



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

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KPMG LLP
Suite 800
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Sacramento, CA 95814

Independent Auditors' Report

Dr. Alexander Gonzalez
President
California State University, Sacramento:

We have audited the accompanying financial statements of the California State University, Sacramento (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of five of six of the aggregate discretely presented component units, which statements reflect total assets constituting 100% and total revenues constituting 100% 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 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. 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 circumstance, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2, the financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of 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, 2006, 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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006, 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.



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 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

October 20, 2006

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Management's Discussion and Analysis

June 30, 2006

This Section of California State University, Sacramento's (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) 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*. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities of the University.

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

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

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

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



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Management's Discussion and Analysis

June 30, 2006

Analytical Overview

Summary

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

The University's condensed summary of net assets as of June 30, 2006 and 2005 are as follows:

Condensed Summary of Statement of Net Assets

| | June 30 | |
|---|-----------------------|--------------------|
| | 2006 | 2005 |
| Assets: | | |
| Current assets | \$ 100,756,671 | 93,953,126 |
| Capital assets | 208,701,521 | 178,277,523 |
| Other noncurrent assets | 58,168,783 | 43,042,166 |
| Total assets | <u>367,626,975</u> | <u>315,272,815</u> |
| Liabilities: | | |
| Current liabilities | 59,597,188 | 33,909,488 |
| Long-term debt obligation, net of current portion | 74,861,115 | 46,432,931 |
| Other noncurrent liabilities | 12,979,254 | 12,506,913 |
| Total liabilities | <u>147,437,557</u> | <u>92,849,332</u> |
| Net assets: | | |
| Invested in capital assets net of related debt | 135,036,089 | 134,179,727 |
| Restricted, expendable, and nonexpendable | 30,570,919 | 37,737,361 |
| Unrestricted | 54,582,410 | 50,506,395 |
| Total net assets | <u>\$ 220,189,418</u> | <u>222,423,483</u> |

Total assets increased by \$52.4 million from the prior year, primarily related to the continuing construction of new facilities on campus. Current assets increased approximately \$6.8 million and is associated with the University's cash position and is related to fiscal 2006/2007 student fees that were not remitted to the State Treasury. Construction and acquisition activity accounts for the \$30.4 million increase in capital assets. The \$15.1 million change in other noncurrent assets is associated with a decrease in State Appropriations Non-capital offset by the \$20.5 million increase in revenue bond receivables from the Chancellor's Office.

The total liabilities increase of \$54.6 million is basically due to increases in Accounts Payable, Long-term debt and capital lease obligations. The change in Current Liabilities is associated with a \$7.6 million change in accounts payable that is related to increased construction project payables at year end. The increase in

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Management's Discussion and Analysis

June 30, 2006

Long-term debt obligations amounted to \$74.9 million and \$46.6 million at June 30, 2006 and 2005, respectively. The change in Long-term debt obligations is related to increases for the noncurrent portion of Debt and Capital leases of \$28.3 million.

Total net assets decrease of \$2.2 million reflects the change in Capital Projects and Unrestricted net asset categories. Funding for current construction has been fully recognized for the most part, except for the campus bookstore. An increase in State Appropriation Non-capital and Investment Income accounts for the increase in Unrestricted net assets.

Restricted Resources

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

Restricted Net Assets

| | June 30 | |
|------------------------------|----------------|-------------|
| | 2006 | 2005 |
| Nonexpendable – endowments | \$ 8,609,695 | 8,516,854 |
| Expendable: | | |
| Scholarships and fellowships | 1,286,190 | 1,188,765 |
| Loans | 680,896 | 665,287 |
| Capital projects | 15,961,030 | 22,903,574 |
| Debt service | 2,410,944 | 3,045,767 |
| Other | 1,622,164 | 1,417,114 |
| Total expendable | 21,961,224 | 29,220,507 |
| Total restricted net assets | \$ 30,570,919 | 37,737,361 |



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Management's Discussion and Analysis

June 30, 2006

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005 is as follows:

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

| | Years ended June 30 | |
|--|----------------------------|--------------------|
| | 2006 | 2005 |
| Operating revenues: | | |
| Student tuition and fees | \$ 77,171,171 | 70,610,898 |
| Grants, contracts, and gifts | 37,243,955 | 36,332,295 |
| Sales and services of auxiliary enterprises, net | 12,404,075 | 12,514,815 |
| Other operating revenues | 3,418,275 | 8,401,345 |
| Total operating revenues | <u>130,237,476</u> | <u>127,859,353</u> |
| Operating expenses | <u>283,360,051</u> | <u>292,323,789</u> |
| Nonoperating revenues: | | |
| State appropriations, noncapital | 149,075,496 | 143,772,889 |
| Investment income | 3,570,125 | 1,621,198 |
| Other nonoperating revenues, net | (1,312,210) | 12,295,809 |
| Total nonoperating revenues | <u>151,333,411</u> | <u>157,689,896</u> |
| Other capital-related revenues | <u>(444,901)</u> | <u>1,169,532</u> |
| Decrease in net assets | <u>(2,234,065)</u> | <u>(5,605,008)</u> |
| Beginning net assets | <u>222,423,483</u> | <u>228,028,491</u> |
| Ending net assets | <u>\$ 220,189,418</u> | <u>222,423,483</u> |

Operating revenues increased \$2.4 million for the current year. Student tuition and fees increased \$6.6 million and is attributable to a 9.0% increase in fees over the prior year. Other operating revenues decreased \$5.0 million is mainly attributable to the elimination of Sales and Services of Educational Activities revenue postings. This revenue was associated with former agency funds held by University Enterprises, Inc (an auxiliary of the University). During the current year, it was determined through application of CSU system-wide policies that the agency funds should be held by the auxiliary and all revenue and expense activity reflected on their financial statements.

