



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Financial Statements

June 30, 2006

(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, 2006, which collectively comprise the University's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based 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, 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, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 3 through 11 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 12, 2006

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2006

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 during the fiscal year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. For reporting purposes, the University is considered a special purpose government engaged in business-type activities 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.

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Management's Discussion and Analysis

June 30, 2006

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

Condensed Summary of Net Assets

	June 30	
	2006	2005
Assets:		
Current assets	\$ 160,969,795	114,887,140
Capital assets	287,578,507	276,871,526
Other noncurrent assets	21,080,158	74,145,966
Total assets	469,628,460	465,904,632
Liabilities:		
Current liabilities	54,080,604	51,290,297
Long-term debt obligations, net of current portion	97,960,793	102,086,833
Other noncurrent liabilities	11,625,421	13,680,982
Total liabilities	163,666,818	167,058,112
Net assets:		
Invested in capital assets, net of related debt	193,692,962	179,335,654
Restricted, expendable	41,466,788	59,510,347
Unrestricted	70,801,892	60,000,519
Total net assets	\$ 305,961,642	298,846,520

Assets

The \$46.1 million increase in current assets was primarily due to state appropriations receivable for capital projects of \$32.0 million received in fiscal year 2005 considered as a noncurrent asset at June 30, 2005, whereas these receivables are considered current at June 30, 2006, due to outstanding capital projects, which are expected to be completed in fiscal year 2006. Cash increased by \$12.9 million due to cash being held at year end rather than being invested in one of the University's investment pools.

The \$10.7 million increase in capital assets was due to the completion of a new parking structure at a total cost of \$20.2 million, the University Student Union project at a total cost of \$6.2 million, telecom infrastructure at a total cost of \$4.0 million, the Oviatt Library Exhibition at a total cost of \$1.2 million, and the acquisition of capital equipment of \$1.1 million less current year depreciation of \$17.6 million. Capital expansion is financed through University funds, issuance of debt, issuance of California State University System Revenue Bonds, and issuance of general obligation bonds of the State of California, of which the latter are not reflected in the accompanying financial statements.

Other noncurrent assets decreased by \$53.1 million primarily as a result of lower current year state appropriations receivable for capital projects. For fiscal year 2005, the University received \$51 million in state appropriations for capital projects, whereas for fiscal year 2006, the University received \$3.5 million in state

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appropriations for capital projects. At June 30, 2006, \$74.3 million of state appropriations receivable was considered current receivables as noted above for outstanding contracts, which are expected to be completed in fiscal year 2006. Approximately \$13.6 million was spent for capital projects during the fiscal year.

Liabilities

The \$3.4 million decrease in total liabilities was primarily due to a \$4.4 million increase in accrued salaries relating to increased summer faculty accruals offset by a decrease of \$6.0 million long-term debt obligations as a result of current year payments on capital lease obligations, bonds outstanding, and other liabilities, and a decrease in deferred revenue of \$2.0 million relating to fewer students registering for fall classes prior to June 30, 2006.

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 \$7.1 million from the prior year is primarily related to an increase in invested in capital assets, net of related debt of \$14.4 million. The \$18.0 million decrease in restricted net assets-expendable is primarily due to capital projects that were completed and transferred to capital assets during the year. Unrestricted net assets increased by \$10.8 million due to a general decrease in expenditures.

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 as of June 30, 2006 and 2005:

Restricted Net Assets

	June 30	
	2006	2005
Expendable:		
Scholarships and fellowships	\$ 514,216	568,008
Loans	163,634	162,807
Capital projects	40,788,938	58,731,442
Debt service	—	48,090
Total restricted net assets – expendable	\$ 41,466,788	59,510,347

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Management's Discussion and Analysis

