



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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Independent Auditors' Report

Dr. Jolene Koester, President
California State University, Northridge:

We have audited the accompanying financial statements of the California State University, Northridge (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 University's Auxiliary Organizations 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.

Also, as discussed in note 2, the discretely presented component units' net assets at the beginning of the year have been restated.

In our opinion, based on our audits 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 12 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

December 19, 2007

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2007

This section of California State University, Northridge's (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes to the financial statements.

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 that best represent 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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2007

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's net assets; a discussion of capital assets and long-term debt; and factors impacting future reporting periods.

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

Condensed Summary of Net Assets

	June 30	
	2007	2006
Assets:		
Current assets	\$ 112,980,134	107,121,612
Capital assets	294,385,624	287,578,507
Other noncurrent assets	123,133,725	66,671,318
Total assets	<u>530,499,483</u>	<u>461,371,437</u>
Liabilities:		
Current liabilities	42,173,619	45,823,581
Long-term debt obligations, net of current portion	97,972,798	97,960,793
Other noncurrent liabilities	11,419,450	11,625,421
Total liabilities	<u>151,565,867</u>	<u>155,409,795</u>
Net assets:		
Invested in capital assets, net of related debt	208,106,831	200,252,962
Restricted, expendable	108,084,732	41,466,788
Unrestricted	62,742,053	64,241,892
Total net assets	<u>\$ 378,933,616</u>	<u>305,961,642</u>

Assets

The \$69.1 million increase in total assets is primarily due to a \$56.2 million increase in state appropriations receivable as a result of higher current year state appropriations for capital projects, which was offset by a \$28.9 million decrease in noncapital state appropriations receivables, a decrease in cash of \$24.5 million with an increase in investments of \$58.7 million. During fiscal year 2006-07, the California State University System entered into a new banking arrangement whereby the campus was permitted to invest daily excess cash, and retain only minimal balances with the State Treasury, resulting in the aforementioned changes in cash, noncapital state appropriations receivables, and investments.

The \$6.8 million increase in capital assets is due to the completion of four major projects: The Public Safety building, the Engineering Building Renovation, the Student Union Renovation Phase II, and Matador Hall. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the

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Management's Discussion and Analysis

June 30, 2007

state of California and the California State University System, which are not reflected in the accompanying financial statements.

Liabilities

The \$3.8 million decrease in total liabilities from the prior year is primarily due to a \$11.5 million decrease in deferred revenue due to increased recognition of summer session revenue of \$4.9 million, reimbursed activities revenue of \$2.8 million for projects completed in 2006-07, and \$3.8 million recognition of other revenues related to student fees for housing, parking, associated students, and student union fees. These decreases were offset by a \$5.0 million increase in accounts payable, a \$2.0 million increase in accrued salaries and benefits, and a \$0.8 million increase in accrued compensated absences. The increase in accounts payable was primarily related to the following: 1) \$1.4 million was a result of the reclassification of a negative bank balance to accounts payable; 2) student payables of \$1.4 million relating to awarding student financial aid for the summer session; and 3) \$2.2 million due to timing differences of vendor invoicing and processing of these payments. The increase in accrued salaries and benefits payable and accrued compensated absences are directly related to the increase in salaries and benefits.

Net Assets

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of \$73.0 million from the prior year is primarily related to an increase in restricted net assets, expendable for capital projects for which \$57.5 million in state appropriations was received in the current year for capital projects.

Restricted Resources

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

Restricted Net Assets

	June 30	
	<u>2007</u>	<u>2006</u>
Expendable:		
Scholarships and fellowships	\$ 461,526	514,216
Loans	146,651	163,634
Capital projects	105,769,555	40,788,938
Debt service	<u>1,707,000</u>	<u>—</u>
Total restricted net assets – expendable	<u>\$ 108,084,732</u>	<u>41,466,788</u>

The \$66.6 million increase in restricted net assets – expendable is primarily due to appropriations for capital projects that were received during the year. Significant projects include: \$56.5 million for the Performing Arts Center and \$2.9 million for HVAC/Electrical renewal projects in Sierra and Nordhoff halls. The balance of the restricted, expendable for capital projects is for other energy incentive projects as well as other approved minor capital projects.

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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	\$ 89,568,958	80,586,105
Grants and contracts	57,422,868	54,404,033
Sales and services of auxiliary enterprises, net	21,451,928	21,367,949
Other operating revenues	7,098,919	5,493,529
	175,542,673	161,851,616
Operating expenses	(353,224,896)	(330,763,705)
Operating loss	(177,682,223)	(168,912,089)
Nonoperating revenues (expenses):		
State appropriations, noncapital	185,803,292	165,327,852
Investment income, net	5,494,222	2,485,034
Other nonoperating revenues (expenses), net	(3,617,691)	4,753,325
Total nonoperating revenues	187,679,823	172,566,211
Income before other additions	9,997,600	3,654,122
State appropriations, capital	60,977,000	3,461,000
Grants and gifts, capital	1,997,374	—
Increase in net assets	72,971,974	7,115,122
Beginning net assets	305,961,642	298,846,520
Ending net assets	\$ 378,933,616	305,961,642

Operating Revenues and Expenses

Operating revenues and expenses come from sources that are connected directly to the University's primary business functions. These include revenues from categories such as tuition and fees, and 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

The University recognized \$175.5 million in operating revenues during this fiscal year, as compared to \$161.9 million in the prior year. This comprised 41.2% of total revenues for the year ended June 30, 2007, compared to 47.9% of total revenues for the year ended June 30, 2006. Student tuition and fees, net, increased by

