt Service to be in an amount at least equal to Aggregate Debt Service for all Indebtedness and Designated Auxiliary Debt for such Fiscal Year.

*Continuing Disclosure for the Series 2010A Bonds and the Series 2010B Bonds.* The Board and the Trustee covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Board or the Treasurer to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Treasurer may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure

Certificate) or the holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Series 2010A Bonds or Series 2010B Bonds, respectively, shall) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board or the Treasurer, as the case may be, to comply with its obligations under this section. For purposes of this section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2010A Bonds or Series 2010B Bonds, respectively (including persons holding Series 2010A Bonds or Series 2010B Bonds through nominees, depositories or other intermediaries).

### **Events of Default**

The following events shall be Events of Default under the Indenture:

- (a) default in the due and punctual payment of the principal of, or interest or redemption premium, if any, on, any Bond when due and payable;
- (b) default in the due and punctual payment of the principal of, or interest or redemption premium, if any, on, any Indebtedness secured by a Parity Lien when due and payable; or
- (c) default by the Board in the observance of any of the covenants, agreements or conditions on its part of the Indenture or in the Bonds contained, other than a default described in (a) or (b) above, and continuance of such default for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Board by the Trustee, or to the Board and the Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding.

### **Acceleration of Maturities**

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall, upon notice in writing to the Board, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. The Trustee shall immediately give notice of such declaration to Bondholders, in the same manner that notices of redemption are given, specifying the date of such declaration, that as of the Business Day immediately following such declaration the Bonds shall cease to bear interest, and that all principal of and interest on the Bonds to the Business Day immediately following such declaration of acceleration shall be payable upon the surrender thereof at the Designated Office of the Trustee.

### **Application of Gross Revenues and Other Funds After Default**

If an Event of Default shall occur, then, and in every such case during the continuance of such Event of Default, all Gross Revenues and any other moneys then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

- (a) To the payment of any compensation and expenses as due to the Trustee under the Indenture;
- (b) To the payment of Maintenance and Operation Expenses, provided that the Trustee will make payments for Maintenance and Operation Expenses only upon receipt from the Board of a Certificate stating the nature and amount of such expenses, and the person or persons to whom such expenses are payable, and certifying that such expenses constitute Maintenance and Operation Expenses properly payable from the Gross Revenues; and
- (c) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, any stamping thereon of the payment if only partially paid or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:
  - (i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over the principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

#### **Modification of Indenture without Consent of Bondholders**

The Board and the Trustee from time to time and at any time, subject to the conditions and restrictions in the Indenture contained, may enter into an indenture or indentures supplemental hereto, which indenture or indentures thereafter shall form a part hereof, for any one or more or all of the following purposes:

(a) to add to the covenants and agreements of the Board in the Indenture contained, other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the Board;

(b) to evidence the succession of another governmental unit or entity, whether public or private, to the Board, or successive successions, and the assumption by such successor of the covenants and obligations of the Board contained in the Bonds and in the Indenture;

(c) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to any matters or any questions arising under the Indenture, as the Board may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(d) to conform to the terms and conditions of the reimbursement agreements or loan agreements or similar documents relating to letters of credit, lines of credit, bond insurance policies, reserve fund surety bonds or policies, guarantees or similar undertakings for the Bonds provided by a Credit Facility Provider;

(e) to conform to the terms and conditions of the Security Documents evidencing a Parity Lien, provided such modification shall not materially adversely affect the interests of the Holders of the Bonds;

(f) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof or thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if the Board so determines, to add to the Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(g) to provide procedures required to permit any Holder, at its option, to utilize an uncertificated system of registration of its Bonds;

(h) to provide for the procedures required to permit any Holder to separate the right to receive interest on the Bonds from the right to receive the principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code; and

(i) if permitted under the Act, (1) to provide for the issuance of Bonds and the loan of the proceeds of such Bonds to a Designated Auxiliary Organization, which Bonds shall be repaid from Gross Revenues; or (2) to provide for the issuance of Bonds for the acquisition or construction of a Project to be leased or sold to a Designated Auxiliary Organization, which Bonds shall be repaid from Gross Revenues.

