



**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

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## **Independent Auditors' Report**

Dr. Alexander Gonzalez  
President  
California State University, Sacramento:

We have audited the accompanying financial statements of California State University, Sacramento (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2007, 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 the aggregate discretely presented component units. 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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2, 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, 2007, 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, 2007, 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 9 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

January 14, 2008

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

## Management's Discussion and Analysis

June 30, 2007

This section of California State University, Sacramento (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2007. 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 which best represents the 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.

### **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.

Additionally, during the current year, there have been some significant changes in the manner in which the University manages its fee revenues. Specifically, these revenues are now retained by the University and not submitted to the State Treasury for credit to State Appropriations. The impact is readily seen in Cash, Receivables and Investment balances.

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Management's Discussion and Analysis

June 30, 2007

The University's condensed summary of net assets as of June 30, 2007 and 2006 are as follows:

**Condensed Summary of Net Assets**

|   | <b>June 30</b>        |                    |
|---|-----------------------|--------------------|
|   | <u>2007</u>           | <u>2006</u>        |
| Assets:   |                       |                    |
| Current assets                                  | \$ 109,411,152        | 100,756,671        |
| Capital assets                                  | 227,760,373           | 208,701,521        |
| Other noncurrent assets                         | 63,746,275            | 58,168,783         |
| Total assets                                    | <u>400,917,800</u>    | <u>367,626,975</u> |
| Liabilities:                                    |                       |                    |
| Current liabilities                             | 47,775,763            | 59,597,188         |
| Long-term obligations, net of current portion   | 97,318,602            | 74,861,115         |
| Other noncurrent liabilities                    | 17,048,000            | 12,979,254         |
| Total liabilities                               | <u>162,142,365</u>    | <u>147,437,557</u> |
| Net assets:                                     |                       |                    |
| Invested in capital assets, net of related debt | 155,959,004           | 135,036,089        |
| Restricted, nonexpendable                       | 7,784,369             | 8,609,695          |
| Restricted, expendable                          | 17,512,944            | 21,961,224         |
| Unrestricted                                    | 57,519,118            | 54,582,410         |
| Total net assets                                | <u>\$ 238,775,435</u> | <u>220,189,418</u> |

The \$33.3 million increase in total assets is primarily due to a \$17.4 million increase in Lease Receivables and a \$19.1 million increase in Capital Assets. The lease receivable change is associated with the completion of the University Bookstore and an occupancy agreement with University Enterprises Inc, an auxiliary of the University. The increase in capital assets reflects roughly \$44.9 million in new/continuing construction projects, plus \$6.4 million in asset acquisitions, less \$16.9 million that was reclassified to a lease receivable and \$15.3 million in current year depreciation expense. Additional noteworthy changes include the increase in Short-term and Long-term Investments resulting from current year classification of University cash and Chancellor's Office receivables as investments and a \$3.4 million decrease in prepaid expenses from Self Insurance.

The total liabilities increase of \$14.7 million is essentially the result of \$9.8 million in new long-term debt, \$2.6 million in deferred revenue and \$3.2 million in other liabilities. In addition, debt was decreased by current year paydowns of approximately \$2.3 million. A \$6.5 million Bond Anticipatory Note (BAN) was obtained for partial financing of the new Athletic Fieldhouse, \$1.65 million in commercial paper was acquired for continued financing of the PeopleSoft Student Financial project and a \$1.72 million increase in conversion of the Bookstore BAN to Bonds accounts for the long-term debt increase. An up-front payment for a ten (10) year lease agreement resulted in deferred revenue of roughly \$2.4 million. Additional funding of \$2.44 million for the Athletic Fieldhouse construction project accounts for the major portion of the other liability increase.

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

## Management's Discussion and Analysis

June 30, 2007

Total net assets increase of \$18.6 million reflects the changes primarily in Invested in Capital Assets, Debt Service and Unrestricted net asset categories. Completed construction projects and purchases, accounts for the increase in Invested in Capital Assets. The Debt Service decrease reflects higher interest expense over the prior year. Unrestricted net assets increased due to higher State Appropriations Non-Capital, greater returns on investments, and funding for University reserves.

### 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

|                              | <b>June 30</b>    |                   |
|------------------------------|-------------------|-------------------|
|                              | <b>2007</b>       | <b>2006</b>       |
| Nonexpendable - Endowments   | \$ 7,784,369      | 8,609,695         |
| Expendable:                  |                   |                   |
| Scholarships and fellowships | 1,406,175         | 1,286,190         |
| Loans                        | 755,002           | 680,896           |
| Capital projects             | 13,177,035        | 15,961,030        |
| Debt service                 | 644,182           | 2,410,944         |
| Other                        | 1,530,550         | 1,622,164         |
| Total expendable             | \$ 17,512,944     | 21,961,224        |
| Total restricted net assets  | <u>25,297,313</u> | <u>30,570,919</u> |

The \$5.3 million decrease in restricted net assets – expendable is primarily due to capital projects that were completed and transferred to capital assets as well as higher debt service payments to the Chancellor's Office during the year.

## CALIFORNIA STATE UNIVERSITY, SACRAMENTO

### Management's Discussion and Analysis

June 30, 2007

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006 is as follows:

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

|  | Year ended June 30 |               |
|--|--------------------|---------------|
|  | 2007               | 2006          |
| Operating revenues:                              |                    |               |
| Student tuition and fees, net                    | \$ 90,946,053      | 77,171,171    |
| Grants, contracts, and gifts                     | 40,621,334         | 37,243,955    |
| Sales and services of auxiliary enterprises, net | 12,486,447         | 12,404,075    |
| Other operating revenues                         | 2,783,047          | 3,418,275     |
|  | 146,836,881        | 130,237,476   |
| Operating expenses                               | (307,483,686)      | (283,360,051) |
| Operating loss                                   | (160,646,805)      | (153,122,575) |
| Nonoperating revenues (expenses):                |                    |               |
| State appropriations                             | 160,367,465        | 149,075,496   |
| Investment income, net                           | 6,753,812          | 3,570,125     |
| Other nonoperating revenues, net                 | 7,662,306          | (1,312,210)   |
|  | 174,783,583        | 151,333,411   |
| Income (loss) before other additions             | 14,136,778         | (1,789,164)   |
| State appropriations, capital                    | 3,883,917          | (530,885)     |
| Grants and gifts, capital                        | 565,322            | 85,984        |
|  | 18,586,017         | (2,234,065)   |
| Beginning net assets                             | 220,189,418        | 222,423,483   |
| Ending net assets                                | \$ 238,775,435     | 220,189,418   |

#### ***Operating Revenues and Expenses***

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

#### **Operating Revenues**

Total operating revenues increased \$16.6 million for the current year. Although the State University fee did not change from the prior year, student tuition and fees increased \$13.8 million. This increase is essentially accounted for in the \$5.3 million rise in Student Union fees (related to funding for the Student Recreation

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### Management's Discussion and Analysis

June 30, 2007

Wellness Center), a \$6.2 million increase in Continuing Education fees (related to increased training and conference seminars), a \$1.1 million increase in summer fee recognition (one-time adjustment) and the \$1.2 million increase in student State University Fees and Non-Resident Fees (a result of a 4.3% increase in FTEs)

Contract and Grant revenue increased by \$3.4 million, a result primarily of a \$1.1 million increase in Pell Grants, a \$1.0 million in new ACG/SMART Grants, a \$400 thousand increase in Cal Grants and a \$600 thousand "Bike Path" project revenue.