Operating expenses consist of salaries and fringe benefits of \$191.7 million, scholarships and fellowships of \$32.4 million, supplies and services of \$45.3 million and depreciation of \$13.9 million. Salaries and benefit costs increased by \$5.2 million due to salary rate and health and retirement benefit increases. These increases were significantly offset by the elimination of agency fund transactions due to a change in agency policies and greater efficiencies in spending of supplies and services which resulted in a net decrease in total operating expenses of \$9 million.

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Management's Discussion and Analysis

June 30, 2006

Nonoperating revenue decreased overall by \$6.4 million due to a combination of factors. Increases in State Appropriations, noncapital and Investment income were offset mainly by changes in reporting for certain campus program accounts (note 15) and improved revenue classification.

Capital Assets and Long Term Debt Obligations

Capital Assets

At June 30, 2006, the University had \$208.7 million in capital assets, net of accumulated depreciation of \$251.8 million. Depreciation expenses totaled \$13.9 million for the current fiscal year. Capital assets, net of accumulated depreciation are shown below:

| | June 30 | |
|---------------------------------------|-----------------------|--------------------|
| | 2006 | 2005 |
| Land and land improvements | \$ 968,491 | 968,491 |
| Works of art and historical treasures | 620,822 | 620,822 |
| Buildings and building improvements | 133,636,030 | 115,940,098 |
| Improvements, other than buildings | 1,515,062 | 1,588,480 |
| Infrastructure | 20,468,565 | 5,484,265 |
| Personal property | 10,484,326 | 12,532,309 |
| Intangible assets | 528,928 | 1,265,515 |
| Construction work in progress | 40,479,297 | 39,877,543 |
| Total | <u>\$ 208,701,521</u> | <u>178,277,523</u> |

University construction continues to surge forward. The current year saw the completion of the Academic Information Resource Center (AIRC) and two separate infrastructure projects. Roughly \$24.0 million was transferred from Construction work in progress (CWIP) for the AIRC to buildings, and along with current year depreciation, resulted in an increase of \$17.7 million. \$16.9 million was transferred from CWIP into Infrastructure and resulted in an increase of 15.0 million, net of current year depreciation.

Roughly \$41.5 million was added to CWIP for the ongoing construction of Parking Structure III and additional infrastructure upgrading along with initial costs associated with a new student bookstore and Athletic Field House. These additions were offset by the transfers out to buildings and infrastructure and resulted in a net addition of \$602 thousand.

Decreases in Personal property and Intangibles are due to depreciation and amortization expense in excess of additions.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Management's Discussion and Analysis

June 30, 2006

Long-Term Debt Obligations

Debt outstanding is summarized below by type of debt instrument:

| | June 30 | |
|--|----------------------|--------------------|
| | 2006 | 2005 |
| System revenue bonds | \$ 61,310,000 | 35,430,000 |
| Revenue bond anticipation notes | 16,576,000 | — |
| Capital leases | 14,620,104 | 12,808,599 |
| Unamortized bond premium | 1,485,780 | — |
| Unamortized loss on refunding | (231,930) | — |
| Total long-term debt | <u>93,759,954</u> | <u>48,238,599</u> |
| Less current portion | <u>(18,898,839)</u> | <u>(1,630,495)</u> |
| Long-term debt, net of current portion | <u>\$ 74,861,115</u> | <u>46,608,104</u> |

The increase in Systemwide revenue bonds and revenue bond anticipation notes is attributable to new construction funding. The current year realized roughly \$76.1 million in additions and \$32.4 million in reductions, resulting in a net addition of \$43.7 million.

New system-wide revenue bonds were issued for Parking Structure III in the amount of \$27.0 million and for the defeasance of Housing bonds in the amount of \$5.2 million. Bond Anticipation Notes (BAN) were issued for the new Student Bookstore in the amount of \$16.6 million and for initial construction of the Parking Structure III in the amount of \$26.0 million (this BAN was subsequently retired with the issuance of the system-wide revenue bond). \$1.5 million in bond premiums additions and \$200 thousand in refunding losses were realized on the aforementioned issuances.

Current year reductions saw \$1.1 million in principal payments, \$5.2 million in retired Housing bonds and \$26.0 million for the retirement of the Parking Structure III BAN.

The Capital lease increase of \$1.8 million for the current year is associated with a Chancellor's Office issued commercial paper loan for the PeopleSoft Student Administration project.

Facts Impacting Future Periods

The State General Fund budget for California State University, Sacramento for fiscal 2006/2007 is \$157.7 million, an increase of roughly \$8.7 million. The change is mostly attributable to increases in state financial aid and personnel cost funding.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Statement of Net Assets