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Management's Discussion and Analysis

June 30, 2007

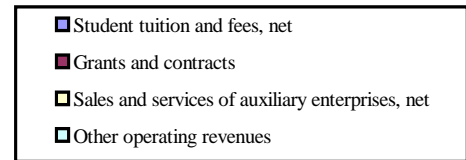
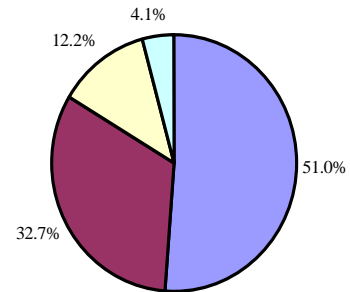
\$9.0 million due to an increase in the number of students by 2,686 from 2006. Grants and contracts revenue increased \$3.0 million from \$54.4 million for fiscal year 2006 to \$57.4 million for fiscal year 2007. Other operating revenues increased by \$1.6 million primarily from the following activities: \$0.4 million in athletics sponsorship, ticket sales, and conference distributions; \$0.2 million increase in tickets for music and theatre performances; \$0.3 million for miscellaneous health center activities; and \$0.2 increase in career center activities.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2007 and 2006:

Operating Revenues

Year ended June 30, 2007

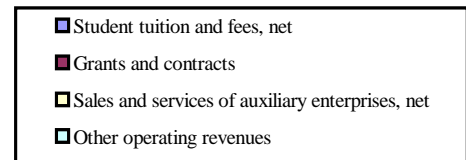
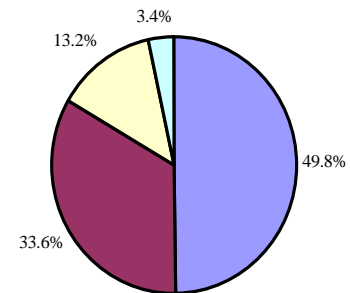
Student tuition and fees, net	\$ 89,568,958	51.0%
Grants and contracts	57,422,868	32.7
Sales and services of auxiliary enterprises, net	21,451,928	12.2
Other operating revenues	<u>7,098,919</u>	<u>4.1</u>
Total operating revenues	<u><u>\$ 175,542,673</u></u>	<u><u>100.0%</u></u>



Operating Revenues

Year ended June 30, 2006

Student tuition and fees, net	\$ 80,586,105	49.8%
Grants and contracts	54,404,033	33.6
Sales and services of auxiliary enterprise, net	21,367,949	13.2
Other operating revenues	<u>5,493,529</u>	<u>3.4</u>
Total operating revenues	<u><u>\$ 161,851,616</u></u>	<u><u>100.0%</u></u>



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Management's Discussion and Analysis