#### **Operating Expenses**

The University's operating expenses consist of salaries and fringe benefits of \$208.5 million, supplies and services of \$48.4 million, scholarships and fellowships of \$35.3 million, and depreciation of \$15.3 million, an increase of \$24.1 million over the prior year. Salaries and Benefits increased \$16.8 million and is primarily the result of negotiated salary increases for faculty, staff and student assistants. Supplies and services increased \$3.1 million and is primarily related to \$3.4 million in Self Insurance payments. Scholarship and Fellowship increased \$2.9 million and is related to new grant programs and increases in Pell grants and State University Grant (SUG).

#### ***Nonoperating and Other Revenues (Expenses)***

Nonoperating and other revenues (expenses) come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations, gifts and grants, investment income, and interest on capital-related debt.

As the University is part of the California State University System, which is an agency of the state of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$3.9 million for the fiscal year ended June 30, 2007, up \$4.4 million over the prior year (reverting funds were greater than appropriations in the prior year). General (noncapital) appropriation revenues totaled \$160.4 million, an increase of \$11.3 million from the prior year. Investment revenue, net rose \$3.2 million over the prior year, a result of higher investment balances and improving conditions. Other nonoperating revenues (expenses) increased \$9.0 million due to a combination of factors. Approximately \$3.8 million was transferred from the Chancellor's Office to the University in Union Decentralized allocations. These were funds held by the Chancellor's Office in prior years, but were released to the University as part of system-wide decentralization of union funds. The remainder of the increase related to the prior year reporting for certain campus program accounts, which were nonrecurring in nature, and changes in revenue classification.

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Management's Discussion and Analysis

June 30, 2007

**Capital Assets and Long-Term Debt Obligations**

*Capital Assets*

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

|   | <b>June 30</b>        |                    |
|---|-----------------------|--------------------|
|   | <u>2007</u>           | <u>2006</u>        |
| Land and land improvements                            | \$ 968,491            | 968,491            |
| Works of art and historical treasures                 | 620,822               | 620,822            |
| Buildings and building improvements                   | 167,332,127           | 133,636,030        |
| Improvements, other than buildings                    | 2,121,335             | 1,515,062          |
| Infrastructure  | 16,684,767            | 20,468,565         |
| Personal property                                     | 10,475,871            | 10,484,326         |
| Intangible assets                                     | 123,532               | 528,928            |
| Construction work in progress                         | <u>29,433,428</u>     | <u>40,479,297</u>  |
| Total capital assets, net of accumulated depreciation | <u>\$ 227,760,373</u> | <u>208,701,521</u> |

At June 30, 2007 and 2006, the University had \$494.8 million and \$460.6 million, respectively, in capital assets, net of accumulated depreciation of \$267.0 million and \$251.9 million, respectively. Depreciation expense totaled \$15.3 million and \$15.7 million for the years ended June 30, 2007 and 2006, respectively.

New construction and improvements to existing buildings continue to change the face of the University. The current year saw the completion of Parking Structure III, a \$38.2 million project financed by CSU System-Wide revenue bond and student parking fee revenues. Payment on the bond will come from parking fees. This addition has been well received due to increased enrollment and limited parking availability. Building improvement expenditures reached \$3.0 million for the current year. These expenditures, along with \$7.5 million in depreciation, account for the \$33.7 million increase in building and building improvements.

The new University Bookstore was completed in June of 2007. This \$20.5 million project was financed by CSU System-Wide revenue bonds and University Enterprises, Inc (UEI) contributions. UEI will occupy the building and is responsible for repayment of the bonds. This project was reclassified from a capital asset to a capital lease receivable for the revenue bond portion, given the nature of the lease agreement with UEI.

The Federally funded Bike Path project on the east side of campus property along the American River was completed and accounts for the increase in Improvements, other than buildings.

Personal property additions in the current year were offset by current year depreciation expense. Additionally, depreciation expense for Intangible Assets out-weighted additions.

Roughly \$44.9 million was added to Construction work in progress (CWIP) in the current year. Construction continues on the new Broad Athletic Fieldhouse, an \$11.0 million project with an estimated completion in spring of 2008 and financed by contributions and system-wide revenue bonds. \$11.0 million was added to the ongoing University infrastructure upgrading and completion is expected in spring 2008. The construction of new student housing on campus was approved by the CSU Board of Trustees and initial work has begun on the \$61.6 million

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## Management's Discussion and Analysis

June 30, 2007

project. This much needed improvement will provide students with apartment-style suites and is slated for completion in Fall 2009. The CSU Board also approved construction plans of the Recreation and Wellness Center in the current year. This \$71.0 million, 150,000 square-foot project will provide students with a multipurpose complex for fitness, recreation, health and athletic pursuits. Completion for this project is expected in Fall 2010. These projects, were more than offset by the reclassification of completed projects and accounts for the \$11 million decrease.

See note 6 of the notes to the financial statements for further information on capital assets.

### ***Long-Term Obligations***

Obligations outstanding at June 30, 2007 and 2006 is summarized below by type of debt instrument:

|   | <b>June 30,</b> |             |
|---|-----------------|-------------|
|   | <b>2007</b>     | <b>2006</b> |
| System Wide Revenue Bonds                     | \$ 78,485,000   | 61,310,000  |
| Revenue bond anticipation notes               | 6,450,000       | 16,576,000  |
| Capital leases                                | 15,067,265      | 14,620,104  |
| Total   | 100,002,265     | 92,506,104  |
| Unamortized bond premium/discount             | 1,865,628       | 1,485,780   |
| Unamortized loss on refunding                 | (216,804)       | (231,930)   |
| Total long-term                               | 101,651,089     | 93,759,954  |
| Less current portion                          | 4,332,487       | 18,898,839  |
| Long-term obligations, net of current portion | \$ 97,318,602   | 74,861,115  |

The increase in System wide revenue bonds is attributable to the conversion of the prior year \$16.6 million in bond anticipation notes for the Bookstore construction project to \$18.3 million in revenue bonds. This \$18.3 million addition, along with \$1.1 million in reductions, accounts for the \$17.2 million increase.

Bond anticipation notes in the amount of \$6.5 million were issued in the current year for partial financing of the University athletic fieldhouse. This note is not to be converted to a bond, but will be paid down over the next five years.

The Capital lease increase of \$447 thousand is associated with a Chancellor's Office commercial paper loan of \$1.65 million for the PeopleSoft Student Administration project, less \$1.2 million in current year payments.

See notes 7 through 10 of the notes to the financial statements for further information on long-term debt obligations.

### **Factors Impacting Future Periods**

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2007/2008. The allocation provided to the University is \$165.5 million, an increase of \$5.1 million over fiscal year 2006/2007.

