



**SONOMA STATE UNIVERSITY**

Basic Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

# SONOMA STATE UNIVERSITY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Basic Financial Statements	13



Three Embarcadero Center  
San Francisco, CA 94111

## Independent Auditors' Report

Dr. Ruben Arminana  
President  
Sonoma State University

We have audited the accompanying basic financial statements of Sonoma State University (the University) and its aggregate discretely presented component units, as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinion on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

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

As discussed in note 3, the discretely presented component units' net assets at the beginning of the year have been restated.

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





Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 17, 2003

# SONOMA STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2003

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

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

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

The basic financial statements include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements are supported by the notes to the basic financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the University.

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

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

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

**SONOMA STATE UNIVERSITY**  
Management's Discussion and Analysis  
June 30, 2003

**Analytical Overview**

Summary

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities.

Included in management's discussion is an analysis of current year activities and balances; a discussion of restrictions of University net assets; a discussion of capital assets and long term debt; and factors impacting future reporting periods.

**Condensed Summary of Net Assets**

	<b>2003</b>	<b>2002</b>
<b>Assets:</b>		
Current assets	\$ 38,559,380	38,376,766
Capital assets	140,687,944	95,413,257
Other noncurrent assets	25,474,729	53,127,652
Total assets	204,722,053	186,917,675
<b>Liabilities:</b>		
Current liabilities	34,947,479	24,335,348
Long-term liabilities	85,349,530	87,020,811
Other noncurrent liabilities	14,391,988	14,078,557
Total liabilities	134,688,997	125,434,716
<b>Net assets:</b>		
Invested in capital assets net of related debt	58,481,481	52,091,635
Restricted, expendable	4,441,819	3,690,904
Unrestricted	7,109,756	5,700,420
Total net assets	\$ 70,033,056	61,482,959

Net Assets

The University's net assets totaled \$70 million at June 30, 2003. A significant portion, \$58.5 million of net assets at the end of the year are invested in capital assets. Net assets increased by \$8.6 million between 2002 and 2003. The primary reason for the increase was due to capital gifts made to the University. Capital gifts totaled \$8.2 million and consisted of the following:

The working drawings for the Green Music Center, costing \$5.4 million were gifted to the University from the Sonoma State Enterprises, Inc. Funding for the working drawings came from donations made to the Sonoma State University Academic Foundation (Foundation). The Foundation transferred the funds to the Sonoma State Enterprises over several years to fund all costs associated with the project.

Land (6.31 acres), costing \$550,000 was gifted to the University from the Sonoma State University Academic Foundation.

**SONOMA STATE UNIVERSITY**  
Management's Discussion and Analysis  
June 30, 2003

Equipment, costing \$475,000 was gifted to the University from the Sonoma State University Academic Foundation.

Buildings, costing \$181,000 were gifted to the University from the Sonoma State University Academic Foundation.

Equipment, valued at \$1.6 million was gifted to the University from outside entities.

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

	<b>Restricted Funds</b>	
	<u>2003</u>	<u>2002</u>
Expendable:		
Scholarships and fellowships	\$ 29,326	63,351
Loans	2,869	2,869
Capital projects	606,579	1,368,092
Debt service	1,920,391	—
Grants and contracts	<u>1,882,654</u>	<u>2,256,592</u>
Total expendable	<u>\$ 4,441,819</u>	<u>3,690,904</u>

Net assets of the University also include unrestricted categories of net assets. Unrestricted net assets may be designated for use by management of the University and may have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures of unrestricted net assets may be made, and require that unrestricted net assets be designated to support future operations in these areas. Campus housing programs are a primary example. Unrestricted net assets total \$7.1 million.

**SONOMA STATE UNIVERSITY**  
Management's Discussion and Analysis  
June 30, 2003

**Condensed Summary of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30**

	<b>2003</b>	<b>2002</b>
Operating revenues:		
Student tuition and fees	\$ 18,355,515	17,302,090
Grants and contracts, noncapital	33,939,374	28,596,002
Sales and services of auxiliary enterprises, net	11,653,944	10,526,198
Other operating revenue	9,016,351	8,485,962
Total operating revenues	72,965,184	64,910,252
Operating expenses	128,162,171	120,999,628
Nonoperating revenues (expenses):		
State appropriations, non-capital	57,579,729	56,442,263
Investment income	1,225,379	1,085,739
Other nonoperating expenses	(3,694,618)	(3,089,355)
Total nonoperating revenues	55,110,490	54,438,647
State appropriations, capital	317,000	7,970,000
Grants and gifts, capital	8,319,594	121,006
Change in net assets	8,550,097	6,440,277
Beginning net assets	61,482,959	55,042,682
Ending net assets	\$ 70,033,056	61,482,959