June 30, 2007

Operating Expenses

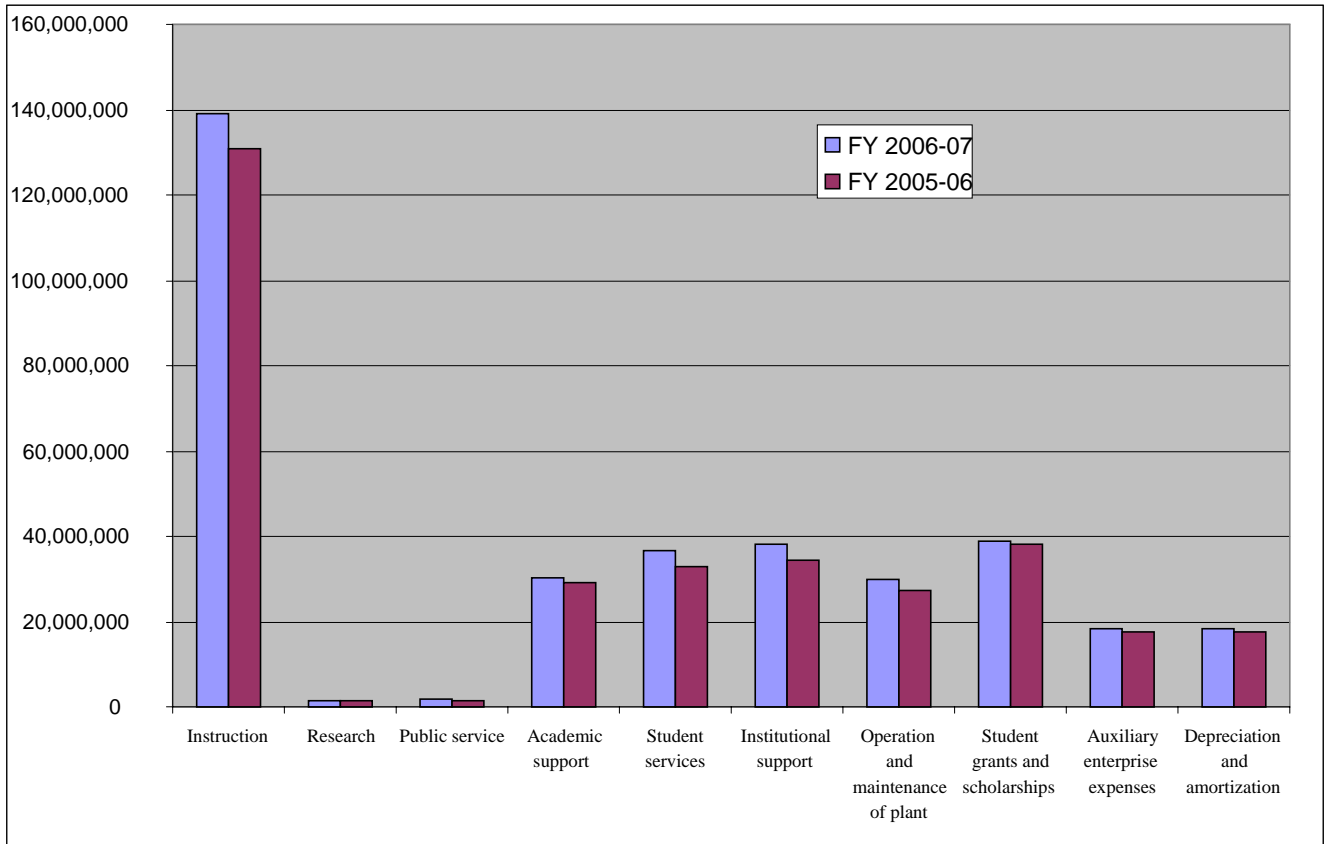
The University's operating expenses consist of salaries and fringe benefits of \$234.3 million, supplies and services of \$61.7 million, scholarships and fellowships of \$39.0 million, and depreciation of \$18.2 million. Total operating expenses, excluding depreciation, increased by \$21.9 million, or 7.0%. Salaries and benefits expenses increased \$16.0 million due to salary rate increases and health and retirement benefit increases for all employees. The University's contribution to the California Public Employees' Retirement System (CalPERS) increased by \$2.7 million, or 12.4%. Student grants and scholarships increased by \$0.9 million. While the percentage of students receiving aid remained consistent at approximately 57.3%, enrollment increased by 3.5%. Supplies and services expenditures increased \$5.0 million due to the following reasons: 1) student services spent an additional \$1.5 million on noncapital renovations of several public areas serving students such as Student Outreach, Financial Aid, Student Development, and International Programs; 2) institutional support increased by \$1.9 million for consultants in planning and implementation of the PeopleSoft 8.9 upgrade and the upgrade of the campus portal; and 3) \$1.6 million of the increase is due to inflationary factors and student enrollment increases. Instruction and academic support increased \$8.1 and \$1.4 million, respectively, primarily due to salaries and benefits expenses noted earlier. The student services function increased by \$3.9 million primarily as a result of the aforementioned salaries and benefits increases; however, \$1.5 million of the increase relates to operations and services expenses for renovations of several public areas serving students. Institutional support increased by \$3.7 million primarily due to the salary increases; however, \$1.9 million of the increase relates to additional expenditures for the planning and implementation of the PeopleSoft 8.9 upgrade. The increase of \$2.7 million in operation and maintenance of plant is due to the aforementioned salaries and benefits increases. The increase in depreciation expense of \$0.6 million relates to current year capital asset additions.

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Management's Discussion and Analysis

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The following chart presents the distribution of resources in support of the University's mission for fiscal years 2007 and 2006:



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Management's Discussion and Analysis

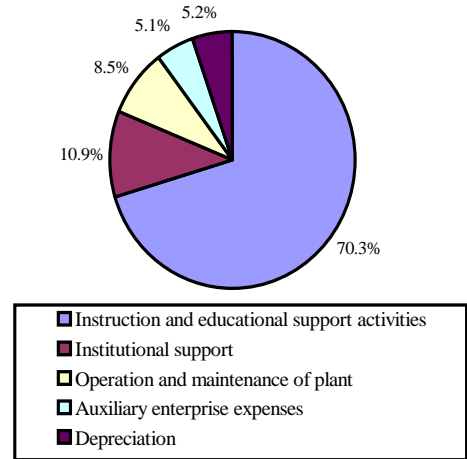
June 30, 2007

The following charts present the proportional share that each category of operating expenditures contributed to the total for fiscal years 2007 and 2006:

Operating Expenses

Year ended June 30, 2007

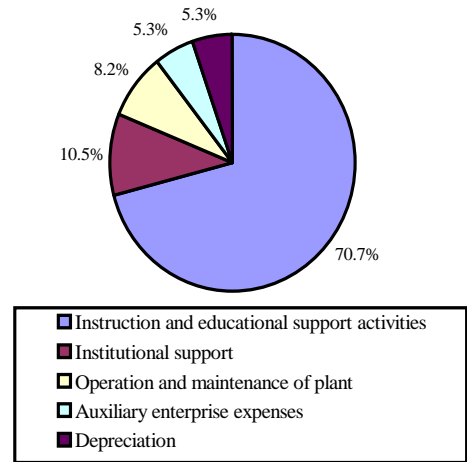
Instruction	\$ 138,903,880	39.3%
Research	1,671,370	0.5
Public service	1,900,960	0.5
Academic support	30,440,677	8.6
Student services	36,775,097	10.4
Student grants and scholarships	<u>39,009,515</u>	<u>11.0</u>
Total instruction and educational support activities	248,701,499	70.3
Institutional support	38,223,387	10.9
Operation and maintenance of plant	29,943,312	8.5
Auxiliary enterprise expenses	18,172,918	5.1
Depreciation	<u>18,183,780</u>	<u>5.2</u>
Total operating expenses	\$ <u>353,224,896</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2006

Instruction	\$ 130,754,290	39.5%
Research	1,526,183	0.5
Public service	1,672,930	0.5
Academic support	29,073,931	8.8
Student services	32,867,279	9.9
Student grants and scholarships	<u>38,109,968</u>	<u>11.5</u>
Total instruction and educational support activities	234,004,581	70.7
Institutional support	34,486,494	10.5
Operation and maintenance of plant	27,208,527	8.2
Auxiliary enterprise expenses	17,450,589	5.3
Depreciation	<u>17,613,514</u>	<u>5.3</u>
Total operating expenses	\$ <u>330,763,705</u>	<u>100.0%</u>