June 30, 2006

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

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

	Year ended June 30	
	2006	2005
Operating revenues:		
Student tuition and fees, net	\$ 80,586,105	72,413,636
Grants, contracts, and gifts	54,404,033	53,120,669
Sales and services of auxiliary enterprises	21,367,949	19,393,417
Other operating revenue	7,730,047	10,182,350
	164,088,134	155,110,072
Operating expenses	(330,763,705)	(336,448,683)
Nonoperating revenues:		
State appropriations	165,327,852	164,645,107
Investment income	2,485,034	1,534,391
Other nonoperating revenues, net	2,516,807	97,120
Total nonoperating revenues	170,329,693	166,276,618
Other capital-related revenues:		
State appropriations, capital	3,461,000	50,968,000
Increase in net assets	7,115,122	35,906,007
Beginning net assets	298,846,520	262,940,513
Ending net assets	\$ 305,961,642	298,846,520

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

The University recognized \$164.1 million in operating revenues during this fiscal year, as compared to \$155.1 million in the prior year. This comprised 48.6% of total revenues for the year ended June 30, 2006, compared to 41.7% of total revenues for the year ended June 30, 2005. This change is attributable primarily to the decrease of \$47.5 million in state capital appropriations. Student tuition and fees increased a net of \$8.2 million due to an increase of 8.0% in fees and an increase in student full-time equivalents of 5.0% over the prior fiscal year. Sales and services of auxiliary enterprises increased by \$2.0 million primarily due to a

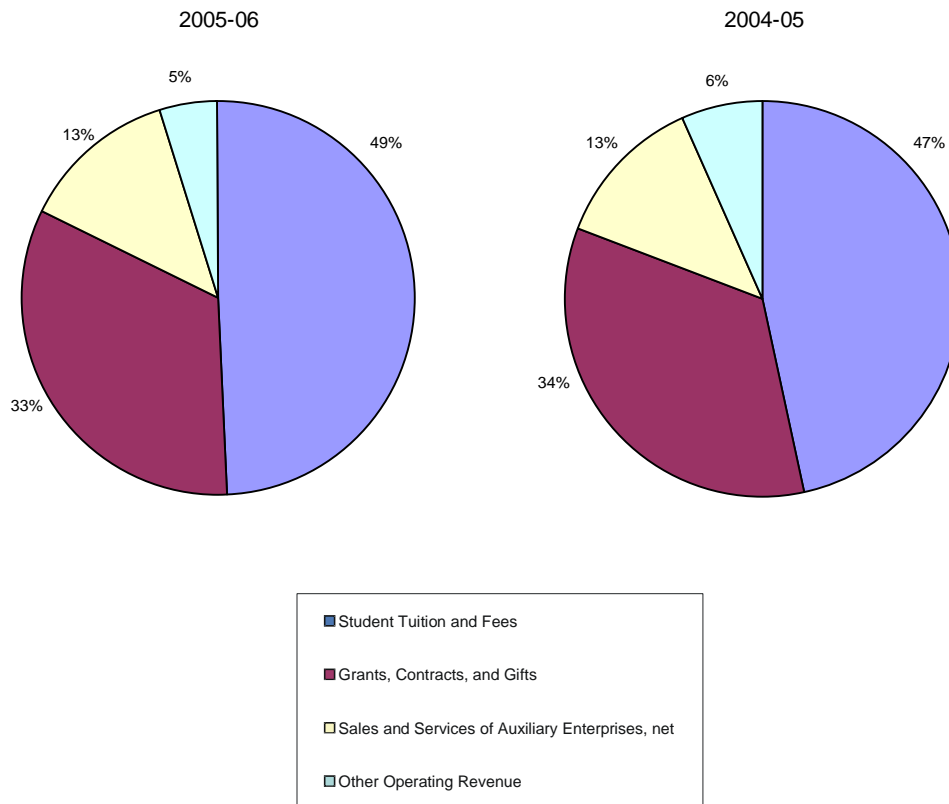
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\$1.1 million increase in dormitory housing revenue and \$0.9 million increase in parking revenue as a result of a general increase in the student population.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2006 and 2005:



Operating Expenses

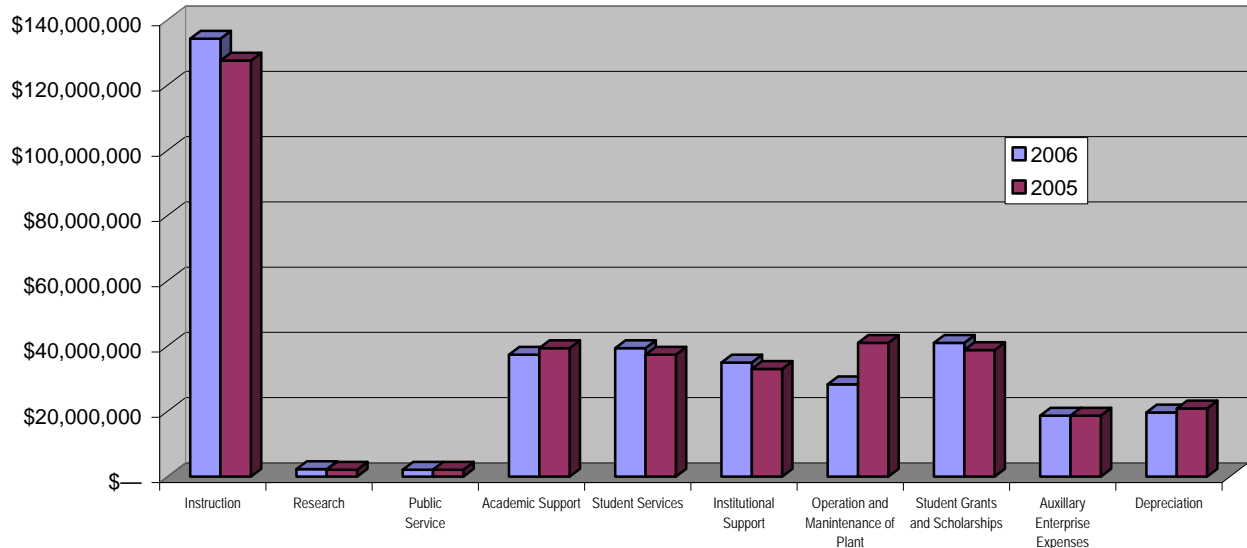
The University's operating expenses consist of salaries and fringe benefits of \$218.4 million, supplies and services of \$56.7 million, scholarships and fellowships of \$38.1 million, and depreciation of \$17.6 million. Total operating expenses, excluding depreciation, decreased by \$4.2 million, or 1.3%, primarily due to a decrease in supplies and other services of \$14.7 million due to campus funded capital expenditures and general budget cuts. This decrease was offset by increases in grants and scholarships, academic support, and student services. Salaries and benefits costs increased by \$8.7 million due to general salary rate increases and health and retirement benefit increases for all employees. The University contribution to the California Employees' Retirement System (CalPERS) decreased by \$1.0 million, or 4.3%. Health and dental insurance costs increased \$1.7 million or 9.3% over the previous year. Student grants and scholarships increased by \$1.9 million. While the percentage of students receiving aid remained consistent at approximately 57.2%, enrollment increased by 5%.

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The following chart presents the distribution of resources in support of the University's mission for fiscal years 2006 and 2005:



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 for capital, 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. State appropriations, capital was \$3.5 million for the fiscal year ended June 30, 2006, down from \$51.0 million received for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled \$165.3 million, an increase of \$0.7 million from the prior year.

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Management's Discussion and Analysis

June 30, 2006

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2006	2005
Land and land improvements	\$ 6,113,511	6,113,511
Buildings and building improvements	222,534,138	200,070,107
Improvements, other than buildings	3,119,629	1,800,341
Infrastructure	6,611,177	2,189,877
Personal property	13,513,426	13,118,741
Intangible assets	2,039,582	3,894,527
Construction work in progress	33,647,044	49,684,422
Total capital assets, net of accumulated depreciation	<u>\$ 287,578,507</u>	<u>276,871,526</u>

At June 30, 2006 and 2005, the University had \$519.8 million and \$476.4 million, respectively, in capital assets, net of accumulated depreciation of \$272.0 million and \$255.4 million, respectively. Depreciation expense totaled \$17.6 million and \$19.1 million for the years ended June 30, 2006 and 2005, respectively.