June 30, 2006

| Assets | Discretely presented component units | | | Total |
|---|--------------------------------------|-------------------------|-------------------------|--------------------|
| | University | GASB | FASB | |
| | | Auxiliary Organizations | Auxiliary Organizations | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 18,728,409 | 2,883,346 | 2,890,304 | 24,502,059 |
| Short-term investments | 59,609,084 | 22,889,795 | 5,609,126 | 88,108,005 |
| Accounts receivable, net | 17,760,273 | 14,042,113 | 659,508 | 32,461,894 |
| Leases receivable, current portion | 75,000 | 578,248 | — | 653,248 |
| Pledges receivable, net | — | 2,141,002 | 464,341 | 2,605,343 |
| Prepaid expenses and other assets | 4,583,905 | 188,481 | 90,625 | 4,863,011 |
| Total current assets | 100,756,671 | 42,722,985 | 9,713,904 | 153,193,560 |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents | 1,109,977 | 5,725,017 | 138,831 | 6,973,825 |
| Accounts receivable, net | 18,103,036 | — | — | 18,103,036 |
| Leases receivable, net of current portion | 3,900,000 | 20,017,699 | — | 23,917,699 |
| Student loans receivable, net | 6,174,218 | — | — | 6,174,218 |
| Pledges receivable, net | — | 8,620,720 | 211,864 | 8,832,584 |
| Endowment investments | 7,803,780 | 7,655,436 | 838,149 | 16,297,365 |
| Other long-term investments | 21,077,772 | 14,946,001 | — | 36,023,773 |
| Capital assets, net | 208,701,521 | 19,008,011 | 4,770,566 | 232,480,098 |
| Other assets | — | 4,454,383 | 48,861 | 4,503,244 |
| Total noncurrent assets | 266,870,304 | 80,427,267 | 6,008,271 | 353,305,842 |
| Total assets | 367,626,975 | 123,150,252 | 15,722,175 | 506,499,402 |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable | 10,978,432 | 2,717,829 | 1,018,401 | 14,714,662 |
| Accrued salaries and benefits payable | 14,552,253 | 2,319,890 | 491,442 | 17,363,585 |
| Accrued compensated absences – current portion | 3,642,149 | 1,094,247 | 156,641 | 4,893,037 |
| Deferred revenue | 10,234,194 | 7,700,176 | 614,650 | 18,549,020 |
| Capitalized lease obligations – current portion | 1,202,839 | 760,000 | 139,174 | 2,102,013 |
| Long-term debt obligations – current portion | 17,696,000 | — | — | 17,696,000 |
| Other liabilities | 1,291,321 | 1,694,089 | 580,024 | 3,565,434 |
| Total current liabilities | 59,597,188 | 16,286,231 | 3,000,332 | 78,883,751 |
| Noncurrent liabilities: | | | | |
| Accrued compensated absences, net of current portion | 5,595,408 | — | 177,507 | 5,772,915 |
| Deferred revenue | — | 8,620,720 | — | 8,620,720 |
| Grants refundable | 6,749,814 | — | — | 6,749,814 |
| Capitalized lease obligations, net of current portion | 13,417,265 | — | — | 13,417,265 |
| Long-term debt obligations, net of current portion | 61,443,850 | 42,350,890 | 48,172 | 103,842,912 |
| Depository accounts | 634,032 | 3,014,816 | — | 3,648,848 |
| Other liabilities | — | 159,355 | — | 159,355 |
| Total noncurrent liabilities | 87,840,369 | 54,145,781 | 225,679 | 142,211,829 |
| Total liabilities | 147,437,557 | 70,432,012 | 3,226,011 | 221,095,580 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 135,036,089 | (711,413) | 4,583,220 | 138,907,896 |
| Restricted for: | | | | |
| Nonexpendable – endowments | 8,609,695 | 7,240,103 | 940,071 | 16,789,869 |
| Expendable: | | | | |
| Scholarships and fellowships | 1,286,190 | 924,110 | — | 2,210,300 |
| Loans | 680,896 | — | — | 680,896 |
| Capital projects | 15,961,030 | — | — | 15,961,030 |
| Debt service | 2,410,944 | — | — | 2,410,944 |
| Other | 1,622,164 | 4,715,025 | — | 6,337,189 |
| Unrestricted | 54,582,410 | 40,550,415 | 6,972,873 | 102,105,698 |
| Total net assets | \$ 220,189,418 | 52,718,240 | 12,496,164 | 285,403,822 |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2006

| | Discretely presented component units | | | | Total |
|--|---|------------------------------------|------------------------------------|--------------------|----------------------|
| | University | GASB Auxiliary Organizations | FASB Auxiliary Organizations | Eliminations | |
| Revenues: | | | | | |
| Operating revenues: | | | | | |
| Student tuition and fees (net of scholarship allowances of \$19,151,066) | \$ 77,171,171 | — | 8,946,910 | — | 86,118,081 |
| Grants and contracts, noncapital: | | | | | |
| Federal | 22,621,149 | 12,962,453 | 36,066 | — | 35,619,668 |
| State and local | 14,570,405 | 28,908,717 | 583,794 | — | 44,062,916 |
| Nongovernmental | 52,401 | 1,635,400 | 2,085,686 | — | 3,773,487 |
| Sales and services of educational activities | — | 12,077,652 | — | (4,633,746) | 7,443,906 |
| Sales and services of auxiliary enterprises | 12,404,075 | 18,003,914 | 3,669,803 | — | 34,077,792 |
| Other operating revenues | 3,418,275 | — | 1,366,451 | — | 4,784,726 |
| Total operating revenues | 130,237,476 | 73,588,136 | 16,688,710 | (4,633,746) | 215,880,576 |
| Expenses: | | | | | |
| Operating expenses: | | | | | |
| Instruction | 122,519,054 | 8,843,194 | — | — | 131,362,248 |
| Research | 153,786 | 6,083,856 | — | — | 6,237,642 |
| Public service | 4,511,138 | 34,089,703 | — | — | 38,600,841 |
| Academic support | 24,754,128 | 331,877 | — | — | 25,086,005 |
| Student services | 24,451,853 | 278,818 | 8,611,231 | — | 33,341,902 |
| Institutional support | 26,846,619 | 7,795,928 | 137,911 | — | 34,780,458 |
| Operation and maintenance of plant | 20,449,507 | — | — | — | 20,449,507 |
| Student grants and scholarships | 32,403,562 | 357,510 | — | — | 32,761,072 |
| Auxiliary enterprise expenses | 13,348,251 | 8,773,353 | 9,399,604 | — | 31,521,208 |
| Depreciation | 13,922,153 | 1,294,563 | 692,881 | — | 15,909,597 |
| Total operating expenses | 283,360,051 | 67,848,802 | 18,841,627 | — | 370,050,480 |
| Operating (loss) income | (153,122,575) | 5,739,334 | (2,152,917) | (4,633,746) | (154,169,904) |
| Nonoperating revenues (expenses): | | | | | |
| State appropriations, noncapital | 149,075,496 | — | — | — | 149,075,496 |
| Gifts, noncapital | 3,863,202 | 3,925,456 | 3,116,414 | — | 10,905,072 |
| Investment income, net | 3,570,125 | 3,240,171 | 334,853 | — | 7,145,149 |
| Endowment income | 270,608 | 4,489 | 28,647 | — | 303,744 |
| Interest on capital-related debt | (3,547,123) | (2,573,466) | (17,026) | — | (6,137,615) |
| Other nonoperating revenues, net | (1,898,897) | (606,520) | (7,351) | 4,633,746 | 2,120,978 |
| Net nonoperating revenues | 151,333,411 | 3,990,130 | 3,455,537 | 4,633,746 | 163,412,824 |
| (Loss) income before other additions | (1,789,164) | 9,729,464 | 1,302,620 | — | 9,242,920 |
| State appropriations, capital | (530,885) | — | — | — | (530,885) |
| Grants and gifts, capital | 85,984 | — | 106,667 | — | 192,651 |
| Additions to permanent endowments | — | 971,334 | 1,000 | — | 972,334 |
| (Decrease) increase in net assets | (2,234,065) | 10,700,798 | 1,410,287 | — | 9,877,020 |
| Net assets: | | | | | |
| Net assets at beginning of year | 222,423,483 | 42,017,442 | 11,085,877 | — | 275,526,802 |
| Net assets at end of year | \$ 220,189,418 | 52,718,240 | 12,496,164 | — | 285,403,822 |