Change in Net Assets

Overall operating revenues increased by 12%. Student tuition and fees increased primarily as a result of the Student Union Recreation fee and tuition increases. Grants and contracts increased due to new grants and increased activity in on-going grants. Sales and services of auxiliary enterprises increased due to modest rate increases combined with an increase in housing residents.

Non-capital state appropriations increased because of the University enrollment increase. Capital state appropriations decreased \$7.7 million for University projects due to the completion of the telecommunication infrastructure project.

Overall expense increases were mainly a result of increases in salary and benefit costs and an increase in grant activity. Depreciation expense increased due to the large capital asset acquisitions during the year.

**SONOMA STATE UNIVERSITY**  
Management's Discussion and Analysis  
June 30, 2003

Capital Assets

At June 30, 2003, the University had \$140.7 million in capital assets, net of accumulated depreciation of \$86.4 million. Depreciation charges totaled \$5.4 million for the current fiscal year. Details of these assets are shown below:

<b>Capital assets, net</b>	<b>2003</b>	<b>2002</b>
Land and land improvements	\$ 5,920,203	4,479,684
Works of art and historical treasures	436,931	404,165
Buildings and building improvements	67,634,397	46,242,457
Improvements, other than buildings	7,255,498	1,754,787
Infrastructure	11,116,251	6,036,525
Personal property (Equipment & Library Books)	7,783,692	6,289,758
Construction work in progress	40,540,972	30,205,881
Total	\$ <u>140,687,944</u>	<u>95,413,257</u>

Major capital projects completed by the University during the fiscal year include:

- Salazar Building Remodel
- Parking Lots L, M, N, & O
- Telecommunications Infrastructure Project

Expenditures to date for major capital projects in progress during the year and their funding sources (in millions):

Student Housing Project funded by revenue bonds specifically for the construction of the Beaujolais student apartments	\$ 30.9
Infrastructure Terminal Resources Project funded by the Chancellor's Office	1.7
Student Recreation Center funded by revenue bonds specifically for the construction of the recreation center	<u>3.2</u>
Total	\$ <u><u>35.8</u></u>

**SONOMA STATE UNIVERSITY**  
Management's Discussion and Analysis  
June 30, 2003

Long-Term Debt Obligations

At June 30, 2003, the University had approximately \$101.8 million in debt outstanding. Debt outstanding at June 30, 2003 is summarized below by type of debt instrument:

<u>Outstanding debt</u>	<u>2003</u>	<u>2002</u>
Revenue bonds	\$ 85,697,235	86,508,128
Bond Anticipation Notes	15,479,000	—
Capital leases	—	7,883
Other	657,812	1,744,611
Total	<u>\$ 101,834,047</u>	<u>88,260,622</u>

New debt issued during the year by the University included \$15.5 million in Student Recreation Center Bond Anticipation Notes.

In addition to the \$15.5 million in Student Recreation Center Bond Anticipation Note proceeds, the University received approximately \$45 million in proceeds resulting from the 2002A Housing Revenue Bonds and the 2002 Parking Revenue Bonds issued in fiscal year 2001/2002.

Factors Impacting Future Periods

Darwin Hall, Sonoma State University's Science and Technology instructional facility will be remodeled in two phases. Phase I is scheduled for the 2003/2004 year and Phase II for the 2004/2005 year. The result will be a state of the art science and technology instructional facility. The capital portion of the project is funded through bonds. Funding for the interim relocation costs is still being explored.