Any Supplemental Indenture authorized by the provisions of this section may be executed by the Board and the Trustee without the consent of the owners of any of the Bonds at the time Outstanding but the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

### **Modification of Indenture with Consent of Bondholders**

With the consent of the owners of not less than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of the Bonds at the time Outstanding, the Board and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Indenture or of any Supplemental Indenture; provided, however, that no such Supplemental Indenture shall (1) extend the stated maturity of the Bonds or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption hereof, without the consent of the owner of each Bond so affected, (2) reduce the aforesaid percentage of owners of Bonds required to approve any such Supplemental Indenture, without the consent of the owners of all Bonds then Outstanding, or (3) modify any of the rights or obligations of the Trustee without his written assent thereto. Upon receipt by the Trustee of a Certificate of the Board authorizing the execution of any such Supplemental Indenture, and upon the filing with the Trustee of evidence of the consent of Bondholders, the Trustee shall join with the Board in the execution of such Supplemental Indenture.

It shall not be necessary for the consent of the Bondholders under this section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

### **Effect of Supplemental Indenture**

Upon the execution of any Supplemental Indenture pursuant to the provisions of the sections "Modification of Indenture without Consent of Bondholders" or "Modification of Indenture with Consent of Bondholders" above, the Indenture shall be and be deemed to be modified and amended in accordance therewith, and respective rights, duties and obligations under the Indenture of the Board, the Trustee and all owners of Bonds Outstanding shall thereafter be determined, exercised and endorsed under the Indenture subject in all respects to such modification and amendments, and all the terms and conditions of any such Supplemental Indenture shall be and be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

### **Defeasance**

Bonds may be paid by the Board in any of the following ways; provided that the Board also pays or causes to be paid any other sums payable under the Indenture by the Board and related to the Bonds:

(a) by paying or causing to be paid the principal and interest on Outstanding Bonds; as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, Outstanding Bonds.

If the Board shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable under the Indenture by the Board, then and in that case, at the election of the Board (evidenced by a Certificate of the Board, filed with the Trustee, signifying the intention of the Board to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Gross Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Board under the Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Indenture and except for the obligation of the Board to pay any amounts under and to otherwise satisfy all of its obligations to the Trustee under the Indenture. In such event, upon Request of the Board, the Trustee shall cause an accounting for such period or periods as may be requested by the Board to be prepared and filed with the Board and shall execute and deliver to the Board all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee and any paying agents shall pay over, transfer, assign or deliver to the Board all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture, then all liability of the Board in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the Board, and the Board shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, provided further, however, that the provisions of the Indenture concerning payment of Bonds after discharge of the Indenture shall apply in all events.

The Board may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered which the Board may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will provide money sufficient to pay the principal and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Board) to apply such money to the payment of such principal and interest with respect to such Bonds.

Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal or interest on any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or one year after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall, upon Request of the Board, be repaid to the Board free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease provided, however, that before the repayment of such moneys to the Board as aforesaid, the Trustee, as the case may be, shall at the request of the Board (at the cost of the Board) first mail a notice, in such form as may be deemed appropriate by the Trustee, to the owners of the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Board of the moneys held for the payment thereof.