See accompanying notes to financial statements.



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Statement of Cash Flows

Year ended June 30, 2006

| | <u>University</u> |
|---|-----------------------------|
| Cash flows from operating activities: | |
| Student tuition and fees | \$ 76,577,250 |
| Federal grants and contracts | 23,059,065 |
| State and local grants and contracts | 14,570,405 |
| Nongovernmental grants and contracts | 52,401 |
| Payments to suppliers | (45,874,332) |
| Payments to employees | (191,303,835) |
| Payments to students | (33,712,504) |
| Collections of student loans | 1,439,045 |
| Sales and services of educational activities | 13,952,824 |
| Other receipts | 13,926,939 |
| Net cash used in operating activities | <u>(127,312,742)</u> |
| Cash flows from noncapital financing activities: | |
| State appropriations | 153,897,160 |
| Gifts and grants received for other than capital purposes | 3,863,202 |
| Federal loan program receipts | 62,685,719 |
| Federal loan program disbursements | (62,685,719) |
| Monies received on behalf of others | 8,772,478 |
| Monies disbursed on behalf of others | (8,778,791) |
| Other | (3,105,813) |
| Net cash provided by noncapital financing activities | <u>154,648,236</u> |
| Cash flows from capital and related financing activities: | |
| Proceeds from capital debt | 76,315,528 |
| State appropriations | 4,871,743 |
| Proceeds from sale of capital assets | (19,444) |
| Acquisition of capital assets | (37,138,699) |
| Transfers to escrow agent | (5,406,025) |
| Principal paid on capital debt and leases | (27,720,495) |
| Interest paid on capital debt and leases | (3,417,537) |
| Principal payments received on capital leases | 70,000 |
| Interest payments received on capital leases | 191,185 |
| Net cash provided by capital and related financing activities | <u>7,746,256</u> |
| Cash flows from investing activities: | |
| Proceeds from sales and maturities of investments | 4,100,520 |
| Purchases of investments | (34,170,912) |
| Investment income received | 3,867,718 |
| Net cash used in investing activities | <u>(26,202,674)</u> |
| Net increase in cash and cash equivalents | 8,879,076 |
| Cash and cash equivalents at beginning of year | <u>10,959,310</u> |
| Cash and cash equivalents at end of year | \$ <u><u>19,838,386</u></u> |
| Summary of cash and cash equivalents at end of year: | |
| Cash and cash equivalents | \$ 18,728,409 |
| Restricted cash and investments | 1,109,977 |
| Total cash and cash equivalents at end of year | \$ <u><u>19,838,386</u></u> |

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Statement of Cash Flows

Year ended June 30, 2006

| | <u>University</u> |
|---|-------------------------|
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (153,122,575) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | 13,922,153 |
| Change in assets and liabilities: | |
| Accounts receivable, net | 9,767,905 |
| Student loans receivable, net | 175,866 |
| Prepaid expenses and other assets | (3,245,742) |
| Accounts payable | 3,891,631 |
| Accrued salaries and benefits | (662,508) |
| Accrued compensated absences | 1,057,275 |
| Deferred revenue | 2,065,080 |
| Due to California State University Risk Management Authority | (1,504,000) |
| Depository accounts | 68,423 |
| Other liabilities | 273,750 |
| Net cash used in operating activities | \$ <u>(127,312,742)</u> |
| Supplemental schedule of noncash transactions: | |
| Contributed capital assets | \$ 60,294 |
| Acquisition of capital asset through capital lease | 2,367,000 |
| Construction work in progress acquired from the Office of the Chancellor | 1,233,085 |
| Increase in accrued capital asset costs (purchased but unpaid at year end) | 3,766,958 |
| Capital asset transferred from the Office of the Chancellor | 3,756 |

See accompanying notes to financial statements.