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Statement of Net Assets

June 30, 2007

| Assets  | University            | Discretely presented component units |                                    | Total              |
|---|-----------------------|--------------------------------------|------------------------------------|--------------------|
|   |                       | GASB<br>Auxiliary<br>Organizations   | FASB<br>Auxiliary<br>Organizations |                    |
| <b>Current assets:</b>                                |                       |                                      |                                    |                    |
| Cash and cash equivalents                             | \$ 357,757            | 3,963,474                            | 2,397,013                          | 6,718,244          |
| Short-term investments                                | 98,839,704            | 12,438,979                           | 6,697,269                          | 117,975,952        |
| Accounts receivable, net                              | 8,987,556             | 16,979,173                           | 658,971                            | 26,625,700         |
| Leases receivable, current portion                    | 75,000                | 576,869                              | —                                  | 651,869            |
| Pledges receivable, net                               | —                     | 2,139,893                            | 569,832                            | 2,709,725          |
| Prepaid expenses and other assets                     | 1,151,135             | 195,307                              | 315,641                            | 1,662,083          |
| <b>Total current assets</b>                           | <b>109,411,152</b>    | <b>36,293,695</b>                    | <b>10,638,726</b>                  | <b>156,343,573</b> |
| <b>Noncurrent assets:</b>                             |                       |                                      |                                    |                    |
| Restricted cash and cash equivalents                  | 4,673                 | 4,964,158                            | 32,449                             | 5,001,280          |
| Accounts receivable, net                              | 8,037,593             | —                                    | —                                  | 8,037,593          |
| Leases receivable, net of current portion             | 21,339,476            | 19,440,831                           | —                                  | 40,780,307         |
| Student loans receivable, net                         | 6,131,492             | —                                    | —                                  | 6,131,492          |
| Pledges receivable, net                               | —                     | 7,378,885                            | 54,426                             | 7,433,311          |
| Endowment investments                                 | 7,784,369             | 10,400,938                           | 1,018,580                          | 19,203,887         |
| Other long-term investments                           | 20,448,672            | 18,353,418                           | —                                  | 38,802,090         |
| Capital assets, net                                   | 227,760,373           | 45,029,092                           | 4,732,212                          | 277,521,677        |
| Other assets  | —                     | 7,770,711                            | 41,397                             | 7,812,108          |
| <b>Total noncurrent assets</b>                        | <b>291,506,648</b>    | <b>113,338,033</b>                   | <b>5,879,064</b>                   | <b>410,723,745</b> |
| <b>Total assets</b>                                   | <b>400,917,800</b>    | <b>149,631,728</b>                   | <b>16,517,790</b>                  | <b>567,067,318</b> |
| <b>Liabilities and Net Assets</b>                     |                       |                                      |                                    |                    |
| <b>Current liabilities:</b>                           |                       |                                      |                                    |                    |
| Accounts payable                                      | 10,001,967            | 2,683,122                            | 1,057,773                          | 13,742,862         |
| Accrued salaries and benefits payable                 | 16,120,478            | 1,969,120                            | 140,549                            | 18,230,147         |
| Accrued compensated absences – current portion        | 4,570,062             | 903,467                              | 138,215                            | 5,611,744          |
| Deferred revenue                                      | 10,762,179            | 7,053,958                            | 353,753                            | 18,169,890         |
| Capitalized lease obligations – current portion       | 1,437,487             | —                                    | —                                  | 1,437,487          |
| Long-term debt obligations – current portion          | 2,895,000             | 815,000                              | 55,598                             | 3,765,598          |
| Other liabilities                                     | 1,988,590             | 1,538,197                            | 128,596                            | 3,655,383          |
| <b>Total current liabilities</b>                      | <b>47,775,763</b>     | <b>14,962,864</b>                    | <b>1,874,484</b>                   | <b>64,613,111</b>  |
| <b>Noncurrent liabilities:</b>                        |                       |                                      |                                    |                    |
| Accrued compensated absences, net of current portion  | 5,021,010             | —                                    | 169,726                            | 5,190,736          |
| Deferred revenue                                      | 2,104,167             | 7,378,885                            | —                                  | 9,483,052          |
| Grants refundable                                     | 6,662,230             | —                                    | —                                  | 6,662,230          |
| Capitalized lease obligations, net of current portion | 13,629,778            | 18,738,564                           | —                                  | 32,368,342         |
| Long-term debt obligations, net of current portion    | 83,688,824            | 44,815,056                           | 28,020                             | 128,531,900        |
| Depository accounts                                   | 753,308               | —                                    | 726,175                            | 1,479,483          |
| Other liabilities                                     | 2,507,285             | 371,822                              | —                                  | 2,879,107          |
| <b>Total noncurrent liabilities</b>                   | <b>114,366,602</b>    | <b>71,304,327</b>                    | <b>923,921</b>                     | <b>186,594,850</b> |
| <b>Total liabilities</b>                              | <b>162,142,365</b>    | <b>86,267,191</b>                    | <b>2,798,405</b>                   | <b>251,207,961</b> |
| <b>Net assets:</b>                                    |                       |                                      |                                    |                    |
| Invested in capital assets, net of related debt       | 155,959,004           | 4,847,240                            | 4,648,594                          | 165,454,838        |
| Restricted for:                                       |                       |                                      |                                    |                    |
| Nonexpendable – endowments                            | 7,784,369             | 9,212,779                            | 1,051,029                          | 18,048,177         |
| Expendable:   |                       |                                      |                                    |                    |
| Scholarships and fellowships                          | 1,406,175             | 1,376,461                            | —                                  | 2,782,636          |
| Loans   | 755,002               | —                                    | —                                  | 755,002            |
| Capital projects                                      | 13,177,035            | —                                    | —                                  | 13,177,035         |
| Debt service  | 644,182               | —                                    | —                                  | 644,182            |
| Other   | 1,530,550             | 8,016,873                            | —                                  | 9,547,423          |
| Unrestricted  | 57,519,118            | 39,911,184                           | 8,019,762                          | 105,450,064        |
| <b>Total net assets</b>                               | <b>\$ 238,775,435</b> | <b>63,364,537</b>                    | <b>13,719,385</b>                  | <b>315,859,357</b> |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2007