**SONOMA STATE UNIVERSITY**

Statement of Net Assets

June 30, 2003

Assets	University	Discretely presented component units Auxiliary Organizations	Total
<b>Current assets:</b>			
Cash and cash equivalents	\$ 9,136,426	2,968,207	12,104,633
Short-term investments	16,448,720	4,752,549	21,201,269
Accounts receivable, net	12,569,818	688,297	13,258,115
Pledges receivable, net	—	1,073,948	1,073,948
Prepaid expenses and other assets	404,416	1,128,839	1,533,255
Total current assets	<u>38,559,380</u>	<u>10,611,840</u>	<u>49,171,220</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents	22,737,655	—	22,737,655
Accounts receivable, net	707,499	—	707,499
Student loans receivable, net	1,957,908	—	1,957,908
Pledges receivable, net	—	803,643	803,643
Endowment investments	—	18,710,230	18,710,230
Other long-term investments	—	20,644,047	20,644,047
Capital assets, net	140,687,944	1,310,050	141,997,994
Other assets	71,667	7,324,550	7,396,217
Total noncurrent assets	<u>166,162,673</u>	<u>48,792,520</u>	<u>214,955,193</u>
Total assets	<u>204,722,053</u>	<u>59,404,360</u>	<u>264,126,413</u>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable	6,008,822	325,059	6,333,881
Accrued salaries and benefits payable	4,566,018	12,325	4,578,343
Accrued compensated absences – current portion	3,230,238	47,937	3,278,175
Deferred revenue	4,077,027	51,702	4,128,729
Long-term debt obligations – current portion	16,484,517	184,169	16,668,686
Other liabilities	580,857	936,608	1,517,465
Total current liabilities	<u>34,947,479</u>	<u>1,557,800</u>	<u>36,505,279</u>
<b>Noncurrent liabilities:</b>			
Accrued compensated absences, net of current portion	1,997,405	39,217	2,036,622
Grants refundable	2,234,275	—	2,234,275
Deferred revenue	9,490,000	—	9,490,000
Long-term debt obligations, net of current portion	85,349,530	5,902,957	91,252,487
Self-insurance claims liability	135,308	—	135,308
Depository accounts	535,000	—	535,000
Other liabilities	—	6,146,227	6,146,227
Total noncurrent liabilities	<u>99,741,518</u>	<u>12,088,401</u>	<u>111,829,919</u>
Total liabilities	<u>134,688,997</u>	<u>13,646,201</u>	<u>148,335,198</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	58,481,481	1,310,050	59,791,531
Restricted for:			
Nonexpendable – endowments	—	21,540,978	21,540,978
Expendable:			
Scholarships and fellowships	29,326	349,820	379,146
Loans	2,869	—	2,869
Capital projects	606,579	—	606,579
Debt service	1,920,391	—	1,920,391
Grants and contracts	1,882,654	—	1,882,654
Other	—	16,217,440	16,217,440
Unrestricted	7,109,756	6,339,871	13,449,627
Total net assets	<u>\$ 70,033,056</u>	<u>45,758,159</u>	<u>115,791,215</u>

See accompanying notes to basic financial statements.

**SONOMA STATE UNIVERSITY**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

		<b>Discretely presented component units</b>	
	<b>University</b>	<b>Auxiliary Organizations</b>	<b>Total</b>
Revenues:			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of \$3,887,421)	\$ 18,355,515	1,926,217	20,281,732
Grants and contracts, noncapital:			
Federal	14,816,674	106,568	14,923,242
State and local	17,196,059	1,063,932	18,259,991
Nongovernmental	1,926,641	1,100	1,927,741
Sales and services of educational activities	—	20,244	20,244
Sales and services of auxiliary enterprises	11,653,944	5,694,632	17,348,576
Other operating revenues	9,016,351	575,853	9,592,204
Total operating revenues	<u>72,965,184</u>	<u>9,388,546</u>	<u>82,353,730</u>
Expenses:			
Operating expenses:			
Instruction	35,682,176	373,233	36,055,409
Public service	33,063,612	882,536	33,946,148
Academic support	8,985,114	165,730	9,150,844
Student services	10,550,467	2,613,262	13,163,729
Institutional support	17,409,578	265,759	17,675,337
Operation and maintenance of plant	5,959,765	—	5,959,765
Student grants and scholarships	4,781,038	217,646	4,998,684
Auxiliary enterprise expenses	6,373,610	4,546,661	10,920,271
Depreciation and amortization	5,356,811	152,193	5,509,004
Total operating expenses	<u>128,162,171</u>	<u>9,217,020</u>	<u>137,379,191</u>
Operating gain (loss)	<u>(55,196,987)</u>	<u>171,526</u>	<u>(55,025,461)</u>
Nonoperating revenues (expenses):			
State appropriations, noncapital	57,579,729	—	57,579,729
Gifts, noncapital	—	993,924	993,924
Investment income, net	1,225,379	2,225,003	3,450,382
Interest on capital-related debt	(4,658,415)	(34,890)	(4,693,305)
Other nonoperating revenues, net	963,797	321,062	1,284,859
Net nonoperating revenues (expenses)	<u>55,110,490</u>	<u>3,505,099</u>	<u>58,615,589</u>
Gain (loss) before other revenues, expenses, gains, or losses	(86,497)	3,676,625	3,590,128
State appropriations, capital	317,000	—	317,000
Grants and gifts, capital	8,319,594	(6,722,560)	1,597,034
Additions to permanent endowments	—	1,833,464	1,833,464
Increase (decrease) in net assets	<u>8,550,097</u>	<u>(1,212,471)</u>	<u>7,337,626</u>
Net assets:			
Net assets at beginning of year (as restated)	<u>61,482,959</u>	<u>46,970,630</u>	<u>108,453,589</u>
Net assets at end of year	<u>\$ 70,033,056</u>	<u>45,758,159</u>	<u>115,791,215</u>