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's six 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:

- Associated Students of California State University, Sacramento
- Capital Public Radio, Inc.
- University Union Operation of California State University, Sacramento
- University Enterprises, Inc.
- The University Foundation at Sacramento State
- University Enterprises Development Group

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

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

| June 30, 2006 | University Enterprises Inc. | Other auxiliary organizations | Total |
|--|--|--|--------------------|
| Current assets | \$ 35,187,983 | 17,248,906 | 52,436,889 |
| Capital assets, net | 19,008,011 | 4,770,566 | 23,778,577 |
| Other noncurrent assets | 40,916,283 | 21,740,678 | 62,656,961 |
| Total assets | <u>95,112,277</u> | <u>43,760,150</u> | <u>138,872,427</u> |
| Current liabilities | 14,000,494 | 5,286,069 | 19,286,563 |
| Noncurrent liabilities | 42,350,890 | 12,020,570 | 54,371,460 |
| Total liabilities | <u>56,351,384</u> | <u>17,306,639</u> | <u>73,658,023</u> |
| Invested in capital assets, net of related debt | (711,413) | 4,583,220 | 3,871,807 |
| Restricted | — | 13,819,309 | 13,819,309 |
| Unrestricted | 39,472,306 | 8,050,982 | 47,523,288 |
| Total net assets | <u>\$ 38,760,893</u> | <u>26,453,511</u> | <u>65,214,404</u> |



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

| June 30, 2006 | University Enterprises Inc. | Other auxiliary organizations | Total |
|--|--|--|-------------------|
| Operating revenues: | | | |
| Student tuition and fees | \$ — | 8,946,910 | 8,946,910 |
| Grants and contracts, noncapital | 43,506,570 | 2,705,546 | 46,212,116 |
| Sales and services of auxiliary enterprises, net | 18,003,914 | 3,669,803 | 21,673,717 |
| Other | 11,662,360 | 1,781,743 | 13,444,103 |
| Total operating revenues | 73,172,844 | 17,104,002 | 90,276,846 |
| Operating expenses: | | | |
| Instruction | 8,843,194 | — | 8,843,194 |
| Research | 6,083,856 | — | 6,083,856 |
| Public service | 34,089,703 | — | 34,089,703 |
| Academic support | 136,712 | 195,165 | 331,877 |
| Student services | 278,818 | 8,611,231 | 8,890,049 |
| Institutional support | 7,018,707 | 915,132 | 7,933,839 |
| Student grants and scholarships | 145,314 | 212,196 | 357,510 |
| Auxiliary enterprise expenses | 8,538,580 | 9,634,377 | 18,172,957 |
| Depreciation | 1,294,563 | 692,881 | 1,987,444 |
| Total operating expenses | 66,429,447 | 20,260,982 | 86,690,429 |
| Operating income (loss) | 6,743,397 | (3,156,980) | 3,586,417 |
| Net nonoperating (expenses) revenues | (405,180) | 7,850,847 | 7,445,667 |
| Income before other additions | 6,338,217 | 4,693,867 | 11,032,084 |
| Grants and gifts, capital | — | 106,667 | 106,667 |
| Additions to permanent endowments | — | 972,334 | 972,334 |
| Increase in net assets | 6,338,217 | 5,772,868 | 12,111,085 |
| Beginning net assets, July 1, 2005 | 32,422,676 | 20,680,643 | 53,103,319 |
| Ending net assets, June 30, 2006 | \$ 38,760,893 | 26,453,511 | 65,214,404 |

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

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of 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, 2006 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.

(b) Basis of Presentation

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

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

The auxiliary organizations Associated Students of California State University, Sacramento; Capital Public Radio, Inc; and University Union Operation of California State University, Sacramento included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB). University Foundation at Sacramento State, University Enterprises, Inc., and University Enterprises Development Group 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 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.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(e) ***Cash and Cash Equivalents***

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

(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.

(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 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 considered to be liabilities of the University and are reflected as such in the accompanying statement of net assets.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(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 or have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas. Campus housing programs are a primary example of operations that have unrestricted net assets with designated uses.

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 No. 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 reflected as expenses.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(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 financial statements taken as a whole.

(n) Eliminations

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

(o) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

| | |
|---|-----------------------|
| Cash and cash equivalents | \$ 18,728,409 |
| Restricted cash and cash equivalents | 1,109,977 |
| Total cash and cash equivalents | <u>19,838,386</u> |
| Short-term investments | 59,609,084 |
| Other long-term investments | 21,077,772 |
| Endowment investments | 7,803,780 |
| Total investments | <u>88,490,636</u> |
| Total cash and cash equivalents and investments | <u>\$ 108,329,022</u> |

(a) Cash and Cash Equivalents

At June 30, 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$19,838,386 had a corresponding carrying value balance with the State Treasury of \$27,206,486 at June 30, 2006. The differences related primarily to deposits in transit and outstanding checks.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(b) **Investments**

At June 30, 2006, the University's investment portfolio consists primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. 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 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, 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 mid-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. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2006 is presented in the table below.

Credit Risk

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



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

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, 2006:

| Investment type | Fair value | Weighted average maturity (in years) | Rating as of year end | | | Not rated |
|---------------------------------------|---------------|--------------------------------------|-----------------------|-----------|------------|------------|
| | | | AAA | Aa | A | |
| Money market mutual funds | \$ 982,710 | 0.01 | \$ — | — | — | 982,710 |
| Certificates of deposit | 9,030,566 | 1.41 | — | 3,386,158 | 5,644,408 | — |
| Commercial paper | 3,683,865 | 0.01 | — | — | — | 3,683,865 |
| U.S. agency securities | 4,300,916 | 1.46 | 4,300,916 | — | — | — |
| Mortgage-backed securities | 739,953 | 10.57 | 739,953 | — | — | — |
| Corporate and fixed income securities | 18,583,530 | 1.74 | 900,047 | 5,185,742 | 12,497,741 | — |
| Surplus Money Investment Fund | 50,521,633 | 0.42 | — | — | — | 50,521,633 |
| Bank of America | 4,621 | 0.01 | — | — | — | 4,621 |
| Total | 87,847,794 | | \$ 5,940,916 | 8,571,900 | 18,142,149 | 55,192,829 |
| Not subject to ratings: | | | | | | |
| U.S. Treasury securities | 642,842 | 1.85 | | | | |
| Total investments | \$ 88,490,636 | | | | | |

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, 2006, there were no investments representing 5% or more of the University's investment portfolio.