|  | Discretely presented<br>component units |                                    |                                    | Eliminations | Total                |
|--|---|------------------------------------|------------------------------------|--------------|----------------------|
|  | University                              | GASB<br>Auxiliary<br>Organizations | FASB<br>Auxiliary<br>Organizations |              |                      |
| Revenues:  |   |                                    |                                    |              |                      |
| Operating revenues:  |   |                                    |                                    |              |                      |
| Student tuition and fees (net of scholarship allowances of \$19,398,276) | \$ 90,946,053                           | —                                  | 9,059,548                          | —            | 100,005,601          |
| Grants and contracts, noncapital:  |   |                                    |                                    |              |                      |
| Federal  | 24,653,452                              | 11,462,364                         | 35,890                             | —            | 36,151,706           |
| State  | 15,832,353                              | 30,034,011                         | 797,427                            | —            | 46,663,791           |
| Local  | —                                       | 288,373                            | 16,800                             | —            | 305,173              |
| Nongovernmental  | 135,529                                 | 2,158,916                          | 2,192,207                          | —            | 4,486,652            |
| Sales and services of educational activities                             | —                                       | 8,162,910                          | —                                  | —            | 8,162,910            |
| Sales and services of auxiliary enterprises                              | 12,486,447                              | 19,323,227                         | 2,907,102                          | —            | 34,716,776           |
| Other operating revenues   | 2,783,047                               | —                                  | 2,268,354                          | —            | 5,051,401            |
| Total operating revenues   | <u>146,836,881</u>                      | <u>71,429,801</u>                  | <u>17,277,328</u>                  | <u>—</u>     | <u>235,544,010</u>   |
| Expenses:  |   |                                    |                                    |              |                      |
| Operating expenses:  |   |                                    |                                    |              |                      |
| Instruction  | 132,213,681                             | 8,114,095                          | —                                  | —            | 140,327,776          |
| Research   | 244,919                                 | 6,736,994                          | —                                  | —            | 6,981,913            |
| Public service   | 4,397,513                               | 34,370,012                         | —                                  | —            | 38,767,525           |
| Academic support   | 24,604,569                              | 901,228                            | —                                  | —            | 25,505,797           |
| Student services   | 30,158,215                              | 719,042                            | 8,930,043                          | —            | 39,807,300           |
| Institutional support  | 32,800,840                              | 2,667,147                          | 137,667                            | —            | 35,605,654           |
| Operation and maintenance of plant                                       | 23,673,503                              | —                                  | —                                  | —            | 23,673,503           |
| Student grants and scholarships  | 35,302,124                              | 643,027                            | —                                  | —            | 35,945,151           |
| Auxiliary enterprise expenses  | 8,794,994                               | 14,655,857                         | 10,303,654                         | —            | 33,754,505           |
| Depreciation   | 15,293,328                              | 1,230,222                          | 759,467                            | —            | 17,283,017           |
| Total operating expenses   | <u>307,483,686</u>                      | <u>70,037,624</u>                  | <u>20,130,831</u>                  | <u>—</u>     | <u>397,652,141</u>   |
| Operating loss   | <u>(160,646,805)</u>                    | <u>1,392,177</u>                   | <u>(2,853,503)</u>                 | <u>—</u>     | <u>(162,108,131)</u> |
| Nonoperating revenues (expenses):  |   |                                    |                                    |              |                      |
| State appropriations, noncapital   | 160,367,465                             | —                                  | —                                  | —            | 160,367,465          |
| Gifts, noncapital  | 3,594,132                               | 3,196,593                          | 3,214,165                          | —            | 10,004,890           |
| Investment income, net   | 6,753,812                               | 5,550,169                          | 498,197                            | —            | 12,802,178           |
| Endowment income   | 286,494                                 | —                                  | 141,145                            | —            | 427,639              |
| Interest on capital-related debt   | (3,264,289)                             | (2,539,375)                        | (7,311)                            | —            | (5,810,975)          |
| Other nonoperating revenues, net   | 7,045,969                               | 251,683                            | 206,940                            | —            | 7,504,592            |
| Net nonoperating revenues  | <u>174,783,583</u>                      | <u>6,459,070</u>                   | <u>4,053,136</u>                   | <u>—</u>     | <u>185,295,789</u>   |
| Income before other additions  | 14,136,778                              | 7,851,247                          | 1,199,633                          | —            | 23,187,658           |
| State appropriations, capital  | 3,883,917                               | —                                  | —                                  | —            | 3,883,917            |
| Grants and gifts, capital  | 565,322                                 | 1,116,000                          | 21,588                             | —            | 1,702,910            |
| Additions to permanent endowments  | —                                       | 1,679,050                          | 2,000                              | —            | 1,681,050            |
| Increase in net assets   | 18,586,017                              | 10,646,297                         | 1,223,221                          | —            | 30,455,535           |
| Net assets:  |   |                                    |                                    |              |                      |
| Net assets at beginning of year  | 220,189,418                             | 52,718,240                         | 12,496,164                         | —            | 285,403,822          |
| Net assets at end of year  | \$ <u>238,775,435</u>                   | <u>63,364,537</u>                  | <u>13,719,385</u>                  | <u>—</u>     | <u>315,859,357</u>   |

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Statement of Cash Flows

Year ended June 30, 2007

|   | <b>University</b> |
|---|-------------------|
| Cash flows from operating activities:                     |                   |
| Student tuition and fees                                  | \$ 92,079,209     |
| Federal grants and contracts                              | 23,886,305        |
| State grants and contracts                                | 15,832,353        |
| Nongovernmental grants and contracts                      | 135,529           |
| Payments to suppliers                                     | (44,971,269)      |
| Payments to employees                                     | (206,581,764)     |
| Payments to students                                      | (36,601,383)      |
| Collections of student loans                              | 1,254,401         |
| Sales and services of auxiliary enterprises               | 11,200,064        |
| Other receipts (payments)                                 | 9,075,795         |
| Net cash used in operating activities                     | (134,690,760)     |
| Cash flows from noncapital financing activities:          |                   |
| State appropriations                                      | 169,539,727       |
| Gifts and grants received for other than capital purposes | 3,594,132         |
| Federal loan program receipts                             | 64,058,713        |
| Federal loan program disbursements                        | (64,058,713)      |
| Monies received on behalf of others                       | 9,141,005         |
| Monies disbursed on behalf of others                      | (9,049,191)       |
| Other   | 6,812,022         |
| Net cash provided by noncapital financing activities      | 180,037,695       |
| Cash flows from capital and related financing activities: |                   |
| Proceeds from capital debt                                | 8,616,887         |
| State appropriations                                      | 13,949,360        |
| Proceeds from sale of capital assets                      | 34,500            |
| Acquisition of capital assets                             | (49,489,843)      |
| Principal paid on capital debt and leases                 | (2,322,839)       |
| Interest paid on capital debt and leases                  | (3,311,885)       |
| Principal payments received on capital leases             | 75,000            |
| Interest payments received on capital leases              | 189,185           |
| Net cash used in capital and related financing activities | (32,259,635)      |
| Cash flows from investing activities:                     |                   |
| Proceeds from sales and maturities of investments         | 257,967,290       |
| Purchases of investments                                  | (297,562,459)     |
| Investment income received                                | 7,031,913         |
| Net cash used in investing activities                     | (32,563,256)      |
| Net decrease in cash and cash equivalents                 | (19,475,956)      |
| Cash and cash equivalents at beginning of year            | 19,838,386        |
| Cash and cash equivalents at end of year                  | \$ 362,430        |
| Summary of cash and cash equivalents at end of year:      |                   |
| Cash and cash equivalents                                 | \$ 357,757        |
| Restricted cash and investments                           | 4,673             |
| Total cash and cash equivalents at end of year            | \$ 362,430        |