See accompanying notes to basic financial statements.

**SONOMA STATE UNIVERSITY**

Statement of Cash Flows

Year ended June 30, 2003

	<u>University</u>	<u>Discretely presented component units Auxiliary Organizations</u>
Cash flows from operating activities:		
Tuition and fees	\$ 18,578,290	1,926,217
Federal grants and contracts	14,535,267	82,971
State and local grants and contracts	15,588,068	1,663,821
Nongovernmental grants and contracts	2,493,114	1,100
Payments to suppliers	(39,708,998)	(13,369,651)
Payments to employees	(78,664,551)	(1,222,996)
Payments to students	(4,781,038)	(217,643)
Sales and services of auxiliary enterprises	11,847,146	11,326,880
Sales and services of educational activities	—	20,244
Other receipts	8,626,088	586,446
Net cash (used in) provided by operating activities	<u>(51,486,614)</u>	<u>797,389</u>
Cash flows from noncapital financing activities:		
State appropriations	59,498,285	—
Gifts and grants received for other than capital purposes	—	4,531,123
Federal loan program receipts	22,623,268	—
Federal loan program disbursements	(22,655,493)	—
Other	1,113,091	(1,029,657)
Net cash provided by noncapital financing activities	<u>60,579,151</u>	<u>3,501,466</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	60,810,615	60,000
State appropriations	4,733,070	—
Proceeds from sale of capital assets	—	589,776
Acquisition of capital assets	(45,492,606)	(688,091)
Principal paid on capital debt and leases	(2,000,712)	(618,457)
Interest paid on capital debt and leases	(5,441,674)	(46,121)
Net cash provided by (used in) capital and related financing activities	<u>12,608,693</u>	<u>(702,893)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	37,579,390	20,616,207
Investment income	1,150,340	1,689,088
Purchase of investments	(34,692,190)	(25,654,405)
Net cash provided by (used in) investing activities	<u>4,037,540</u>	<u>(3,349,110)</u>
Net increase in cash and cash equivalents	25,738,770	246,852
Cash and cash equivalents at beginning of year	<u>6,135,311</u>	<u>2,721,355</u>
Cash and cash equivalents at end of year	<u>\$ 31,874,081</u>	<u>2,968,207</u>

**SONOMA STATE UNIVERSITY**

Combined Statement of Cash Flows

Year ended June 30, 2003

	<b>University</b>	<b>Discretely presented component units Auxiliary Organizations</b>
Reconciliation of net operating (loss) gain to net cash (used in) provided by operating activities:		
Operating (loss) gain	\$ (55,196,987)	171,526
Adjustments to reconcile net operating (loss) gain to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	5,356,811	152,193
Change in assets and liabilities:		
Accounts receivable, net	(1,576,058)	728,525
Prepaid expenses and other assets	501,200	451
Accounts payable	(1,085,095)	(782,648)
Accrued salaries and benefits	716,641	3,464
Accrued compensated absences	783,261	(13,261)
Deferred revenue	(319,486)	(49,323)
Self insurance claims liability	(1,201,692)	—
Depository accounts	285,000	—
Other liabilities	249,791	586,462
Net cash (used in) provided by operating activities	\$ (51,486,614)	797,389
Supplemental disclosure of cash flow information:		
Noncash transaction:		
Gifts of capital assets	\$ 8,200,000	(6,600,000)

See accompanying notes to basic financial statements.