Construction work in progress of \$33.6 million at June 30, 2006, consisted primarily of the following significant projects: Engineering renovation \$14.1 million, Student union renovation \$8.4 million, Public Safety Office building \$2.7 million, Performing Arts Center \$1.2 million and various FEMA projects \$1.1 million.

Major capital projects completed during fiscal year 2006, are as follows (in millions):

Parking structure, funded by revenue bonds and fees	\$ 20.2
University Student Union Phase I, funded by revenue bonds	6.2
Telecom infrastructure funded by revenue bonds	4.0
Oviatt Library Exhibition funded by general funds and revenue bonds	1.2
Group II Equipment for capital funds, funded by revenue bonds	1.1

See note 6 of the notes 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

Long-term debt outstanding at June 30, 2006 and 2005 is summarized below by type of debt instrument:

	June 30	
	2006	2005
Student Union Revenue Bonds	\$ 11,575,000	11,995,000
Systemwide Revenue Bonds	89,989,780	92,999,274
Total	101,564,780	104,994,274
Unamortized bond premium	1,745,455	282,053
Unamortized loss on refunding	(1,529,620)	—
Total long-term debt	101,780,615	105,276,327
Less current portion	3,819,822	3,189,494
Long-term debt, net of current portion	\$ 97,960,793	102,086,833

The interest rates on outstanding debt range from 2.0% to 8.0%.

The University issued new Systemwide Revenue Bonds during fiscal year 2006 to refinance existing debt on the student housing.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at A1 and the Student Union Revenue Bonds at A2 (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 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 2006/2007. The allocation provided to the University is \$180.0 million, an increase of \$14.7 million over fiscal year 2005/2006. 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 targets for fiscal years 2006/2007 are 25,092, representing an increase of 3.7%. This anticipated growth will generate additional revenues of approximately \$1,363,000 to the University.

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The California State University board of trustees recently 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.

In November 2006, voters elected to pass Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006, a statewide bond package to construct new buildings and related infrastructure, alter existing buildings, and purchase equipment for use in these buildings. Proposition 1D authorizes the sale of statewide general obligation bonds in the amount of \$10.4 billion. The \$690.0 million earmarked for the California State University is expected to fund capital projects in 2007 and 2008.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Net Assets