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Management's Discussion and Analysis

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Nonoperating and Other Revenues (Expenses), net

Nonoperating and other revenues (expenses), net, 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, net; 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 \$61.0 million for the year ended June 30, 2007, up from \$3.5 million for the year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$185.8 million, an increase of \$20.5 million from the prior year.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 6,113,511	6,113,511
Buildings and building improvements	248,235,357	222,534,138
Improvements, other than buildings	2,924,009	3,119,629
Infrastructure	6,408,457	6,611,177
Personal property	13,025,094	13,513,426
Intangible assets	1,243,533	2,039,582
Construction work in progress	16,435,663	33,647,044
Total capital assets, net of accumulated depreciation	<u>\$ 294,385,624</u>	<u>287,578,507</u>

At June 30, 2007 and 2006, the University had \$583.2 million and \$559.5 million, in capital assets, net of accumulated depreciation of \$288.8 million and \$272.0 million, respectively. Depreciation expense totaled \$18.2 million and \$17.6 million for the years ended June 30, 2007 and 2006, respectively.

The University had the following major capital projects open at the end of the fiscal year: Parking Structure 3 funded through general obligation bonds and campus parking fund contributions of \$1.2 million; the Performing Arts Center funded by state appropriations capital and donor contributions of \$6.5 million; the Science renovation of \$2.5 million funded by state appropriations; and the Student Housing Phase 1 project of \$1.1 million funded by general obligation bonds and campus housing contributions.

Major capital projects completed during fiscal year 2007 are as follows (in millions):

Engineering Building Renovation	\$	15.4
Public Safety Building		9.3
Student Union Renovation Phase II		10.0
Matador Hall		1.7

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

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Management's Discussion and Analysis

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Long-Term Debt Obligations

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

	June 30	
	2007	2006
Student Union Revenue Bonds	\$ 11,130,000	11,575,000
Systemwide Revenue Bonds	90,559,958	89,989,780
Total	101,689,958	101,564,780
Unamortized bond premium	1,639,660	1,745,455
Unamortized loss on refunding	(1,429,862)	(1,529,620)
Total long-term debt	101,899,756	101,780,615
Less current portion	(3,926,958)	(3,819,822)
Long-term debt, net of current portion	\$ 97,972,798	97,960,793

The interest rates on outstanding debt range from 2.5% to 6.0%.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at Aa3 and the Student Union Revenue Bonds at A1 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds at A+ and the Student Union Revenue Bonds at A (however, these bonds are insured to AAA).

See notes 7 through 9 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 System for fiscal year 2007/2008. The allocation provided to the University is \$195.4 million, an increase of \$9.6 million over fiscal year 2006/2007. The increase is budgeted to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and complete deferred maintenance projects.

Budgeted full-time equivalent enrollment target for fiscal years 2007/2008 is 25,733, representing an increase of 3.3%. This anticipated growth will generate additional revenues of approximately \$1.4 million to the University.

The California State University Board of Trustees approved a student housing project for the University. The project includes a 400-bed facility geared toward lower division students and designed to support the University's learning-centered initiatives. The project is located within the existing University Park housing complex. Construction is scheduled to begin in winter 2008.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Net Assets

June 30, 2007

Assets	University	Discretely presented component units auxiliary organizations	Total
Current assets:			
Cash and cash equivalents	\$ 95,221	12,295,935	12,391,156
Short-term investments	106,638,710	30,205,853	136,844,563
Accounts receivable, net	4,166,531	4,658,727	8,825,258
Leases receivable, current portion	125,000	—	125,000
Pledges receivable, net	—	1,967,241	1,967,241
Prepaid expenses and other assets	1,954,672	504,109	2,458,781
Total current assets	<u>112,980,134</u>	<u>49,631,865</u>	<u>162,611,999</u>
Noncurrent assets:			
Restricted cash and cash equivalents	—	784,523	784,523
Accounts receivable, net	105,941,147	1,803,608	107,744,755
Leases receivable, net of current portion	10,260,000	—	10,260,000
Student loans receivable, net	3,330,237	—	3,330,237
Pledges receivable, net	—	9,440,988	9,440,988
Endowment investments	—	46,909,740	46,909,740
Other long-term investments	3,602,341	25,029,507	28,631,848
Capital assets, net	294,385,624	22,260,891	316,646,515
Other assets	—	22,458,268	22,458,268
Total noncurrent assets	<u>417,519,349</u>	<u>128,687,525</u>	<u>546,206,874</u>
Total assets	<u>530,499,483</u>	<u>178,319,390</u>	<u>708,818,873</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	12,242,212	2,758,012	15,000,224
Accrued salaries and benefits payable	15,533,835	3,054,226	18,588,061
Accrued compensated absences – current portion	3,989,133	278,788	4,267,921
Deferred revenue	5,211,266	3,291,994	8,503,260
Capitalized lease obligations – current portion	—	125,000	125,000
Long-term debt obligations – current portion	3,926,958	109,361	4,036,319
Other liabilities	1,270,215	44,222	1,314,437
Total current liabilities	<u>42,173,619</u>	<u>9,661,603</u>	<u>51,835,222</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	5,983,699	159,560	6,143,259
Deferred revenue	—	375,000	375,000
Grants refundable	4,285,864	92,469	4,378,333
Capitalized lease obligations, net of current portion	—	10,477,965	10,477,965
Long-term debt obligations, net of current portion	97,972,798	3,336,966	101,309,764
Depository accounts	1,149,887	5,153,959	6,303,846
Other liabilities	—	2,124,430	2,124,430
Total noncurrent liabilities	<u>109,392,248</u>	<u>21,720,349</u>	<u>131,112,597</u>
Total liabilities	<u>151,565,867</u>	<u>31,381,952</u>	<u>182,947,819</u>
Net assets:			
Invested in capital assets, net of related debt	208,106,831	8,571,655	216,678,486
Restricted for:			
Nonexpendable – endowments	—	53,569,547	53,569,547
Expendable:			
Scholarships and fellowships	461,526	6,984,760	7,446,286
Research	—	264,149	264,149
Loans	146,651	—	146,651
Capital projects	105,769,555	1,484,838	107,254,393
Debt service	1,707,000	—	1,707,000
Other	—	36,964,803	36,964,803
Unrestricted	62,742,053	39,097,686	101,839,739
Total net assets	<u>\$ 378,933,616</u>	<u>146,937,438</u>	<u>525,871,054</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2007