# SONOMA STATE UNIVERSITY

## Notes to Basic Financial Statements

June 30, 2003

### (1) Organization

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

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

### (2) Summary of Significant Accounting Policies

#### (a) *Financial Reporting Entity*

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

The discretely presented Auxiliary Organizations are as follows:

- Sonoma State University Academic Foundation, Inc.
- Sonoma State Enterprises, Inc.
- Sonoma Student Union Corporation
- Associated Students of Sonoma State University, Inc.

# SONOMA STATE UNIVERSITY

## Notes to Basic Financial Statements

June 30, 2003

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

June 30, 2003	Sonoma State University Academic Foundation, Inc.	Sonoma State Enterprises, Inc.	Sonoma Student Union Corporation	Associated Students of Sonoma State University, Inc.	Total
Current assets	\$ 6,881,211	2,578,665	390,458	761,506	10,611,840
Capital assets, net	—	868,624	375,577	65,849	1,310,050
Total assets	45,456,413	12,354,557	766,035	827,355	59,404,360
Current liabilities	900,970	243,298	161,895	251,637	1,557,800
Long-term liabilities	—	5,829,806	73,151	—	5,902,957
Total liabilities	7,080,836	6,073,104	240,624	251,637	13,646,201
Invested in capital assets, net of related debt	—	868,624	375,577	65,849	1,310,050
Restricted	38,108,238	—	—	—	38,108,238
Unrestricted	267,339	5,412,829	149,834	509,869	6,339,871
Total net assets	38,375,577	6,281,453	525,411	575,718	45,758,159
Student tuition and fees	—	—	997,156	929,061	1,926,217
Grants and contracts, noncapital	882,065	—	1,100	288,435	1,171,600
Sales and services of educational activities	20,244	—	—	—	20,244
Sales and services of auxiliary enterprises, net	110,841	5,180,219	403,572	—	5,694,632
Other	389,687	12,761	24,488	148,917	575,853
Total operating (program) revenue	1,402,837	5,192,980	1,426,316	1,366,413	9,388,546
Instruction	373,233	—	—	—	373,233
Public service	882,536	—	—	—	882,536
Academic support	165,730	—	—	—	165,730
Student services	120,612	—	1,318,658	1,173,992	2,613,262
Institutional support	265,759	—	—	—	265,759
Student grants and scholarships	163,986	—	4,610	49,050	217,646
Auxiliary enterprise expenses	43,848	4,502,813	—	—	4,546,661
Depreciation	35,772	58,830	40,586	17,005	152,193
Total operating expenses	2,051,476	4,561,643	1,363,854	1,240,047	9,217,020
Nonoperating revenues (expenses) and capital additions	2,051,286	(5,225,926)	(30,545)	(12,276)	(3,217,461)
Contributions to endowments	1,833,464	—	—	—	1,833,464
Beginning net assets (as restated)	35,139,466	10,876,042	493,494	461,628	46,970,630
Ending net assets	38,375,577	6,281,453	525,411	575,718	45,758,159

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

# SONOMA STATE UNIVERSITY

## Notes to Basic Financial Statements

June 30, 2003

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

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

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

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

The Auxiliary Organizations included in these financial statements apply the accounting and reporting standards promulgated by the GASB.

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

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

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

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

**(e) *Cash Equivalents***

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

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

**(f) Investments**

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

**(g) Capital Assets**

Capital assets are stated at cost or estimated historical cost if purchased, or if donated at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying basic financial statements. Capital assets, with the exception of land, works of art and historical treasures and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 40 years. Library books, unless rare collections, are capitalized and depreciated over a ten-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

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

**(h) Deferred Revenue**

Deferred revenue consists primarily of fees collected in advance for summer and fall terms, continuing education programs, and payments received in accordance with an operating lease agreement and use of services agreement.

**(i) Compensated Absences**

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

**(j) Grants Refundable**

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

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

**(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 retain them in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.

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

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

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

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

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses or capital contributions in accordance with GASB Statement 35. These nonoperating activities include the University's operating and capital appropriations from the State of California, net investment income, gifts, and interest expense.