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Statement of Cash Flows

Year ended June 30, 2007

|   | <b>University</b> |
|---|-------------------|
| Reconciliation of operating loss to net cash used in operating activities:        |                   |
| Operating loss  | \$ (160,646,805)  |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                   |
| Depreciation and amortization   | 15,293,328        |
| Change in assets and liabilities:   |                   |
| Accounts receivable, net  | 174,020           |
| Student loans receivable, net   | 42,726            |
| Prepaid expenses and other assets   | 3,432,770         |
| Accounts payable  | (490,621)         |
| Accrued salaries and benefits   | 1,568,225         |
| Accrued compensated absences  | 353,515           |
| Deferred revenue  | 2,632,152         |
| Depository accounts   | 119,275           |
| Other liabilities   | 2,830,655         |
| Net cash used in operating activities   | \$ (134,690,760)  |
| Supplemental schedule of noncash transactions:                                    |                   |
| Contributed capital assets  | \$ 564,606        |
| Acquisition of capital asset through capital lease                                | 1,650,000         |
| Construction work in progress acquired from the Office of the Chancellor          | 120,468           |
| Capital asset transferred from the Office of the Chancellor                       | 716               |
| Accrued capital asset costs (purchased but unpaid at year end)                    | 3,843,988         |

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

## Notes to Financial Statements

June 30, 2007

### (1) Organization

California State University, Sacramento (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 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, 2007

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

| <b>June 30, 2007</b>                                | <b>University<br/>Enterprises<br/>Inc.</b> | <b>Other<br/>auxiliary<br/>organizations</b> | <b>Total</b>       |
|---|--|--|--------------------|
| Current assets                                      | \$ 30,915,148                              | 16,017,273                                   | 46,932,421         |
| Capital assets, net                                 | 44,218,799                                 | 5,542,505                                    | 49,761,304         |
| Other noncurrent assets                             | 42,127,056                                 | 27,328,737                                   | 69,455,793         |
| Total assets  | <u>117,261,003</u>                         | <u>48,888,515</u>                            | <u>166,149,518</u> |
| Current liabilities                                 | 12,519,677                                 | 4,317,671                                    | 16,837,348         |
| Noncurrent liabilities                              | 60,475,690                                 | 11,752,558                                   | 72,228,248         |
| Total liabilities                                   | <u>72,995,367</u>                          | <u>16,070,229</u>                            | <u>89,065,596</u>  |
| Invested in capital assets, net of<br>related debt  | 4,829,841                                  | 4,665,993                                    | 9,495,834          |
| Restricted  | —  | 19,657,142                                   | 19,657,142         |
| Unrestricted  | 39,435,795                                 | 8,495,151                                    | 47,930,946         |
| Total net assets                                    | <u>\$ 44,265,636</u>                       | <u>32,818,286</u>                            | <u>77,083,922</u>  |
| <b>Year Ended June 30, 2007</b>                     |  |  |                    |
| Operating revenues:                                 |  |  |                    |
| Student tuition and fees                            | \$ —                                       | 9,059,548                                    | 9,059,548          |
| Grants and contracts, noncapital                    | 43,943,664                                 | 3,042,324                                    | 46,985,988         |
| Sales and services of auxiliary<br>enterprises, net | 18,741,976                                 | 3,488,353                                    | 22,230,329         |
| Other   | 8,162,910                                  | 2,268,354                                    | 10,431,264         |
| Total operating<br>revenues                         | <u>70,848,550</u>                          | <u>17,858,579</u>                            | <u>88,707,129</u>  |

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Notes to Financial Statements

June 30, 2007

| Year Ended June 30, 2007           | University<br>Enterprises<br>Inc. | Other<br>auxiliary<br>organizations | Total             |
|------------------------------------|-----------------------------------|-------------------------------------|-------------------|
| Operating expenses:                |                                   |                                     |                   |
| Instruction                        | \$ 8,114,095                      | —                                   | 8,114,095         |
| Research                           | 6,736,994                         | —                                   | 6,736,994         |
| Public service                     | 34,370,012                        | —                                   | 34,370,012        |
| Academic support                   | 252,393                           | 648,835                             | 901,228           |
| Student services                   | 223,282                           | 9,425,803                           | 9,649,085         |
| Institutional support              | 2,465,718                         | 339,096                             | 2,804,814         |
| Student grants and scholarships    | 174,438                           | 468,589                             | 643,027           |
| Auxiliary enterprise expenses      | 14,311,806                        | 10,647,705                          | 24,959,511        |
| Depreciation and amortization      | 1,230,222                         | 759,467                             | 1,989,689         |
| Total operating expenses           | <u>67,878,960</u>                 | <u>22,289,495</u>                   | <u>90,168,455</u> |
| Operating income (loss)            | 2,969,590                         | (4,430,916)                         | (1,461,326)       |
| Net nonoperating revenues          | <u>1,419,153</u>                  | <u>9,093,053</u>                    | <u>10,512,206</u> |
| Income before other additions      | 4,388,743                         | 4,662,137                           | 9,050,880         |
| Grants and gifts, capital          | 1,116,000                         | 21,588                              | 1,137,588         |
| Additions to permanent endowments  | <u>—</u>                          | <u>1,681,050</u>                    | <u>1,681,050</u>  |
| Increase in net assets             | 5,504,743                         | 6,364,775                           | 11,869,518        |
| Beginning net assets, July 1, 2006 | <u>38,760,893</u>                 | <u>26,453,511</u>                   | <u>65,214,404</u> |
| Ending net assets, June 30, 2007   | <u>\$ 44,265,636</u>              | <u>32,818,286</u>                   | <u>77,083,922</u> |

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.

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, 2007 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.

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

## Notes to Financial Statements

June 30, 2007

**(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.

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), while University Foundation at Sacramento State, University Enterprises, Inc. and University Enterprises Development Group apply the accounting and reporting standards promulgated by the GASB.

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

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

**(d) Classification of Current and Noncurrent Assets 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 and Statement of Cash Flows**

The University considers highly liquid investments with an original maturity date of three months or less to be cash equivalents. The University considers amounts included in the California State

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

## Notes to Financial Statements

June 30, 2007

University investment pool to be investments. The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

**(f) Investments**

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

**(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. Such cost includes, where appropriate, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the state 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 30 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, 2007

**(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, interest expense, and capital contributions.

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, 2007

**(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) 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, 2007 are classified in the accompanying statement of net assets as follows:

|   |                       |
|---|-----------------------|
| Cash and cash equivalents                       | \$ 357,757            |
| Restricted cash and cash equivalents            | 4,673                 |
| Total cash and cash equivalents                 | <u>362,430</u>        |
| Short-term investments                          | 98,839,704            |
| Endowment investments                           | 7,784,369             |
| Other long-term investments                     | 20,448,672            |
| Total investments                               | <u>127,072,745</u>    |
| Total cash and cash equivalents and investments | <u>\$ 127,435,175</u> |

**(a) Cash and Cash Equivalents**

At June 30, 2007, cash and cash equivalents consisted of demand deposits held at the State Treasury, Wells Fargo Bank and petty cash. Total cash and cash equivalents of \$362,430 had a corresponding carrying value balance with the State Treasury and Wells Fargo of \$593,585 at June 30, 2007. The differences related primarily to deposits in transit and outstanding checks.

**Custodial Credit Risk for Deposits**

Custodial credit risk for deposits is the risk that the University will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

## Notes to Financial Statements

June 30, 2007

an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that the University's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

**(b) Investments**

At June 30, 2007, 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, 2007 is presented in the table on the following page.