	<u>University</u>	<u>Discretely presented component units auxiliary organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$42,647,837)	\$ 89,568,958	10,636,007	—	100,204,965
Grants and contracts, noncapital:				
Federal	35,540,563	13,748,518	—	49,289,081
State	17,866,910	1,414,377	—	19,281,287
Local	—	3,070,246	—	3,070,246
Nongovernmental	4,015,395	—	—	4,015,395
Sales and services of educational activities	855,484	—	—	855,484
Sales and services of auxiliary enterprises	21,451,928	12,433,129	—	33,885,057
Other operating revenues	6,243,435	2,262,148	—	8,505,583
Total operating revenues	<u>175,542,673</u>	<u>43,564,425</u>	<u>—</u>	<u>219,107,098</u>
Expenses:				
Operating expenses:				
Instruction	138,903,880	150,112	—	139,053,992
Research	1,671,370	16,259,113	—	17,930,483
Public service	1,900,960	184,541	—	2,085,501
Academic support	30,440,677	512,183	—	30,952,860
Student services	36,775,097	9,480,562	—	46,255,659
Institutional support	38,223,387	5,076,506	—	43,299,893
Operation and maintenance of plant	29,943,312	9,909	(80,318)	29,872,903
Student grants and scholarships	39,009,515	2,669,298	—	41,678,813
Auxiliary enterprise expenses	18,172,918	12,184,097	—	30,357,015
Depreciation and amortization	18,183,780	1,544,588	—	19,728,368
Total operating expenses	<u>353,224,896</u>	<u>48,070,909</u>	<u>(80,318)</u>	<u>401,215,487</u>
Operating loss	<u>(177,682,223)</u>	<u>(4,506,484)</u>	<u>80,318</u>	<u>(182,108,389)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	185,803,292	—	—	185,803,292
Gifts, noncapital	65,573	10,724,952	—	10,790,525
Investment income, net	5,494,222	12,303,994	—	17,798,216
Endowment income	—	2,197,287	—	2,197,287
Interest on capital-related debt	(4,766,150)	(761,896)	—	(5,528,046)
Other nonoperating revenues (expenses), net	1,082,886	(1,098,858)	—	(15,972)
Net nonoperating revenues	<u>187,679,823</u>	<u>23,365,479</u>	<u>—</u>	<u>211,045,302</u>
Income before other additions	9,997,600	18,858,995	80,318	28,936,913
State appropriations, capital	60,977,000	—	—	60,977,000
Grants and gifts, capital	1,997,374	—	(80,318)	1,917,056
Additions to permanent endowments	—	5,592,043	—	5,592,043
Increase in net assets	<u>72,971,974</u>	<u>24,451,038</u>	<u>—</u>	<u>97,423,012</u>
Net assets:				
Net assets at beginning of year	305,961,642	122,486,400	—	428,448,042
Net assets at end of year	\$ <u>378,933,616</u>	<u>146,937,438</u>	<u>—</u>	<u>525,871,054</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2007

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 81,076,878
Federal grants and contracts	35,686,378
State grants and contracts	17,866,910
Nongovernmental grants and contracts	4,015,395
Payments to suppliers	(57,930,050)
Payments to employees	(231,554,993)
Payments to students	(38,399,862)
Collections of student loans	430,394
Sales and services of educational activities	21,968,581
Sales and services of auxiliary enterprises	855,484
Other receipts	5,120,024
	<hr/>
Net cash used in operating activities	(160,864,861)
	<hr/>
Cash flows from noncapital financing activities:	
State appropriations	214,699,795
Gifts and grants received for other than capital purposes	65,573
Federal loan program receipts	4,650,233
Federal loan program disbursements	(4,998,103)
Moneys received on behalf of others	1,585,925
Moneys disbursed on behalf of others	(1,934,627)
Other	(2,329,667)
	<hr/>
Net cash provided by noncapital financing activities	211,739,129
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	3,945,000
State appropriations	4,753,753
Capital grants and gifts	1,917,056
Acquisition of capital assets	(24,323,513)
Principal paid on capital debt and leases	(3,819,822)
Interest paid on capital debt and leases	(4,732,065)
Principal payments received on capital leases	120,000
Interest payments received on capital leases	309,524
	<hr/>
Net cash used in capital and related financing activities	(21,830,067)
	<hr/>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	578,479,019
Purchases of investments	(637,219,052)
Investment income received	5,181,904
	<hr/>
Net cash used in investing activities	(53,558,129)
	<hr/>
Net decrease in cash and cash equivalents	(24,513,928)
	<hr/>
Cash and cash equivalents at beginning of year	24,609,149
	<hr/>
Cash and cash equivalents at end of year	\$ 95,221
	<hr/> <hr/>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2007