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

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

# SONOMA STATE UNIVERSITY

## Notes to Basic Financial Statements

June 30, 2003

**(m) *Income Taxes***

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

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

**(n) *Estimates***

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

**(3) *Prior Period Adjustment***

An adjustment was made to the net assets of the Sonoma State University Academic Foundation, Inc. (the Foundation) to record the liability portion of the charitable remainder trusts. Previously, the Foundation did not record the liability resulting from its obligation to the beneficiaries of these agreements. In addition, the Foundation had under reported the present value of the assets and restricted contribution revenue relating to a remainder interest in a charitable remainder trust managed by a third party. These adjustments decreased the net assets of the Foundation by \$6,265,619 as of June 30, 2002.

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

The deposits of the University that are maintained at financial institutions are fully insured or collateralized as required by state law. At June 30, 2003, cash consisted of demand deposits held at the State Treasury, Wachovia Bank, Bank of America and petty cash. This cash of \$9,514,890, which consists of \$378,464 classified as restricted cash and cash equivalents, had a bank balance of \$9,165,151. The differences related to deposits in transit and outstanding checks. In addition, bond proceed demand deposits in the amount of \$22,359,191 are being held by the Chancellor's Office on behalf of the University and are classified as restricted cash and cash equivalents.

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

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

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

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

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

State of California Surplus Money Investment Fund	\$ 14,455,505
Metropolitan West Total Return Fund	55,159
Metropolitan West Short Term Fund	<u>1,938,056</u>
Total	<u>\$ 16,448,720</u>

Investments of the Foundation, one of the discretely presented component units of the University, at fair value consisted of the following:

Notes receivable with interest between 7.5% and 12.0% per annum, final maturities due on demand through October 2013, secured by deeds of trust with the exception of one note receivable	\$ 11,002,888
Charitable remainder trust assets invested in notes receivable with interest between 8% and 12% per annum, final maturities August 2003 through October 2013	9,199,922
Mutual funds	11,262,444
Stocks	6,840,956
Annuity and life insurance	15,623
Other collectibles	25,000
Real estate	<u>2,141,665</u>
Total	<u>\$ 40,488,498</u>

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

**(5) Accounts Receivable**

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 1,458,735	707,499	2,166,234
Auxiliary organizations	228,182	—	228,182
Student accounts	358,654	—	358,654
Government grants and contracts	8,148,975	—	8,148,975
Chancellor's office – debt service	1,920,391	—	1,920,391
Other	634,350	—	634,350
	<u>12,749,287</u>	<u>707,499</u>	<u>13,456,786</u>
Less allowance for doubtful accounts	<u>(179,469)</u>	<u>—</u>	<u>(179,469)</u>
Total	<u>\$ 12,569,818</u>	<u>707,499</u>	<u>13,277,317</u>

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

**(6) Capital Assets**

Capital asset activity consisted of the following:

	<b>Balance June 30, 2002</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2003</b>
Nondepreciable capital assets:					
Land and land improvements	\$ 4,479,684	1,440,519	—	—	5,920,203
Works of art and historical treasures	404,165	32,766	—	—	436,931
Construction work in progress	30,205,881	34,049,852	—	(23,714,761)	40,540,972
Total nondepreciable capital assets	<u>35,089,730</u>	<u>35,523,137</u>	<u>—</u>	<u>(23,714,761)</u>	<u>46,898,106</u>
Depreciable capital assets:					
Buildings and building improvements	98,006,007	5,175,154	—	18,718,021	121,899,182
Improvements, other than buildings	11,950,192	4,416,025	—	1,850,817	18,217,034
Infrastructure	12,351,322	2,310,795	—	3,145,923	17,808,040
Personal property:					
Equipment	9,473,614	2,771,586	(610,746)	—	11,634,454
Library books and materials	9,311,542	554,707	(33,111)	—	9,833,138
Intangible assets	731,324	29,391	—	—	760,715
Total depreciable capital assets	<u>141,824,001</u>	<u>15,257,658</u>	<u>(643,857)</u>	<u>23,714,761</u>	<u>180,152,563</u>
Total cost	<u>176,913,731</u>	<u>50,780,795</u>	<u>(643,857)</u>	<u>—</u>	<u>227,050,669</u>
Less accumulated depreciation:					
Buildings and building improvements	51,763,550	2,501,235	—	—	54,264,785
Improvements, other than buildings	10,195,405	766,131	—	—	10,961,536
Infrastructure	6,314,797	376,992	—	—	6,691,789
Personal property:					
Equipment	5,057,517	1,306,941	(461,449)	—	5,903,009
Library books and materials	7,759,161	290,767	(33,111)	—	8,016,817
Intangible assets	410,044	114,745	—	—	524,789
Total accumulated depreciation	<u>81,500,474</u>	<u>5,356,811</u>	<u>(494,560)</u>	<u>—</u>	<u>86,362,725</u>
Net capital assets	<u>\$ 95,413,257</u>	<u>45,423,984</u>	<u>(149,297)</u>	<u>—</u>	<u>140,687,944</u>