For information regarding the investments of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations reports.

(4) Accounts Receivable

Accounts receivable at June 30, 2006 consisted of the following:

| | Current | Noncurrent | Total |
|--------------------------------------|---------------|------------|------------|
| State appropriations | \$ 9,176,503 | 18,103,036 | 27,279,539 |
| Auxiliary organizations | 4,170,325 | — | 4,170,325 |
| Student accounts | 357,205 | — | 357,205 |
| Government grants and contracts | 842,143 | — | 842,143 |
| Other | 3,397,648 | — | 3,397,648 |
| | 17,943,824 | 18,103,036 | 36,046,860 |
| Less allowance for doubtful accounts | (183,551) | — | (183,551) |
| Total | \$ 17,760,273 | 18,103,036 | 35,863,309 |

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(5) Lease Receivable

The University entered into a 30-year capital lease agreement with Capital Public Radio, Inc. to occupy the radio station building effective January 2003. Construction of this building was financed through proceeds from the issuance of the Systemwide Revenue Bonds Series 2003A. Lease payments are due twice a year on May 1 and November 1.

Lease payments are due to the University as follows:

| | |
|--|---------------------|
| Fiscal year ending: | |
| 2007 | \$ 75,000 |
| 2008 | 75,000 |
| 2009 | 80,000 |
| 2010 | 80,000 |
| 2011 | 80,000 |
| Thereafter | <u>3,585,000</u> |
| Total lease receivable | 3,975,000 |
| Less current portion | <u>(75,000)</u> |
| Long-term lease receivable, net of current portion | <u>\$ 3,900,000</u> |

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(6) Capital Assets

Capital asset activity for the year ended June 30, 2006 consisted of the following:

| | <u>Balance, June 30, 2005</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance, June 30, 2006</u> |
|---------------------------------------|-----------------------------------|---------------------|--------------------|---------------------|-----------------------------------|
| Nondepreciable capital assets: | | | | | |
| Land and land improvements | \$ 968,491 | — | — | — | 968,491 |
| Works of art and historical treasures | 620,822 | — | — | — | 620,822 |
| Construction work in progress | 39,877,543 | 41,542,069 | — | (40,940,315) | 40,479,297 |
| Total nondepreciable capital assets | <u>41,466,856</u> | <u>41,542,069</u> | <u>—</u> | <u>(40,940,315)</u> | <u>42,068,610</u> |
| Depreciable capital assets: | | | | | |
| Buildings and building improvements | 241,651,496 | — | — | 23,988,335 | 265,639,831 |
| Improvements, other than buildings | 12,168,608 | 176,676 | — | — | 12,345,284 |
| Infrastructure | 10,899,281 | — | — | 16,951,980 | 27,851,261 |
| Personal property: | | | | | |
| Equipment | 35,701,927 | 1,243,096 | (119,302) | — | 36,825,721 |
| Library books and materials | 32,329,901 | 1,361,133 | — | — | 33,691,034 |
| Intangible assets | 42,080,429 | 42,620 | — | — | 42,123,049 |
| Total depreciable capital assets | <u>374,831,642</u> | <u>2,823,525</u> | <u>(119,302)</u> | <u>40,940,315</u> | <u>418,476,180</u> |
| Total cost | <u>416,298,498</u> | <u>44,365,594</u> | <u>(119,302)</u> | <u>—</u> | <u>460,544,790</u> |
| Less accumulated depreciation: | | | | | |
| Buildings and building improvements | (125,711,398) | (6,292,403) | — | — | (132,003,801) |
| Improvements, other than buildings | (10,580,128) | (250,094) | — | — | (10,830,222) |
| Infrastructure | (5,415,016) | (1,967,680) | — | — | (7,382,696) |
| Personal property: | | | | | |
| Equipment | (29,132,401) | (2,812,089) | 99,859 | — | (31,844,631) |
| Library books and materials | (26,367,118) | (1,820,680) | — | — | (28,187,798) |
| Intangible assets | (40,814,914) | (779,207) | — | — | (41,594,121) |
| Total accumulated depreciation | <u>(238,020,975)</u> | <u>(13,922,153)</u> | <u>99,859</u> | <u>—</u> | <u>(251,843,269)</u> |
| Net capital assets | \$ <u>178,277,523</u> | <u>30,443,441</u> | <u>(19,443)</u> | <u>—</u> | <u>208,701,521</u> |

For information regarding the capital assets of the individually discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

(7) Lease Obligations

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

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

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Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$16,736,713 at June 30, 2006. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.63% to 6.04% and have terms expiring in various years through 2033/2034.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2007/2008. The leases can be canceled if the state does not provide adequate funding.