**Credit Risk**

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

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Notes to Financial Statements

June 30, 2007

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, 2007:

| <u>Investment type</u>                            | <u>Fair value</u>     | <u>maturity (in years)</u> | <u>AAA</u>          | <u>Aa</u>         | <u>A</u>          | <u>Not rated</u>  |
|---|-----------------------|----------------------------|---------------------|-------------------|-------------------|-------------------|
| Money market mutual funds                         | \$ 59,337             | 0.01                       | —                   | —                 | —                 | 59,337            |
| Certificates of deposit                           | 25,001,385            | 0.36                       | \$ —                | 18,338,043        | 6,663,342         | —                 |
| Commercial paper                                  | 25,162,421            | 0.01                       | —                   | —                 | 25,025,446        | 136,975           |
| U.S. agency securities                            | 1,489,761             | 1.07                       | 1,489,761           | —                 | —                 | —                 |
| Mortgage-backed securities                        | 831,706               | 9.48                       | 831,706             | —                 | —                 | —                 |
| Corporate and fixed income securities             | 37,482,181            | 1.42                       | 3,930,548           | 15,799,107        | 17,752,526        | —                 |
| State of California Surplus Money Investment Fund | 36,939,437            | 0.48                       | —                   | —                 | —                 | 36,939,437        |
| Other   | 5,402                 | 0.00                       | —                   | —                 | —                 | 5,402             |
| <b>Total</b>                                      | <b>126,971,630</b>    |                            | <b>\$ 6,252,015</b> | <b>34,137,150</b> | <b>49,441,314</b> | <b>37,141,151</b> |
| Not subject to ratings:                           |                       |                            |                     |                   |                   |                   |
| U.S. Treasury securities                          | 101,115               | 2.43                       | —                   | —                 | —                 | —                 |
| <b>Total investments</b>                          | <b>\$ 127,072,745</b> |                            |                     |                   |                   |                   |

**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, 2007, 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, 2007 consisted of the following:

|   | <u>Current</u>      | <u>Noncurrent</u> | <u>Total</u>      |
|---|---------------------|-------------------|-------------------|
| State appropriations                      | \$ 4,241            | 8,037,593         | 8,041,834         |
| Auxiliary organizations                   | 931,054             | —                 | 931,054           |
| Student accounts                          | 379,842             | —                 | 379,842           |
| Government grants and contracts           | 1,728,565           | —                 | 1,728,565         |
| Chancellor's office                       | 971,754             | —                 | 971,754           |
| Various federal, state and local agencies | 3,504,762           | —                 | 3,504,762         |
| Other                                     | 1,885,717           | —                 | 1,885,717         |
|   | 9,405,935           | 8,037,593         | 17,443,528        |
| Less allowance for doubtful accounts      | (418,379)           | —                 | (418,379)         |
| <b>Total</b>                              | <b>\$ 8,987,556</b> | <b>8,037,593</b>  | <b>17,025,149</b> |

The balance due from Auxiliary Organizations declined approximately \$3,200,000 from the prior year primarily due to the change in reporting for certain campus program accounts (note 15).

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The balance of \$3,504,762 due from various federal, state, and county agencies represents amounts related to courses offered by the Continuing Education College of the University. The amounts represent amounts to be paid by these agencies for seminars and courses for their personnel.

**(5) Lease Receivable**

The University has entered into two 30-year capital lease agreements with Capital Public Radio and University Enterprises, Inc. to occupy the University radio station building and student bookstore effective January 2003 and June 2007 respectively. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2003A, 2007A and 2007B was used to finance such facilities. 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:                                |                      |
| 2008   | \$ 1,182,822         |
| 2009   | 1,466,602            |
| 2010   | 1,465,305            |
| 2011   | 1,462,978            |
| 2012   | 1,464,657            |
| Thereafter   | <u>35,969,360</u>    |
| Total payments to be received                      | 43,011,724           |
| Less amounts representing interest                 | <u>(21,597,248)</u>  |
| Total lease receivable                             | 21,414,476           |
| Less current portion                               | <u>(75,000)</u>      |
| Long-term lease receivable, net of current portion | <u>\$ 21,339,476</u> |

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**(6) Capital Assets**

Capital asset activity for the year ended June 30, 2007 consisted of the following:

|  | <b>Balance,<br/>June 30, 2006</b> | <b>Additions</b>    | <b>Retirements</b>  | <b>Transfers</b>    | <b>Balance,<br/>June 30, 2007</b> |
|--|-----------------------------------|---------------------|---------------------|---------------------|-----------------------------------|
| 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              | 40,479,297                        | 44,933,539          | (16,881,437)        | (39,097,971)        | 29,433,428                        |
| <b>Total nondepreciable capital assets</b> | <b>42,068,610</b>                 | <b>44,933,539</b>   | <b>(16,881,437)</b> | <b>(39,097,971)</b> | <b>31,022,741</b>                 |
| Depreciable capital assets:                |                                   |                     |                     |                     |                                   |
| Buildings and building improvements        | 265,639,831                       | 2,965,331           | —                   | 38,187,233          | 306,792,395                       |
| Improvements, other than buildings         | 12,345,284                        | —                   | —                   | 910,738             | 13,256,022                        |
| Infrastructure                             | 27,851,261                        | —                   | —                   | —                   | 27,851,261                        |
| Personal property:                         |                                   |                     |                     |                     |                                   |
| Equipment                                  | 36,825,721                        | 1,840,741           | (313,171)           | —                   | 38,353,291                        |
| Library books and materials                | 33,691,034                        | 1,728,458           | (132,549)           | —                   | 35,286,943                        |
| Intangible assets                          | 42,123,049                        | 93,743              | —                   | —                   | 42,216,792                        |
| <b>Total depreciable capital assets</b>    | <b>418,476,180</b>                | <b>6,628,273</b>    | <b>(445,720)</b>    | <b>39,097,971</b>   | <b>463,756,704</b>                |
| <b>Total cost</b>                          | <b>460,544,790</b>                | <b>51,561,812</b>   | <b>(17,327,157)</b> | <b>—</b>            | <b>494,779,445</b>                |
| Less accumulated depreciation:             |                                   |                     |                     |                     |                                   |
| Buildings and building improvements        | (132,003,801)                     | (7,456,467)         | —                   | —                   | (139,460,268)                     |
| Improvements, other than buildings         | (10,830,222)                      | (304,465)           | —                   | —                   | (11,134,687)                      |
| Infrastructure                             | (7,382,696)                       | (3,662,878)         | —                   | (120,920)           | (11,166,494)                      |
| Personal property:                         |                                   |                     |                     |                     |                                   |
| Equipment                                  | (31,844,631)                      | (2,846,367)         | 206,999             | 232,654             | (34,251,345)                      |
| Library books and materials                | (28,187,798)                      | (857,769)           | 132,549             | —                   | (28,913,018)                      |
| Intangible assets                          | (41,594,121)                      | (387,405)           | —                   | (111,734)           | (42,093,260)                      |
| <b>Total accumulated depreciation</b>      | <b>(251,843,269)</b>              | <b>(15,515,351)</b> | <b>339,548</b>      | <b>—</b>            | <b>(267,019,072)</b>              |
| <b>Net capital assets</b>                  | <b>\$ 208,701,521</b>             | <b>36,046,461</b>   | <b>(16,987,609)</b> | <b>—</b>            | <b>227,760,373</b>                |

The \$16,881,437 balance noted as a retirement of construction work in progress represents amounts capitalized during current and previous years for the University Bookstore. Upon completion, the Bookstore was leased to University Enterprises, Inc. and the capital asset balance was reclassified as a lease receivable.