June 30, 2006

Assets	University	Discretely presented component units Auxiliary organizations	Total
Current assets:			
Cash and cash equivalents	\$ 24,609,149	10,661,850	35,270,999
Short-term investments	44,991,232	22,382,076	67,373,308
Accounts receivable, net	89,227,024	6,902,352	96,129,376
Leases receivable, current portion	120,000	—	120,000
Pledges receivable, net	—	1,255,567	1,255,567
Prepaid expenses and other assets	2,022,390	373,073	2,395,463
Total current assets	<u>160,969,795</u>	<u>41,574,918</u>	<u>202,544,713</u>
Noncurrent assets:			
Restricted cash and cash equivalents	—	2,045,704	2,045,704
Accounts receivable, net	4,369,740	1,543,591	5,913,331
Leases receivable, net of current portion	6,440,000	—	6,440,000
Student loans receivable, net	3,760,631	—	3,760,631
Pledges receivable, net	—	1,217,581	1,217,581
Endowment investments	—	40,354,485	40,354,485
Other long-term investments	6,509,787	21,963,039	28,472,826
Capital assets, net	287,578,507	17,973,296	305,551,803
Other assets	—	22,973,577	22,973,577
Total noncurrent assets	<u>308,658,665</u>	<u>108,071,273</u>	<u>416,729,938</u>
Total assets	<u>469,628,460</u>	<u>149,646,191</u>	<u>619,274,651</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	7,231,128	2,701,734	9,932,862
Accrued salaries and benefits payable	13,515,661	1,435,466	14,951,127
Accrued compensated absences – current portion	3,679,572	327,180	4,006,752
Deferred revenue	24,980,118	4,399,392	29,379,510
Due to California State University Risk Management Authority	50,000	—	50,000
Capitalized lease obligations – current portion	—	120,000	120,000
Long-term debt obligations – current portion	3,819,822	218,669	4,038,491
Other liabilities	804,303	1,160	805,463
Total current liabilities	<u>54,080,604</u>	<u>9,203,601</u>	<u>63,284,205</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	5,519,357	65,962	5,585,319
Grants refundable	4,607,475	—	4,607,475
Capitalized lease obligations, net of current portion	—	6,440,000	6,440,000
Long-term debt obligations, net of current portion	97,960,793	7,583,806	105,544,599
Depository accounts	1,498,589	3,864,469	5,363,058
Other liabilities	—	851,953	851,953
Total noncurrent liabilities	<u>109,586,214</u>	<u>18,806,190</u>	<u>128,392,404</u>
Total liabilities	<u>163,666,818</u>	<u>28,009,791</u>	<u>191,676,609</u>
Net assets:			
Invested in capital assets, net of related debt	193,692,962	4,307,676	198,000,638
Restricted for:			
Nonexpendable – endowments	—	48,015,964	48,015,964
Expendable:			
Scholarships and fellowships	514,216	6,195,985	6,710,201
Research	—	184,043	184,043
Loans	163,634	—	163,634
Capital projects	40,788,938	1,034,545	41,823,483
Other	—	25,685,157	25,685,157
Unrestricted	70,801,892	36,213,030	107,014,922
Total net assets	<u>\$ 305,961,642</u>	<u>121,636,400</u>	<u>427,598,042</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