**(7) Property on Operating Leases**

The University entered into an operating lease agreement with the Cotati-Rohnert Park Unified School District (C-RP District) for use of certain facilities located on the University campus for 25 years commencing July 1, 1999. In accordance with the agreement, the C-RP District is occupying approximately 15,000 square feet for classroom and office space. The University has received payments of

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

\$5,000,000 in accordance with the operating lease agreement. The receipts are being reflected in deferred revenue and recognized straight line over the term of the lease. The amount of deferred revenue at June 30, 2003 under this operating lease is \$4,200,000. The cost and carrying value of the 15,000 square feet of property under the lease is approximately \$1,055,000 at June 30, 2003.

**(8) Lease Obligations**

The University is obligated under various operating leases for facility rentals.

Operating leases consist of miscellaneous facility rentals and have terms expiring in various years through fiscal year 2005. In addition, the University has an operating lease expiring in 2008, which was fully prepaid in the amount of \$100,000. The leases can be canceled if the state does not provide adequate funding.

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

	<u>Operating leases</u>
Year ending June 30:	
2004	\$ 373,584
2005	<u>113,843</u>
Total minimum lease payments	<u>\$ 487,427</u>

Rent expense under operating leases for the year ended June 30, 2003 totaled \$446,862.

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

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

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

## SONOMA STATE UNIVERSITY

### Notes to Basic Financial Statements

June 30, 2003

The Revenue Bond Act of 1947 provides the board of trustees with the ability to issue revenue bonds to fund four specific self-supporting programs. The statute has enabled the Trustees to finance student housing, parking facilities, student unions, and health centers. Outstanding bonds at June 30, 2003 consisted of campus student union bonds, campus housing and campus parking 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. 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 parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from fee charges and 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 student union program provides facilities and programs aimed at creating and enhancing learning experiences outside the classroom by promoting interaction among students, faculty, and staff. The student union program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. After payment of all authorized charges, the balances of these funds are available for transfer to the campus auxiliary organization that has contracted with the University to operate the facility. The operating entity may derive additional revenue from facility sub-rental, recreational and commercial activities, and interest income.

The University had issued Revenue Bonds Anticipation Notes to finance the development and construction of campus housing units. A Revenue Bond Anticipation Note is a borrowing vehicle used in anticipation of the issuance of permanent revenue bonds at a date in the near future.

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

Long-term debt obligations of the University as of June 30, 2003 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Housing Revenue Bonds:				
Series AV	4.75-5.90%	2022	\$ 8,358,185	\$ 7,762,235
Series AX	4.75-5.20%	2031	29,095,000	28,175,000
Series 2002A	3.50-5.50%	2034	40,165,000	40,165,000
Parking Revenue Bonds:				
Series 2002	3.00-5.50%	2032	9,630,000	9,595,000
Student Recreation Center				
Bond Anticipation Notes	Weighted avg. 1%	2004	15,479,000	15,479,000
CIHS Modular Building	5.20%	2009	325,598	183,810
PBX System	5.75%	2010	805,109	433,528
Yamaha Pianos	5.50%	2007	95,138	40,474
Total long-term debt obligations				<u>\$ 101,834,047</u>

Long-term debt principal obligations outstanding at June 30, 2003 mature in the following fiscal years:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 16,484,517	4,234,789
2005	1,701,355	4,180,162
2006	1,850,103	4,106,443
2007	1,936,585	4,026,972
2008	2,004,506	3,943,702
2009-2013	11,037,489	18,271,865
2014-2018	12,679,492	15,378,710
2019-2023	15,625,000	11,739,801
2024-2028	17,795,000	7,546,684
2029-2033	18,235,000	2,665,075
2034	2,485,000	62,125
	<u>\$ 101,834,047</u>	<u>76,156,328</u>