Related to ongoing construction work in progress, the University recorded capitalized interest in the amount of \$1,175,252 during the year ended June 30, 2007.

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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.

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$18,100,816 at June 30, 2007. 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 2016/2017. 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<br/>leases</u> | <u>Operating<br/>leases</u> |
|--|---------------------------|-----------------------------|
| Year ending June 30:                             |                           |                             |
| 2008   | \$ 2,119,591              | 513,224                     |
| 2009   | 2,164,205                 | 411,383                     |
| 2010   | 2,107,139                 | 262,991                     |
| 2011   | 1,530,892                 | 248,819                     |
| 2012   | 1,529,388                 | 253,384                     |
| 2013 – 2017                                      | 4,504,659                 | 801,768                     |
| 2018 – 2022                                      | 2,497,388                 | —                           |
| 2023 – 2027                                      | 2,399,388                 | —                           |
| 2028 – 2032                                      | 1,811,388                 | —                           |
| 2033 – 2037                                      | 287,795                   | —                           |
|  | <hr/>                     | <hr/>                       |
| Total minimum lease payments                     | 20,951,833                | \$ 2,491,569                |
|  | <hr/>                     | <hr/>                       |
| Less amount representing interest                | (5,884,568)               |                             |
|  | <hr/>                     |                             |
| Present value of future minimum lease payments   | 15,067,265                |                             |
| Less current portion                             | (1,437,487)               |                             |
|  | <hr/>                     |                             |
| Capital lease obligation, net of current portion | \$ 13,629,778             |                             |
|  | <hr/>                     |                             |

Rent expense under operating leases for the year ended June 30, 2007 totaled \$334,817.

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

# CALIFORNIA STATE UNIVERSITY, SACRAMENTO

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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, 2007 totaled \$570,858,000.

### **(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 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 \$1,393,141,000 as of June 30, 2007.

#### **(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

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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, 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 \$2,302,428,000 at June 30, 2007. The University's portion of the total outstanding balance under this program was \$78,485,000 at June 30, 2007.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2007, the System's outstanding balance for these senior bonds totaled \$68,550,000. The University's had no outstanding balance for these senior bonds at June 30, 2007.

(c) ***Revenue Bond Anticipation Notes***

The University issued Revenue Bond Anticipation Notes during 2007 to finance the development and construction of an auxiliary organization Athletic Fieldhouse. 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 \$6,450,000 at June 30, 2007.

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Long-term debt obligations of the University as of June 30, 2007 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                   | 5.0%                 | 2021/2022                        | \$ 5,175,000                 | 4,730,000                 |
| Parking Series 2002A                   | 4.0% -- 5.5%         | 2026/2027                        | 5,640,000                    | 5,040,000                 |
| Parking Series 2005C                   | 3.0% -- 5.0%         | 2031/2032                        | 26,990,000                   | 26,990,000                |
| Student Union Series 2002A             | 4.0% -- 5.5%         | 2021/2022                        | 800,000                      | 670,000                   |
| Student Union Series 2004A             | 2.5% -- 5.25%        | 2025/2026                        | 20,615,000                   | 18,860,000                |
| Auxiliary Org Series 2003A             | 2.5% -- 5.375%       | 2033/2034                        | 4,115,000                    | 3,900,000                 |
| Auxiliary Org Series 2007A             | 5.0%                 | 2037/2038                        | 9,365,000                    | 9,365,000                 |
| Auxiliary Org Series 2007B             | 5.27% - 5.45%        | 2027/2028                        | 8,930,000                    | 8,930,000                 |
| Revenue Bond Anticipation Notes        | 3.66% - 3.68%        | 2011/2012                        | 6,450,000                    | 6,450,000                 |
| Total                                  |                      |                                  |                              | 84,935,000                |
| Unamortized bond premium               |                      |                                  |                              | 1,865,628                 |
| Unamortized loss on refunding          |                      |                                  |                              | (216,804)                 |
| Total long-term debt                   |                      |                                  |                              | 86,583,824                |
| Less current portion                   |                      |                                  |                              | (2,895,000)               |
| Long-term debt, net of current portion |                      |                                  |                              | <u>\$ 83,688,824</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: |                      |                   |
| 2008                 | \$ 2,895,000         | 4,194,618         |
| 2009                 | 3,320,000            | 3,911,219         |
| 2010                 | 3,465,000            | 3,761,645         |
| 2011                 | 3,620,000            | 3,611,981         |
| 2012                 | 3,760,000            | 3,459,864         |
| 2013 – 2017          | 13,380,000           | 15,298,743        |
| 2018 – 2022          | 17,140,000           | 11,544,112        |
| 2023 – 2027          | 17,530,000           | 7,100,066         |
| 2028 – 2032          | 13,250,000           | 3,363,576         |
| 2033 – 2037          | 5,430,000            | 952,250           |
| 2038 – 2042          | 1,145,000            | 28,625            |
|                      | <u>\$ 84,935,000</u> | <u>57,226,699</u> |

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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.

**(9) Advance Refundings**

**(a) Prior Years' Refundings**

In prior years, the University defeased certain Housing System Revenue Bonds Series AV and Student Union Revenue Bonds Series C by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005B and 2004A 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 year defeased bonds outstanding as of June 30, 2007 totaled \$23,590,000.

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

Long-term liabilities activity for the year ended June 30, 2007 was as follows:

|  | <u>Beginning<br/>balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>balance</u> | <u>Current<br/>portion</u> |
|--|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Accrued compensated absences                 | \$ 9,237,557                 | 4,923,577        | (4,570,062)       | 9,591,072                 | 4,570,062                  |
| Total capitalized lease obligations (note 7) | 14,620,104                   | 1,650,000        | (1,202,839)       | 15,067,265                | 1,437,487                  |
| Long-term debt obligations (note 8):         |                              |                  |                   |                           |                            |
| Systemwide Revenue Bonds                     | 61,310,000                   | 18,295,000       | (1,120,000)       | 78,485,000                | 1,745,000                  |
| Revenue Bond Anticipation Notes              | 16,576,000                   | 6,450,000        | (16,576,000)      | 6,450,000                 | 1,150,000                  |
| Total  | 77,886,000                   | 24,745,000       | (17,696,000)      | 84,935,000                | 2,895,000                  |
| Unamortized bond premium/discount            | 1,485,780                    | 447,887          | (68,039)          | 1,865,628                 | —                          |
| Unamortized loss on refunding                | (231,930)                    | —                | 15,126            | (216,804)                 | —                          |
| Total long-term debt obligations             | 79,139,850                   | 25,192,887       | (17,748,913)      | 86,583,824                | 2,895,000                  |
| Total long-term liabilities                  | \$ 102,997,511               | 31,766,464       | (23,521,814)      | 111,242,161               | 8,902,549                  |

**(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 retirement plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost-sharing multiple-

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employer defined benefit pension plan which provides a defined benefit pension and postretirement program for substantially all eligible University employees.