	<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 \$39,207,560)	\$ 80,586,105	9,278,043	—	89,864,148
Grants and contracts, noncapital:				
Federal	33,315,389	11,247,409	—	44,562,798
State and local	17,232,492	6,048,147	—	23,280,639
Nongovernmental	3,856,152	1,585,167	—	5,441,319
Sales and services of educational activities	572,461	—	—	572,461
Sales and services of auxiliary enterprises	21,367,949	11,326,599	—	32,694,548
Other operating revenues	7,157,586	2,418,490	—	9,576,076
Total operating revenues	<u>164,088,134</u>	<u>41,903,855</u>	<u>—</u>	<u>205,991,989</u>
Expenses:				
Operating expenses:				
Instruction	130,754,290	267,747	(196,270)	130,825,767
Research	1,526,183	16,951,999	—	18,478,182
Public service	1,672,930	299,853	—	1,972,783
Academic support	29,073,931	377,166	—	29,451,097
Student services	32,867,279	7,626,183	—	40,493,462
Institutional support	34,486,494	5,202,136	—	39,688,630
Operation and maintenance of plant	27,208,527	11,853	(145,500)	27,074,880
Student grants and scholarships	38,109,968	2,826,649	—	40,936,617
Auxiliary enterprise expenses	17,450,589	11,990,247	—	29,440,836
Depreciation	17,613,514	1,535,691	—	19,149,205
Total operating expenses	<u>330,763,705</u>	<u>47,089,524</u>	<u>(341,770)</u>	<u>377,511,459</u>
Operating loss	<u>(166,675,571)</u>	<u>(5,185,669)</u>	<u>341,770</u>	<u>(171,519,470)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	165,327,852	—	—	165,327,852
Gifts, noncapital	58,424	9,222,804	—	9,281,228
Investment income, net	2,485,034	7,220,397	—	9,705,431
Endowment income	—	1,300,829	—	1,300,829
Interest on capital-related debt	(4,814,768)	(809,698)	—	(5,624,466)
Other nonoperating revenues (expenses), net	7,273,151	1,476,887	(341,770)	8,408,268
Net nonoperating revenues (expenses)	<u>170,329,693</u>	<u>18,411,219</u>	<u>(341,770)</u>	<u>188,399,142</u>
Income before other additions	3,654,122	13,225,550	—	16,879,672
State appropriations, capital	3,461,000	—	—	3,461,000
Additions to permanent endowments	—	1,921,728	—	1,921,728
Increase in net assets	7,115,122	15,147,278	—	22,262,400
Net assets:				
Net assets at beginning of year, as restated	298,846,520	106,489,122	—	405,335,642
Net assets at end of year	\$ <u>305,961,642</u>	<u>121,636,400</u>	<u>—</u>	<u>427,598,042</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 79,084,134
Federal grants and contracts	33,589,228
State and local grants and contracts	17,232,492
Nongovernmental grants and contracts	3,856,152
Payments to suppliers	(56,308,258)
Payments to employees	(213,614,010)
Payments to students	(38,109,968)
Collections of student loans	730,244
Sales and services of educational activities	663,191
Sales and services of auxiliary enterprises	21,367,949
Other receipts	13,605,819
	<hr/>
Net cash used in operating activities	(137,903,027)
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Cash flows from noncapital financing activities:	
State appropriations	123,424,201
Federal loan program receipts	68,745,056
Federal loan program disbursements	(68,821,229)
Moneys received on behalf of others	833,372
Moneys disbursed on behalf of others	(3,022,037)
Other	7,421,544
	<hr/>
Net cash provided by noncapital financing activities	128,580,907
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	35,787,658
State appropriations	49,109,063
Proceeds from sale of capital assets	36,753
Acquisition of capital assets	(28,562,691)
Transfers to escrow agent	(35,802,580)
Principal paid on capital debt and leases	(3,511,134)
Interest paid on capital debt and leases	(4,734,811)
Principal payments received on capital leases	120,000
Interest payments received on capital leases	318,576
	<hr/>
Net cash provided by capital and related financing activities	12,760,834
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Cash flows from investing activities:	
Proceeds from sales and maturities of investments	49,358,090
Purchases of investments	(42,042,957)
Investment income received	2,169,417
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Net cash provided by investing activities	9,484,550
	<hr/>
Net increase in cash and cash equivalents	12,923,264
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Cash and cash equivalents at beginning of year	11,685,885
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Cash and cash equivalents at end of year	\$ 24,609,149
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CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (166,675,571)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	17,613,514
Changes in assets and liabilities:	
Accounts receivable, net	7,325,974
Student loans receivable, net	730,244
Prepaid expenses and other assets	670,656
Accounts payable	(112,701)
Accrued salaries and benefits	4,359,093
Accrued compensated absences	392,562
Deferred revenue	(2,015,142)
Due to California State University Risk Management Authority	50,000
Other liabilities	(241,656)
Net cash used in operating activities	<u>\$ (137,903,027)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 145,500
Gifts-in-kind	196,270
Capital asset transferred from the Office of the Chancellor	16,007
Amortization of bond premium	99,256
Amortization of loss on refunding	92,960

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

(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, Incorporated of California State University, Northridge
- The University Corporation
- North Campus – University Park Development Corporation

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

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

June 30, 2006	California State University, Northridge Foundation	Other auxiliary organizations	Total
Current assets	\$ 21,759,993	19,814,925	41,574,918
Capital assets, net	440,299	17,532,997	17,973,296
Other noncurrent assets	64,876,826	25,221,151	90,097,977
Total assets	87,077,118	62,569,073	149,646,191
Current liabilities	465,602	8,737,999	9,203,601
Noncurrent liabilities	—	18,806,190	18,806,190
Total liabilities	465,602	27,544,189	28,009,791
Invested in capital assets, net of related debt	440,299	3,867,377	4,307,676
Restricted	73,576,650	7,539,044	81,115,694
Unrestricted	12,594,567	23,618,463	36,213,030
Total net assets	\$ 86,611,516	35,024,884	121,636,400