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

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

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 4,444,382	4,013,499	(3,230,238)	5,227,643	3,230,238
Self insurance claims liability	1,337,000	2,427,444	(3,629,136)	135,308	—
Capitalized lease obligations	7,883	—	(7,883)	—	—
Long-term debt obligation:					
Housing Revenue Bonds	76,878,128	—	(775,893)	76,102,235	810,319
Parking Revenue Bonds	9,630,000	—	(35,000)	9,595,000	165,000
Student Recreation Center Bond Anticipation Notes	—	15,479,000	—	15,479,000	15,479,000
Other	1,744,611	95,138	(1,181,937)	657,812	30,198
Total long-term liabilities	<u>\$ 94,042,004</u>	<u>22,015,081</u>	<u>(8,860,087)</u>	<u>107,196,998</u>	<u>19,714,755</u>

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

**(a) Plan Description**

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

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

**(b) Funding Policy**

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 7.4% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

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

2001	\$	—
2002		2,272,119
2003		4,332,172

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

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

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

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

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

The University's allocation of the total self-insurance claims liability as of June 30, 2003 was approximately 1/2%, or \$135,000, all of which is considered to be a non-current liability. This amount has been recorded in the accompanying basic financial statements.

**SONOMA STATE UNIVERSITY**

Notes to Basic Financial Statements

June 30, 2003

**(13) Commitments and Contingencies**

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

Authorized expenditures for construction projects unexpended as of June 30, 2003 totaled \$12,802,000. These expenditures will be funded primarily from state appropriations and bond proceeds.

**(14) Classification of Operating Expenses**

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

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 25,995,455	6,169,691	—	3,517,030	—	35,682,176
Public service	11,035,915	2,596,875	—	19,430,822	—	33,063,612
Academic support	5,905,302	1,394,653	—	1,685,159	—	8,985,114
Student services	6,071,418	1,401,943	—	3,077,106	—	10,550,467
Institutional support	10,449,379	3,715,754	—	3,244,445	—	17,409,578
Operation and maintenance of plant	3,573,306	1,393,747	—	992,712	—	5,959,765
Student grants and scholarships	—	—	4,781,038	—	—	4,781,038
Auxiliary enterprise expenses	381,278	79,739	—	5,912,593	—	6,373,610
Depreciation	—	—	—	—	5,356,811	5,356,811
Total	<u>\$ 63,412,053</u>	<u>16,752,402</u>	<u>4,781,038</u>	<u>37,859,867</u>	<u>5,356,811</u>	<u>128,162,171</u>

**(15) Transactions with Related Entities**

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations allocated to the University through the Office of the Chancellor aggregated \$57,896,729 for the year ended June 30, 2003. State appropriations receivable aggregated \$2,166,234 at June 30, 2003.

The University received lottery revenue from the State of California in the amount of \$654,000 for the year ended June 30, 2003 and was recorded in other nonoperating revenues and expenses.

The University pays its bond debt service payments by transferring the money to the Chancellor's Office who in turn pays the actual debt service payment. The amount of money held at the Chancellor's Office at June 30, 2003 for future debt service payments is \$1,920,391 and is classified in accounts receivable.

# SONOMA STATE UNIVERSITY

## Notes to Basic Financial Statements

June 30, 2003

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

As discussed at notes 8 and 9, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying basic financial statements. For the year ended June 30, 2003 \$1.6 million in additions of capital assets are included in other nonoperating revenues in the accompanying basic financial statements.

The University provides operational support to its auxiliary organizations such as strategic planning, executive management, contract and procurement services, accounting, human services, and facility services. The auxiliary organizations pay the University a fee on a semi-annual basis in an amount in accordance with the policies for reimbursement of costs established by the Trustees. Effective June 20, 2002, the University entered into an agreement with one of its auxiliary organizations, Sonoma State Enterprises, Inc., in which the auxiliary prepaid \$6,100,000 to the University for these types of services over the next 20 years and is recognized as deferred revenue in the accompanying statement of net assets as of June 30, 2003. This amount will be recognized evenly over the service period.

The accompanying basic financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties:

Reimbursements from recognized Auxiliary Organizations for salaries of University employees working on contracts, grants, and other programs	\$	3,193,218
Gifts-in-kind to the University from recognized Auxiliary Organizations		6,644,702
Amounts receivable from the Office of the Chancellor		1,954,180
Amounts receivable from recognized Auxiliary Organizations		228,182
Reimbursements from recognized Auxiliary Organizations for other than salaries of University personnel		1,093,531