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (177,682,223)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	18,183,780
Change in assets and liabilities:	
Accounts receivable, net	(1,948,716)
Student loans receivable, net	430,394
Prepaid expenses and other assets	67,718
Accounts payable	3,880,503
Accrued salaries and benefits payable	2,018,174
Accrued compensated absences	773,903
Deferred revenue	(7,004,306)
Self-insurance liability	(50,000)
Other liabilities	465,912
Net cash used in operating activities	<u>\$ (160,864,861)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 80,318
Accrued capital asset costs (purchased but unpaid at year-end)	1,130,580
Amortization of bond premium	105,795
Amortization of loss on refunding	99,758

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

(1) Organization

California State University, Northridge (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 five 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:

- California State University, Northridge Foundation
- Associated Students Incorporated of California State University, Northridge
- University Student Union of California State University, Northridge
- The University Corporation
- North Campus-University Park Development Corporation

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

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

June 30, 2007	California State University, Northridge Foundation	Other auxiliary organizations	Total
Current assets	\$ 30,223,762	19,408,103	49,631,865
Capital assets, net	345,681	21,915,210	22,260,891
Other noncurrent assets	78,734,383	27,692,251	106,426,634
Total assets	109,303,826	69,015,564	178,319,390
Current liabilities	448,816	9,212,787	9,661,603
Noncurrent liabilities	375,000	21,345,349	21,720,349
Total liabilities	823,816	30,558,136	31,381,952
Invested in capital assets, net of related debt	345,681	8,225,974	8,571,655
Restricted	91,367,511	7,900,586	99,268,097
Unrestricted	16,766,818	22,330,868	39,097,686
Total net assets	\$ 108,480,010	38,457,428	146,937,438

Year ended June 30, 2007	California State University, Northridge Foundation	Other auxiliary organizations	Total
Operating revenues:			
Student tuition and fees, net	\$ —	10,636,007	10,636,007
Grants and contracts, noncapital	—	18,233,141	18,233,141
Sales and services of auxiliary enterprises	—	12,433,129	12,433,129
Other	—	2,262,148	2,262,148
Total operating revenues	\$ —	43,564,425	43,564,425

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

<u>Year ended June 30, 2007</u>	<u>California State University, Northridge Foundation</u>	<u>Other auxiliary organizations</u>	<u>Total</u>
Operating expenses:			
Instruction	\$ 150,112	—	150,112
Research	296,898	15,962,215	16,259,113
Public service	184,541	—	184,541
Academic support	512,183	—	512,183
Student services	373,968	9,106,594	9,480,562
Institutional support	3,029,010	2,047,496	5,076,506
Operation and maintenance of plant	—	9,909	9,909
Student grants and scholarships	785,245	1,884,053	2,669,298
Auxiliary enterprise expenses	—	12,184,097	12,184,097
Depreciation and amortization	154,870	1,389,718	1,544,588
Total operating expenses	<u>5,486,827</u>	<u>42,584,082</u>	<u>48,070,909</u>
Operating income (loss)	(5,486,827)	980,343	(4,506,484)
Net nonoperating revenues (expenses)	<u>20,913,278</u>	<u>2,452,201</u>	<u>23,365,479</u>
Income (loss) before other additions	15,426,451	3,432,544	18,858,995
Additions to permanent endowments	<u>5,592,043</u>	—	<u>5,592,043</u>
Increase in net assets	21,018,494	3,432,544	24,451,038
Beginning net assets, July 1, 2006	<u>87,461,516</u>	<u>35,024,884</u>	<u>122,486,400</u>
Ending net assets, June 30, 2007	\$ <u><u>108,480,010</u></u>	<u><u>38,457,428</u></u>	<u><u>146,937,438</u></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, food service, 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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

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.

(b) Basis of Presentation

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

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

The auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB).

(c) Auxiliary Organizations Restatement

The beginning net assets of the auxiliary organizations have been restated due to the correction of an error reported in the separately audited financial statements of the California State University, Northridge Foundation. A summary of the restatement to net assets at the beginning of the year related to the California State University, Northridge Foundation is as follows:

	California State University, Northridge Foundation		Total
	<u> </u>	<u> </u>	<u> </u>
Net assets as of June 30, 2006, as previously reported	\$ 86,611,516		121,636,400
Recognition of pledges received		850,000	850,000
		<u> </u>	<u> </u>
Net assets at beginning of year, as restated	\$ 87,461,516		<u>122,486,400</u>

(d) Election of Applicable FASB Statements

The University has elected to follow standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The University also has the option of following

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

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.

(e) *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 can reasonably 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.

(f) *Cash Equivalents and Statement of Cash Flows*

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

(g) *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.

(h) *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 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or at 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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

(i) ***Deferred Revenue***

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

(j) ***Compensated Absences***

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

(k) ***Grants Refundable***

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins and Nursing Loan programs and 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.

(l) ***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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

(m) *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.

(n) *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.