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated \_\_\_\_\_, 2010 (the "Disclosure Certificate") is executed and delivered by the Trustees of the California State University (the "Board") in connection with the issuance of \$146,950,000 aggregate principal amount of the Trustees of the California State University Systemwide Revenue Bonds, Series 2010A and \$205,1450,000 aggregate principal amount of the Trustees of the California State University Systemwide Revenue Bonds, Series 2010B (Taxable – Build America Bonds (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of April 1, 2002, as supplemented, including by a Twelfth Supplemental Indenture and a Thirteenth Supplemental Indenture, both dated as of March 1, 2010 (the "Indenture"), by and between the Board and the Treasurer of the State of California, as trustee. The Board covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is executed for the benefit of the Holders and Beneficial Owners of the Bonds from time to time, but shall not be deemed to create any monetary liability on the part of the Board to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule (as defined below). The sole remedy in the event of any failure of the Board to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report filed by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the Board, or any successor Dissemination Agent designated in writing by the Board.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Under amendments to the Rule effective July 1, 2009, the Municipal Securities Rulemaking Board Electronic Municipal Market Access website, referred to as "EMMA," will be the sole National Repository.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Board shall, or shall cause the Dissemination Agent to, not later than January 1 of each year in which the Bonds are Outstanding, commencing January 1, 2011, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, in electronic form or such

other form as may be required by the applicable Repository, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Board with respect to the Gross Revenues (as defined in the Indenture) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such financial statements are not available by that date. If the Board's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) If the Board does not provide the Annual Report to the Repositories by the date required in subsection (a), the Board shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Board shall, or shall cause the Dissemination Agent to, determine each year prior to the date for providing the Annual Report the name and address of each Repository then certified by the Securities and Exchange Commission.

(d) The Dissemination Agent (if any) shall file a report with the Board certifying that the Annual Report has been filed pursuant to this Disclosure Certificate, stating the date(s) it was filed and listing all the Repositories with which it was filed.

Section 4. Content of Annual Reports. The Board's Annual Report shall contain or include by reference the following:

(1) The audited financial statements of the Board with respect to the Gross Revenues (as defined in the Indenture) for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board or the Government Accounting Standards Board, as may then be applicable in the judgment of the Board. If these audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements for the prior fiscal year, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(2) The Board's Annual Reports shall contain updates or changes to certain information contained in Appendix A of the Official Statement relating to the Bonds dated March 17, 2010 (the "Official Statement") concerning the immediately preceding fiscal year, as follows:

(i) in Tables 1, 6, 8 and under the column entitled "Total Systemwide Revenue Bonds" in Table 9 (including information regarding debt service on any debt secured on a parity with the Bonds);

(ii) under the caption "SYSTEMWIDE REVENUE BOND PROGRAMS – Housing Program – Capacity and Occupancy" pertaining to the design capacity and occupancy rate of the Housing Program;

(iii) under the caption "SYSTEMWIDE REVENUE BOND PROGRAMS – Student Union Program – Rates and Charges" pertaining to the range of student union fees per student; and

(iv) under the caption "SYSTEMWIDE REVENUE BOND PROGRAMS – Health Center Facilities Program" pertaining to the amount of the health center facility fee and the campuses of the California State University system at which such fee is imposed.

(3) Information regarding the issuance by the Board of any debt secured on a parity with the Bonds since the date of the last Annual Report.

(4) Information regarding any amendments to the Indenture made since the date of the last Annual Report.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Board is an "obligated person" (as defined by the Rule), which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Board shall clearly identify each such other document so included by reference.



Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Board shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) modifications to rights of Bondholders;
- (4) optional, contingent or unscheduled bond calls;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
- (8) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform;
- (11) release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Board obtains knowledge of the occurrence of a Listed Event, the Board shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Board has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Board shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The Board's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Board shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Board pursuant to this Disclosure Certificate.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Board may amend this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the

opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Board shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Board. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Board chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Board shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Board to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Board to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Board agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise of performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Board under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Board, the Treasurer, the Dissemination Agent, each Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the Board has caused this Disclosure Certificate to be executed by its authorized representative as of the date first above written.

TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

By \_\_\_\_\_  
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Trustees of the California State University

Name of Bond Issue: Trustees of the California State University Systemwide Revenue Bonds, Series 2010A and Series 2010B (Taxable - Build America Bonds)

Date of Issuance: \_\_\_\_\_, 2010

NOTICE IS HEREBY GIVEN that the Trustees of the California State University (the "Board") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate executed and delivered by the Board with respect to the above-named Bonds. [The Board anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

\_\_\_\_\_  
Authorized Representative

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## APPENDIX F-1

### FORM OF BOND COUNSEL OPINION FOR THE SERIES 2010A BONDS

[closing date for Series 2010A Bonds]

Trustees of the California State University  
Long Beach, California

Trustees of the California State University  
Systemwide Revenue Bonds, Series 2010A  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Trustees of the California State University (the "Issuer") in connection with the issuance of \$146,950,000 aggregate principal amount of Trustees of the California State University Systemwide Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), issued pursuant to The State University Revenue Bond Act of 1947 of the State of California, as amended, and pursuant to an indenture dated as of April 1, 2002, as supplemented, including by a Twelfth Supplement Indenture, dated as of March 1, 2010 (the "Indenture"), by and between the Issuer and the Treasurer of the State of California, as trustee (the "State Treasurer"). The Series 2010A Bonds are being issued to finance and refinance the costs of construction of facilities at various campuses of the California State University and certain related expenses. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, certificates of the Issuer, the State Treasurer, and others, the opinion of counsel to the Issuer, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2010A Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2010A Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no

responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2010A Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2010A Bonds constitute the valid and binding special obligations of the Issuer payable from Gross Revenues and other amounts pledged under the Indenture, subject to the terms of the Indenture and any Indebtedness secured by a Senior Lien. The Issuer is not obligated to pay the principal of or interest on the Series 2010A Bonds except from such Gross Revenues and any other amounts pledged under the Indenture, subject to the terms of the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2010A Bonds, of the Gross Revenues and any other amounts (including proceeds of the sale of the Series 2010A Bonds) held by the State Treasurer in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2010A Bonds are not a lien, charge or liability against the State of California, or against the Issuer or against the property or funds of either, except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2010A Bonds. The Series 2010A Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. Interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

## APPENDIX F-2

### FORM OF BOND COUNSEL OPINION FOR THE SERIES 2010B BONDS

[closing date for Series 2010B Bonds]

Trustees of the California State University  
Long Beach, California

Trustees of the California State University  
Systemwide Revenue Bonds, Series 2010B (Taxable – Build America Bonds)  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Trustees of the California State University (the “Issuer”) in connection with the issuance of \$205,145,000 aggregate principal amount of Trustees of the California State University Systemwide Revenue Bonds, Series 2010B (Taxable – Build America Bonds) (the “Series 2010B Bonds”), issued pursuant to The State University Revenue Bond Act of 1947 of the State of California, as amended, and pursuant to an indenture dated as of April 1, 2002, as supplemented, including by a Thirteenth Supplemental Indenture, dated as of March 1, 2010 (the “Indenture”), by and between the Issuer and the Treasurer of the State of California, as trustee (the “State Treasurer”). The Series 2010B Bonds are being issued to finance and refinance the costs of construction of facilities at various campuses of the California State University and certain related expenses. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, certificates of the Issuer, the State Treasurer, and others, the opinion of counsel to the Issuer, the Tax Certificate of the Issuer, dated the date hereof (the “Tax Certificate”), and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof.

We call attention to the fact that the rights and obligations under the Series 2010B Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2010B Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2010B Bonds constitute the valid and binding special obligations of the Issuer payable from Gross Revenues and other amounts pledged under the Indenture, subject to the terms of the Indenture and any Indebtedness secured by a Senior Lien. The Issuer is not obligated to pay the principal of or interest on the Series 2010B Bonds except from such Gross Revenues and any other amounts pledged under the Indenture, subject to the terms of the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2010B Bonds, of the Gross Revenues and any other amounts (including proceeds of the sale of the Series 2010B Bonds) held by the State Treasurer in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Series 2010B Bonds are not a lien, charge or liability against the State of California, or against the Issuer or against the property or funds of either, except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2010B Bonds. The Series 2010B Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. Interest on the Series 2010B Bonds is exempt from State of California personal income taxes. Interest on the Series 2010B Bonds is not excluded from gross income for federal income tax purposes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP



## **APPENDIX G**

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the California State University Systemwide Revenue Bonds, Series 2010A (the “Series 2010A Bonds”) and the Trustees of the California State University Systemwide Revenue Bonds, Series 2010B (Taxable – Build America Bonds) (the “Series 2010B Bonds” and together with the Series 2010A Bonds, the “2010 Bonds”). The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each maturity of the 2010 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2010 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2010 Bonds, except in the event that use of the book-entry system for the 2010 Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2010 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments

to the 2010 Bond documents. For example, Beneficial Owners of 2010 Bonds may wish to ascertain that the nominee holding the 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2010 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.\*

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Trustee, on payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2010 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2010 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2010 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2010 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2010 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2010 Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2010 Bonds at any time by giving reasonable notice to the Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical 2010 Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical 2010 Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

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\*By written notice of the Trustee, DTC will modify its practice and observe a pro rata reduction of principal with respect to the Series 2010B Bonds.

## APPENDIX H

### PROJECTS FINANCED AND BOND REFUNDED WITH SERIES 2010 BONDS

#### SERIES 2010A BONDS

##### New Money and Bond Anticipation Note Projects

<i>Campus, Project</i>	<i>Allocation of Principal</i>
Northridge Corporation Food Service Renovation	\$ 2,310,000
San Bernardino Health Center	2,040,000
Fullerton Parking Structure 4, Phase 1	6,750,000
East Bay Recreation Center	5,830,000
San Diego St., Aztec Shops Ltd. Housing Acquisition	6,450,000
Los Angeles Housing Acquisition	1,710,000
Fullerton Housing <sup>(1)</sup>	33,075,000
Northridge Recreation Center	13,870,000
San Marcos Public Safety Building	1,925,000
San Luis Obispo Recreation Center	20,710,000
	<hr/>
SUBTOTAL	\$94,670,000

##### Auxiliary Organization Bonds to Be Refunded

<i>Organization/Series</i>	<i>Principal to be Refunded</i>	<i>Redemption Date</i>	<i>Redemption Price</i>	<i>Allocation of Principal</i>
Fullerton Auxiliary Services Corporation, <sup>(2)</sup> Series 2000A	\$16,740,000	7/1/2010	101%	\$ 14,055,000
Fullerton Auxiliary Services Corporation, <sup>(2)</sup> Series 2000B (Tax-Exempt) (Remarketed in 2004)	8,295,000	7/1/2014	100	7,985,000
San Diego St. Aztec Shops Ltd., Series 2000	21,370,000	9/1/2010	101	19,220,000
San Diego St. Research Foundation, Series 1998	6,605,000	5/11/2010	100	5,735,000
San Diego St. Research Foundation, Series 1999	6,485,000	5/11/2010	100	5,285,000
				<hr/>
SUBTOTAL				\$ 52,280,000
TOTAL 2010A BONDS				<hr/> \$146,950,000 <hr/>

<sup>(1)</sup> A portion of this project was also funded with a portion of the proceeds of Series 2009A Bonds.

<sup>(2)</sup> Formerly known as California State University, Fullerton Foundation.

## SERIES 2010B BONDS

### New Money and Bond Anticipation Note Projects

<i>Campus, Project</i>	<i>Allocation of Principal</i>
San Bernardino Health Center	\$ 4,035,000
Fullerton Parking Structure 4, Phase 1	14,700,000
East Bay Recreation Center	19,375,000
San Diego St., Aztec Shops Ltd. Housing Acquisition	18,705,000
Los Angeles Housing Acquisition	4,495,000
Fullerton Housing <sup>(1)</sup>	56,875,000
Northridge Recreation Center	31,010,000
San Marcos Public Safety Building	3,500,000
San Luis Obispo Recreation Center	52,450,000
	<hr/>
TOTAL 2010B BONDS	\$205,145,000

<sup>(1)</sup> A portion of this project was also funded with a portion of the proceeds of Series 2009A Bonds.





FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272