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

<u>June 30, 2006</u>	<u>California State University, Northridge Foundation</u>	<u>Other auxiliary organizations</u>	<u>Total</u>
Operating revenues:			
Student tuition and fees	\$ —	9,278,043	9,278,043
Grants and contracts, noncapital	—	18,880,723	18,880,723
Sales and services of auxiliary enterprises, net	—	11,326,599	11,326,599
Other	—	2,418,490	2,418,490
Total operating revenues	—	41,903,855	41,903,855
Operating expenses:			
Instruction	267,747	—	267,747
Research	190,402	16,761,597	16,951,999
Public service	299,853	—	299,853
Academic support	377,166	—	377,166
Student services	221,532	7,404,651	7,626,183
Institutional support	2,542,395	2,659,741	5,202,136
Operation and maintenance of plant	—	11,853	11,853
Student grants and scholarships	673,339	2,153,310	2,826,649
Auxiliary enterprise expenses	—	11,990,247	11,990,247
Depreciation	142,822	1,392,869	1,535,691
Total operating expenses	4,715,256	42,374,268	47,089,524
Operating loss	(4,715,256)	(470,413)	(5,185,669)
Net nonoperating revenues	16,014,216	2,397,003	18,411,219
Income before other additions	11,298,960	1,926,590	13,225,550
Additions to permanent endowments	1,921,728	—	1,921,728
Increase in net assets	13,220,688	1,926,590	15,147,278
Beginning net assets, July 1, 2005, as restated	73,390,828	33,098,294	106,489,122
Ending net assets, June 30, 2006	\$ 86,611,516	35,024,884	121,636,400

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

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 System as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

(b) Basis of Presentation

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

The financial statements required by GASB Statements Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement No. 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its 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 auxiliary organizations. A summary of the restatements to net assets at the beginning of the year related to the auxiliary organizations is as follows:

Net assets as of June 30, 2005, as previously reported	\$ 106,030,536
Capitalize construction in progress expenses	77,324
Classification change from liability to net assets	373,672
Remove agency assets	7,590
	<hr/>
Net assets at beginning of year, as restated	\$ <u>106,489,122</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

(d) Election of Applicable FASB Statements

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 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.

(f) Cash and Cash Equivalents

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

(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. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

(i) Deferred Revenue

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

(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, 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.

(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, and interest expense.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

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 in the accompanying financial statements. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents and Investments

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

Cash and cash equivalents	\$ 24,609,149
Short-term investments	44,991,232
Other long-term investments	6,509,787
Total investments	<u>51,501,019</u>
Total cash and cash equivalents and investments	<u>\$ 76,110,168</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

(a) Cash and Cash Equivalents

At June 30, 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$24,609,149 had a corresponding bank balance of \$23,367,164 at June 30, 2006. The differences related primarily to deposits in transit and outstanding checks.

(b) Investments

At June 30, 2006, the University's investment portfolio consisted 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 federal and California state governments, certificates of deposit, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2006, is presented in the table 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, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2006:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 383,042	0.01	\$ —	—	—	383,042
Certificates of deposit	3,651,390	1.41	—	1,369,149	2,282,241	—
Commercial paper	1,489,522	0.01	—	—	—	1,489,522
U.S. agency securities	1,081,378	0.50	1,081,378	—	—	—
Mortgage-backed securities	67,080	20.87	67,080	—	—	—
Corporate and fixed-income securities	7,330,540	1.72	335,179	2,041,497	4,953,864	—
State of California Surplus Money Investment Fund	37,498,067	0.42	—	—	—	37,498,067
Total investments	\$ 51,501,019		\$ 1,483,637	3,410,646	7,236,105	39,370,631

Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2006, there were no investments representing 5% or more of the University's investment portfolio.

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

(4) Accounts Receivable

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

	Current	Noncurrent	Total
State appropriations	\$ 74,319,673	4,369,740	78,689,413
Auxiliary organizations	368,693	—	368,693
Student accounts	15,381,781	—	15,381,781
Government grants and contracts	308,285	—	308,285
Other	1,983,158	—	1,983,158
	92,361,590	4,369,740	96,731,330
Less allowance for doubtful accounts	(3,134,566)	—	(3,134,566)
Total	\$ 89,227,024	4,369,740	93,596,764

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

(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, indoor and outdoor spaces. Lease payments are due twice a year on May 1 and November 1.