(o) *Eliminations*

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

(p) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

(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	\$ 95,221
Short-term investments	106,638,710
Other long-term investments	<u>3,602,341</u>
Total investments	<u>110,241,051</u>
Total cash and cash equivalents and investments	<u>\$ 110,336,272</u>

(a) Cash and Cash Equivalents

At June 30, 2007, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$95,221 had a corresponding carrying value balance with the State Treasury of \$509,981 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 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 moneys of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

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 below.

Credit Risk

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

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:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 29,911	0.01	\$ —	—	—	29,911
Certificates of deposit	23,871,468	0.38	—	17,509,270	6,362,198	—
Commercial paper	23,440,855	0.01	—	—	23,440,855	—
Mortgage-backed securities	98,708	15.56	98,708	—	—	—
Corporate and fixed income securities	35,251,570	1.42	3,631,165	14,903,125	16,717,280	—
State of California Surplus Money Investment Fund	27,548,539	0.48	—	—	—	27,548,539
Total investments	\$ 110,241,051		\$ 3,729,873	32,412,395	46,520,333	27,578,450

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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

(4) Accounts Receivable

Accounts receivable at June 30, 2007 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 75,010	105,941,147	106,016,157
Auxiliary organizations	266,038	—	266,038
Student accounts	3,669,803	—	3,669,803
Government grants and contracts	493,061	—	493,061
Other	2,690,135	—	2,690,135
	<u>7,194,047</u>	<u>105,941,147</u>	<u>113,135,194</u>
Less allowance for doubtful accounts	<u>(3,027,516)</u>	<u>—</u>	<u>(3,027,516)</u>
Total	<u>\$ 4,166,531</u>	<u>105,941,147</u>	<u>110,107,678</u>

(5) Lease Receivable

The University and The University Corporation entered into a 30-year capital lease agreement for the Sierra Center Building effective October 2003. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2002A was used to finance such facilities. The three-story building incorporates food service units and indoor and outdoor spaces. The University and The University Corporation entered into a 18-year capital lease agreement for the Matador Bookstore addition effective March 2007. 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	\$	125,000
2009		275,000
2010		285,000
2011		295,000
2012		305,000
Thereafter		<u>9,100,000</u>
Total lease receivable		10,385,000
Less current portion		<u>(125,000)</u>
Long-term lease receivable, net of current portion	\$	<u>10,260,000</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2007

(6) Capital Assets

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

	Balance, June 30, 2006	Additions	Retirements	Transfers	Balance, June 30, 2007
Nondepreciable capital assets:					
Land and land improvements	\$ 6,113,511	—	—	—	6,113,511
Construction work in progress	33,647,044	22,020,910	—	(39,232,291)	16,435,663
Total nondepreciable capital assets	<u>39,760,555</u>	<u>22,020,910</u>	<u>—</u>	<u>(39,232,291)</u>	<u>22,549,174</u>
Depreciable capital assets:					
Buildings and building improvements	401,266,648	—	(459,736)	38,932,823	439,739,735
Improvements, other than buildings	16,044,410	—	—	203,050	16,247,460
Infrastructure	11,251,870	—	—	3,605,982	14,857,852
Personal property:					
Equipment	42,514,653	2,128,634	(1,248,112)	—	43,395,175
Library books and materials	35,138,916	657,492	(140,595)	—	35,655,813
Intangible assets	13,563,750	727,375	—	(3,509,564)	10,781,561
Total depreciable capital assets	<u>519,780,247</u>	<u>3,513,501</u>	<u>(1,848,443)</u>	<u>39,232,291</u>	<u>560,677,596</u>
Total cost	<u>559,540,802</u>	<u>25,534,411</u>	<u>(1,848,443)</u>	<u>—</u>	<u>583,226,770</u>
Less accumulated depreciation:					
Buildings and building improvements	(178,732,510)	(13,081,257)	309,389	—	(191,504,378)
Improvements, other than buildings	(12,924,781)	(398,670)	—	—	(13,323,451)
Infrastructure	(4,640,693)	(299,138)	—	(3,509,564)	(8,449,395)
Personal property:					
Equipment	(33,073,768)	(2,086,515)	995,540	—	(34,164,743)
Library books and materials	(31,066,375)	(794,776)	—	—	(31,861,151)
Intangible assets	(11,524,168)	(1,523,424)	—	3,509,564	(9,538,028)
Total accumulated depreciation	<u>(271,962,295)</u>	<u>(18,183,780)</u>	<u>1,304,929</u>	<u>—</u>	<u>(288,841,146)</u>
Net capital assets	\$ <u>287,578,507</u>	<u>7,350,631</u>	<u>(543,514)</u>	<u>—</u>	<u>294,385,624</u>

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

(7) Lease Obligations

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

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Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2010. The leases can be canceled if the state does not provide adequate funding.

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

	<u>Operating leases</u>
Year ending June 30:	
2008	\$ 699,892
2009	668,230
2010	<u>464,541</u>
Total minimum lease payments	<u>\$ 1,832,663</u>

Rent expense under operating leases for the year ended June 30, 2007 totaled \$389,833.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the state of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2007 totaled approximately \$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.