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

| | <u>Capital leases</u> | <u>Operating leases</u> |
|--|---------------------------|-----------------------------|
| Year ending June 30: | | |
| 2007 | \$ 1,844,203 | 408,892 |
| 2008 | 1,907,984 | 84,921 |
| 2009 | 1,883,938 | — |
| 2010 | 1,825,993 | — |
| 2011 | 1,250,380 | — |
| 2012 – 2016 | 4,129,394 | — |
| 2017 – 2021 | 2,914,232 | — |
| 2022 – 2026 | 2,498,475 | — |
| 2027 – 2031 | 2,147,340 | — |
| 2032 – 2036 | 431,720 | — |
| Total minimum lease payments | 20,833,659 | \$ <u>493,813</u> |
| Less amount representing interest | <u>(6,213,555)</u> | |
| Present value of future minimum lease payments | \$ <u>14,620,104</u> | |

Rent expense under operating leases for the year ended June 30, 2006 totaled \$522,735.

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, 2006 totaled \$554,748,000.

(8) Long-term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the state of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

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 System, 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 financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,277,682,000 as of June 30, 2006.

(b) Revenue Bond Programs

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

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

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

The 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 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 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 interest income. Funds are used for current operating expenses, maintenance and repair,

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

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 Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$1,982,433,000 at June 30, 2006. The University's portion of the total outstanding balance under this program was \$61,310,000 at June 30, 2006.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2006, the System's outstanding balance for these senior bonds totaled \$70,820,000. The University's had no outstanding balance for these senior bonds June 30, 2006.

(c) Revenue Bond Anticipation Notes

The University issued Revenue Bond Anticipation Notes during 2006 to finance the development and construction of an auxiliary organization Bookstore. The Revenue Bond Anticipation Notes are issued for a one- to three-year period in anticipation of issuing permanent revenue bonds at a future date. Amounts outstanding under the Revenue Bond Anticipation Notes totaled \$16,576,000 at June 30, 2006.



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

Long-term debt obligations of the University as of June 30, 2006 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> |
|--|----------------------|----------------------------------|------------------------------|---------------------------|
| Systemwide Revenue Bonds: | | | | |
| Housing Series 2005B | 4.0% – 5.0% | 2021/2022 | \$ 5,175,000 | 4,940,000 |
| Parking Series 2002A | 3.0% – 5.5% | 2026/2027 | 5,640,000 | 5,190,000 |
| Parking Series 2005C | 3.0% – 5.0% | 2031/2032 | 26,990,000 | 26,990,000 |
| Student Union Series 2002A | 3.0% – 5.5% | 2021/2022 | 800,000 | 700,000 |
| Student Union Series 2004A | 2.0% – 5.0% | 2025/2026 | 20,615,000 | 19,515,000 |
| Auxiliary Org Series 2003A | 2.5% – 5.25% | 2033/2034 | 4,115,000 | 3,975,000 |
| Revenue Bond Anticipation Notes | 3.21% – 3.58% | 2006/2007 | 16,576,000 | <u>16,576,000</u> |
| Total | | | | 77,886,000 |
| Unamortized bond premium | | | | 1,485,780 |
| Unamortized loss on refunding | | | | <u>(231,930)</u> |
| Total long-term debt | | | | 79,139,850 |
| Less current portion | | | | <u>(17,696,000)</u> |
| Long-term debt, net of current portion | | | | <u>\$ 61,443,850</u> |

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

| | <u>Principal</u> | <u>Interest</u> |
|----------------------|----------------------|-------------------|
| Year ending June 30: | | |
| 2007 | \$ 17,696,000 | 2,830,940 |
| 2008 | 1,745,000 | 2,783,916 |
| 2009 | 1,830,000 | 2,717,539 |
| 2010 | 1,895,000 | 2,641,103 |
| 2011 | 1,975,000 | 2,568,491 |
| 2012 – 2016 | 11,075,000 | 11,588,066 |
| 2017 – 2021 | 14,105,000 | 8,584,240 |
| 2022 – 2026 | 15,700,000 | 4,893,251 |
| 2027 – 2031 | 9,300,000 | 1,809,280 |
| 2032 – 2036 | 2,565,000 | 101,875 |
| | <u>\$ 77,886,000</u> | <u>40,518,701</u> |

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

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Notes to Financial Statements

June 30, 2006

(9) Advance Refundings

(a) *Current Year Refundings*

In August 2005, the University defeased Housing System Revenue Bonds Series AV (refunded bonds) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005B 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 Series 2005B 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 matured. This transaction will reduce the University's total debt service payments by \$503,175 over the life of the bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from this transaction was \$372,310. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the University's current year defeased bonds outstanding as of June 30, 2006 totaled \$5,160,000.

(b) *Prior Years' Refundings*

In prior years, the University defeased certain Student Union Revenue Bonds Series C 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 proceeds from the refunding bonds were used to purchase U.S. government securities that were placed in the 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 matures. 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, 2006 totaled \$19,515,000.



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(10) Long-term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2006 was as follows:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Current portion</u> |
|---|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Accrued compensated absences | \$ 8,180,282 | 5,285,365 | (4,228,090) | 9,237,557 | 3,642,149 |
| Capitalized lease obligations (note 7) | 12,808,599 | 2,367,000 | (555,495) | 14,620,104 | 1,202,839 |
| Long-term debt obligations (note 8): | | | | | |
| Revenue Bond Anticipation Notes | — | 42,616,000 | (26,040,000) | 16,576,000 | 16,576,000 |
| Systemwide Revenue Bonds | 35,430,000 | 32,165,000 | (6,285,000) | 61,310,000 | 1,120,000 |
| Total | 35,430,000 | 74,781,000 | (32,325,000) | 77,886,000 | 17,696,000 |
| Unamortized bond premium | — | 1,534,528 | (48,748) | 1,485,780 | — |
| Unamortized loss on refunding | — | (246,025) | 14,095 | (231,930) | — |
| Total long-term debt obligations | 35,430,000 | 76,069,503 | (32,359,653) | 79,139,850 | 17,696,000 |
| Total long-term liabilities | \$ 56,418,881 | 83,721,868 | (37,143,238) | 102,997,511 | 22,540,988 |