CalPERS provides benefits based on members' years of service, age, and final compensation. In addition, benefits are provided for disability and death and payments to survivors or beneficiaries of eligible members. Membership is mandatory for those University employees employed full-time for a period of six months or part-time for a period of one year in duration. Members are eligible to retire at the age specified in their benefit formulas. University members become fully vested in their retirement benefits after five years of credited service.

All University retirees that retire within 120 days of their separation from employment; have been eligible for enrollment in a CalPERS medical plan on their date of separation; and receive a retirement allowance from CalPERS are eligible for retirement health benefits through CalPERS which include medical and dental coverage. The retiree's family members can also be covered by the plan and eligible dependents include his or her spouse, domestic partner, children under age 23 and never married, and disabled children over age 23. The monthly out-of-pocket enrollment cost to the retiree for medical coverage will depend on which plan and the level of coverage the retiree chooses. The University currently pays the full cost of the basic level dental coverage for eligible retirees and their eligible dependents.

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**

The benefit structure for state employees (including the University) is defined by statute. CalPERS uses contributions of the employer and the employee as well as income from investments to pay for employee retirement benefits. Employee and employer contributions are a percentage of applicable employee compensation. The employee contribution is 5% of salary for Miscellaneous Tier 1 members as defined by the Plan and 8% for Peace Officer/Firefighter members (Public Safety Management and Firefighters only) less an exclusion allowance for coordination with Social Security. For eligible University Public Safety employees, the University pays for both the employer and employee contributions. The University is required to contribute at an actuarially determined rate; the current rate is approximately 16.997% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

|      |    |            |
|------|----|------------|
| 2005 | \$ | 20,148,494 |
| 2006 |    | 19,173,631 |
| 2007 |    | 21,569,362 |

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**(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, 2007.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2007 are as follows:

|  |    |                          |
|--|----|--------------------------|
| 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              |
| Incurred claims and changes in estimates                     |    | 35,794,000               |
| Claim payments   |    | <u>(39,978,000)</u>      |
| Liability at June 30, 2007                                   |    | 108,192,000              |
| Less current portion   |    | <u>(27,250,000)</u>      |
| Long-term liability at June 30, 2007, net of current portion | \$ | <u><u>80,942,000</u></u> |

The System maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$1,000,000 and up to \$49,000,000 per occurrence. The System 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 System maintains excess policies with SELF, ICH, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the System.

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of CSURMA's total self-insurance claims liability as of June 30, 2007 was approximately 6.0%, or \$6,247,000. 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, 2007. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

The University had no balance payable due to CSURMA at June 30, 2007.

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Notes to Financial Statements

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**(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, 2007 totaled \$20,736,740. 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, 2007, operating expenses by natural classification consisted of the following:

| 2006                                  | Salaries       | Benefits   | Scholarships<br>and fellowships | Supplies and<br>other services | Depreciation | Total       |
|---------------------------------------|----------------|------------|---------------------------------|--------------------------------|--------------|-------------|
| Functional classification:            |                |            |                                 |                                |              |             |
| Instruction                           | \$ 91,049,046  | 28,698,186 | —                               | 12,466,449                     | —            | 132,213,681 |
| Research                              | 212,781        | 2,510      | —                               | 29,628                         | —            | 244,919     |
| Public service                        | 2,335,153      | 533,714    | —                               | 1,528,646                      | —            | 4,397,513   |
| Academic support                      | 15,389,978     | 5,063,983  | —                               | 4,150,608                      | —            | 24,604,569  |
| Student services                      | 15,359,778     | 5,973,570  | —                               | 8,824,867                      | —            | 30,158,215  |
| Institutional support                 | 18,197,875     | 6,561,155  | —                               | 8,041,810                      | —            | 32,800,840  |
| Operation and maintenance<br>of plant | 10,697,786     | 4,753,018  | —                               | 8,222,699                      | —            | 23,673,503  |
| Student grants and scholarships       | —              | —          | 35,302,124                      | —                              | —            | 35,302,124  |
| Auxiliary enterprise expenses         | 2,570,713      | 1,104,258  | —                               | 5,120,023                      | —            | 8,794,994   |
| Depreciation and amortization         | —              | —          | —                               | —                              | 15,293,328   | 15,293,328  |
| Total                                 | \$ 155,813,110 | 52,690,394 | 35,302,124                      | 48,384,730                     | 15,293,328   | 307,483,686 |

**(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 \$164,251,382 for the year ended June 30, 2007. The University was de-allocated \$25,084 of unused State appropriations-capital. State appropriations receivable aggregated \$8,041,834 at June 30, 2007. The University also received lottery fund distributions from the state of California in the amount of \$2,390,148 for the year ended June 30, 2007, which is included in other nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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## Notes to Financial Statements

June 30, 2007

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.

A balance in the amount of \$3,839,000 was transferred from the Chancellor's Office to the University for decentralized union allocations. These funds were held by the Chancellor's Office in prior years, but were released to the University as part of a system-wide decentralization of union funds. The balance was recorded as other nonoperating revenues.

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2007, \$120,468 of such additions of capital assets are included in the accompanying financial statements.

The statements of revenues, expenses, and changes in net assets for the year ended June 30, 2007, of the California State University, Sacramento and the University Foundation at Sacramento State reflect a change in reporting for certain campus program accounts. These campus program 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, \$3,014,806 relating to these accounts were evaluated during 2006/2007 and recognized as other non operating revenues and expenses, net by the University and University Enterprises, Inc. during the year ended June 30, 2007.

The University has four capital leases with University Enterprises, Inc. (UEI) for building constructed by UEI and leased by the University. As of June 30, 2007, the carrying value of the capital assets recorded by the University was \$9,369,065. During the year ended June 30, 2007, the University made payments of \$399,176 to UEI relating to the leases. The leases are recorded as capital lease receivables in the accompanying discretely presented component unit financial statements of UEI.

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, 2007:

|  |    |             |
|--|----|-------------|
| Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs | \$ | 1,145,459   |
| Reimbursements from recognized auxiliary organizations for other than salaries of University employees                                       |    | 3,007,569   |
| Payments to recognized auxiliary organizations for services, office space rental, and programs   |    | 5,698,873   |
| Gifts-in-kind to the University from recognized auxiliary organizations  |    | 302,967     |
| Amounts receivable from the Office of the Chancellor   |    | 246,964     |
| Amounts payable to the Office of the Chancellor  |    | (17,127)    |
| Amounts receivable from recognized auxiliary organizations   |    | 931,054     |
| Amounts payable to recognized auxiliary organizations  |    | (1,145,928) |

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**(16) Subsequent Events**

In July 2007, \$24.2 million of Revenue Bond Anticipation Notes were issued by the University relating to construction of the new Student Housing Project.