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

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

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

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

The continuing education program provides nonstate-supported courses to students. The continuing education program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for current operating expenses, maintenance and repair, 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 hall facilities, continuing education buildings,

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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 \$90,559,958 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 total outstanding balance for these senior bonds was \$ 11,130,000 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>
Student Union Revenue Bonds:				
Series B	6.00%	2007/08	\$ 14,200,000	390,000
Series C	5.00%	2022/23	11,325,000	10,740,000
Systemwide Revenue Bonds:				
Series B	3.00%	2007/08	3,632,715	96,958
Series J	3.00%	2019/20	3,173,000	1,843,000
Parking Revenue Bonds – Series 2002A	4.00% – 5.50%	2027/28	9,550,000	8,665,000
Parking Revenue Bonds – Series 2004A	3.00% – 5.25%	2030/31	13,300,000	13,000,000
Housing Revenue Bonds – Series 2004A	2.50% – 5.00%	2018/19	12,555,000	10,580,000
Housing Revenue Bonds – Series 2005B	5.00%	2021/22	34,225,000	31,085,000
Student Union Revenue Bonds – Series 2004A	3.00% – 5.25%	2034/35	6,445,000	6,230,000
Student Union Revenue Bonds – Series 2005A	2.75% – 5.00%	2035/36	8,815,000	8,675,000
Auxiliary Organization Food Services Revenue Bonds – Series 2003A	2.50% – 5.375%	2033/34	6,795,000	6,440,000
Auxiliary Organization Bookstore Revenue Bonds – Series 2007A	4.00% – 5.00%	2025/26	3,945,000	3,945,000
Total				101,689,958
Unamortized bond premium				1,639,660
Unamortized loss on refunding				(1,429,862)
Total long-term debt				101,899,756
Less current portion				(3,926,958)
Long-term debt, net of current portion				<u>\$ 97,972,798</u>

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

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2008	\$ 3,926,958	4,790,790
2009	4,150,000	4,592,008
2010	4,340,000	4,404,309
2011	4,540,000	4,208,303
2012	4,735,000	4,006,470
2013 – 2017	27,445,000	16,436,363
2018 – 2022	26,743,000	9,497,657
2023 – 2027	12,485,000	4,791,632
2028 – 2032	9,310,000	2,057,113
2033 – 2037	4,015,000	340,625
	<u>\$ 101,689,958</u>	<u>55,125,270</u>

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

(9) Long-Term Liabilities Activity

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 9,198,929	7,528,507	(6,754,604)	9,972,832	3,989,133
Long-term debt obligations (note 8):					
Student Union Revenue Bonds	11,575,000	—	(445,000)	11,130,000	475,000
Systemwide Revenue Bonds	89,989,780	3,945,000	(3,374,822)	90,559,958	3,451,958
Total	101,564,780	3,945,000	(3,819,822)	101,689,958	3,926,958
Unamortized bond premium (discount)	1,745,455	—	(105,795)	1,639,660	—
Unamortized loss on refunding	(1,529,620)	—	99,758	(1,429,862)	—
Total long-term debt obligations	<u>101,780,615</u>	<u>3,945,000</u>	<u>(3,825,859)</u>	<u>101,899,756</u>	<u>3,926,958</u>
Total long-term liabilities \$	<u>110,979,544</u>	<u>11,473,507</u>	<u>(10,580,463)</u>	<u>111,872,588</u>	<u>7,916,091</u>

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(10) 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-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 16.997% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2005	\$	22,648,445
2006		21,681,709
2007		24,365,135

(11) 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's self-insurance claims liabilities. The University's allocation of CSURMA's total self-insurance claims liability as of June 30, 2007 was approximately 7.0%.

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or \$7,075,000. 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's payable to CSURMA was \$0 at June 30, 2007.

(12) 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 \$53,023,412. These expenditures will be funded primarily from state appropriations.

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.

(13) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, 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:

<u>2007</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 98,125,864	29,625,254	—	11,152,762	—	138,903,880
Research	1,009,277	305,351	—	356,742	—	1,671,370
Public service	1,233,654	238,046	—	429,260	—	1,900,960
Academic support	17,190,389	5,657,574	—	7,592,714	—	30,440,677
Student services	24,427,925	8,216,144	—	4,131,028	—	36,775,097
Institutional support	16,302,441	6,287,940	—	15,633,006	—	38,223,387
Operation and maintenance of plant	13,796,819	5,822,155	—	10,324,338	—	29,943,312
Student grants and scholarships	—	—	39,009,515	—	—	39,009,515
Auxiliary enterprise expenses	4,243,000	1,865,237	—	12,064,681	—	18,172,918
Depreciation and amortization	—	—	—	—	18,183,780	18,183,780
Total	\$ 176,329,369	58,017,701	39,009,515	61,684,531	18,183,780	353,224,896

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(14) 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 \$246,780,292 for the year ended June 30, 2007. State appropriations receivable, included in accounts receivable in the accompanying statement of net assets, totaled \$106,016,147 at June 30, 2007. The University also received lottery fund distributions from the state of California in the amount of \$2,553,000 for the year ended June 30, 2007, which is included in other nonoperating revenues in the accompanying statement of revenues, expenses, and changes in net assets.

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

The 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	\$	2,052,175
Reimbursements from recognized auxiliary organizations for other than salaries of university employees		8,158,363
Payments to recognized auxiliary organizations for services, office space rental, and programs		4,366,650
Gifts-in-kind to the University from recognized auxiliary organizations		80,318
Amounts payable to the Office of the Chancellor		(65,657)
Amounts receivable from recognized auxiliary organizations		266,038
Amounts payable to recognized auxiliary organizations		(100,867)

(15) Subsequent Events

On August 7, 2007, the University issued Systemwide Revenue Bonds Series 2007C in the amount of \$10,175,000 to refund the University's existing senior Student Union Revenue Bond, in the amount of \$11,130,000. The Systemwide Revenue Bonds were issued at a premium, which provided adequate funding to defease the existing senior bond. The interest rate on the Systemwide Revenue Bonds Series 2007C bonds is 5% and these bonds mature on November 1, 2022.