(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 15.942% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

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

| | |
|------|---------------|
| 2004 | \$ 18,164,990 |
| 2005 | 20,148,494 |
| 2006 | 19,173,631 |

(12) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts 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 estimated liability is actuarially determined 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, 2006.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2006 are as follows:

| | |
|--|-----------------------------|
| Liability at June 30, 2004 | \$ 118,711,000 |
| Incurred claims and changes in estimates | 33,419,000 |
| Claim payments | <u>(34,491,000)</u> |
| Liability at June 30, 2005 | 117,639,000 |
| Incurred claims and changes in estimates | 23,938,000 |
| Claim payments | <u>(29,201,000)</u> |
| Liability at June 30, 2006 | 112,376,000 |
| Less current portion | <u>(27,441,000)</u> |
| Long-term liability at June 30, 2006, net of current portion | <u><u>\$ 84,935,000</u></u> |

The University maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$49,000,000 per occurrence. The University purchases excess workers' compensation insurance provided by the Insurance Corporation of Hanover (ICH) to limits of \$50,000,000 in excess of \$2,500,000 self-insured retention and coverage from American Home Assurance Company (AIG) for limits of \$50,000,000 in excess of \$50,000,000. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the University maintains excess policies with SELF, ICH, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the University.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

The University's allocation of the System's total self-insurance claims liability as of June 30, 2006 was approximately 6.1%, or \$6,838,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2006.

The University's receivable due from CSURMA totaled \$3,417,494 at June 30, 2006, which is recorded as a component of prepaid expenses and other assets liability in the accompanying financial statements. The receivable balance is a result of amounts paid by the University to CSURMA prior to year end related to the University's share of the estimated future funding liability.

(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.

Contractual commitments for construction projects unexpended as of June 30, 2006 totaled \$34,600,722. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, changes in net assets, or liquidity.

(14) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2006, operating expenses by natural classification consisted of the following:

| <u>2006</u> | <u>Salaries</u> | <u>Benefits</u> | <u>Scholarships and fellowships</u> | <u>Supplies and other services</u> | <u>Depreciation</u> | <u>Total</u> |
|---------------------------------------|-----------------|-----------------|---|--|---------------------|--------------|
| Functional classification: | | | | | | |
| Instruction | \$ 84,955,313 | 25,600,498 | — | 11,963,243 | — | 122,519,054 |
| Research | 138,466 | 1,987 | — | 13,333 | — | 153,786 |
| Public service | 2,105,865 | 520,103 | — | 1,885,170 | — | 4,511,138 |
| Academic support | 15,594,577 | 4,859,638 | — | 4,299,913 | — | 24,754,128 |
| Student services | 12,957,776 | 4,755,033 | — | 6,739,044 | — | 24,451,853 |
| Institutional support | 14,726,501 | 5,045,864 | — | 7,074,254 | — | 26,846,619 |
| Operation and maintenance of plant | 10,113,841 | 4,306,568 | — | 6,029,098 | — | 20,449,507 |
| Student grants and scholarships | — | — | 32,403,562 | — | — | 32,403,562 |
| Auxiliary enterprise expenses | 4,364,025 | 1,652,547 | — | 7,331,679 | — | 13,348,251 |
| Depreciation | — | — | — | — | 13,922,153 | 13,922,153 |
| Total | \$ 144,956,364 | 46,742,238 | 32,403,562 | 45,335,734 | 13,922,153 | 283,360,051 |

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Notes to Financial Statements

June 30, 2006

(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, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$149,824,611 for the year ended June 30, 2006. The University was de-allocated \$1,280,000 of unused State appropriations – capital. State appropriations receivable aggregated \$27,279,539 at June 30, 2006. The University also received lottery fund distributions from the state of California in the amount of \$2,093,250 for the year ended June 30, 2006, which is included in other nonoperating revenues and expenses.

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.

The University has recorded capital assets that have been financed by System obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2006, \$1,233,085 of such additions of capital assets are included in other nonoperating income in the accompanying financial statements.

The statements of revenues, expenses, and changes in net assets for the year ended June 30, 2006, of the California State University, Sacramento and University Enterprises Inc. reflects a change in reporting for certain campus program accounts. These campus programs accounts were previously identified as agency accounts, whose funds were classified as deposits held for others. Based on new guidelines issued by the California State University Chancellor's Office, \$4,633,746 relating to these accounts were evaluated during 2005-2006 and recognized as other non operating expenses revenues, net by the University and Sales and Services of Educational Activities by the University Enterprises Inc. during the year ended June 30, 2006.

The University has four capital leases with University Enterprises Inc. for building constructed by University Enterprises Inc. leased by the University. As of June 30, 2006, the carrying value of the capital asset recorded by the University is \$9,768,912. During the year ended June 30, 2006, the University made payments of \$1,651,453 to University Enterprise Inc. relating to the leases. The leases are recorded as capital leases in the accompanying discretely presented component unit financial information of University Enterprises, Inc.



CALIFORNIA STATE UNIVERSITY, SACRAMENTO

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The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2006:

| | | |
|--|----|-------------|
| Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs | \$ | 1,463,036 |
| Payments to recognized auxiliary organizations for services, office space rental, and programs | | 5,196,361 |
| Gifts-in-kind to the University from recognized auxiliary organizations | | 60,294 |
| Amounts receivable from the Office of the Chancellor | | 24,537,137 |
| Amounts payable to the Office of the Chancellor | | (38,112) |
| Amounts receivable from recognized auxiliary organizations | | 4,170,325 |
| Amounts payable to recognized auxiliary organizations | | (1,930,342) |