Lease payments are due to the University as follows:

Fiscal year ending:	
2007	\$ 120,000
2008	125,000
2009	130,000
2010	135,000
2011	135,000
Thereafter	<u>5,915,000</u>
Total lease receivable	6,560,000
Less current portion	<u>(120,000)</u>
Long-term lease receivable, net of current portion	<u>\$ 6,440,000</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

(6) Capital Assets

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

	Balance, June 30, 2005	Additions	Retirements	Transfers	Balance, June 30, 2006
Nondepreciable capital assets:					
Land and land improvements	\$ 6,113,511	—	—	—	6,113,511
Construction work in progress	49,684,422	24,376,943	—	(40,414,321)	33,647,044
Total nondepreciable capital assets	55,797,933	24,376,943	—	(40,414,321)	39,760,555
Depreciable capital assets:					
Buildings and building improvements	367,096,930	—	—	34,169,718	401,266,648
Improvements, other than buildings	14,415,014	—	—	1,629,396	16,044,410
Infrastructure	6,628,218	8,445	—	4,615,207	11,251,870
Personal property:					
Equipment	41,166,789	2,750,620	(1,915,887)	513,131	42,514,653
Library books and materials	34,318,601	820,315	—	—	35,138,916
Intangible assets	12,811,882	751,868	—	—	13,563,750
Total depreciable capital assets	476,437,434	4,331,248	(1,915,887)	40,927,452	519,780,247
Total cost	532,235,367	28,708,191	(1,915,887)	513,131	559,540,802
Less accumulated depreciation:					
Buildings and building improvements	(167,026,823)	(11,705,687)	—	—	(178,732,510)
Improvements, other than buildings	(12,614,673)	(310,108)	—	—	(12,924,781)
Infrastructure	(4,438,341)	(202,352)	—	—	(4,640,693)
Personal property:					
Equipment	(32,104,688)	(1,984,140)	1,512,184	(497,124)	(33,073,768)
Library books and materials	(30,261,961)	(804,414)	—	—	(31,066,375)
Intangible assets	(8,917,355)	(2,606,813)	—	—	(11,524,168)
Total accumulated depreciation	(255,363,841)	(17,613,514)	1,512,184	(497,124)	(271,962,295)
Net capital assets	\$ 276,871,526	11,094,677	(403,703)	16,007	287,578,507

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

(7) Lease Obligations

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

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 for operating leases having remaining terms in excess of one year are as follows:

	<u>Operating leases</u>
Year ending June 30:	
2007	\$ 172,432
2008	136,747
2009	107,150
2010	<u>53,125</u>
Total minimum lease payments	<u>\$ 469,454</u>

Rent expense under operating leases for the year ended June 30, 2006, totaled \$177,004.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2006, totaled \$554,748,000.

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the California State University System, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,277,682,000 as of June 30, 2006.

(b) Revenue Bond Programs

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower-cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue-producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$1,982,433,000 at June 30, 2006. The University's portion of the total outstanding balance under this program was \$89,989,780 at June 30, 2006.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2006, the System's outstanding balance for these senior bonds totaled \$70,820,000. The University's total outstanding balance for these senior bonds was \$11,575,000 at June 30, 2006.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2006

Long-term debt obligations of the University as of June 30, 2006, consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Student Union Revenue Bonds:				
Series B	6.00% – 8.00%	2007/08	\$ 14,200,000	750,000
Series C	4.00% – 5.63%	2022/23	11,325,000	10,825,000
Systemwide Revenue Bonds:				
Series B	3.00%	2007/08	3,632,715	256,780
Series J	3.00%	2019/20	3,173,000	1,958,000
Parking Revenue Bonds –				
Series 2002A	3.00% – 5.50%	2027/28	9,550,000	8,900,000
Parking Revenue Bonds –				
Series 2004A	2.00% – 5.25%	2030/31	13,300,000	13,300,000
Housing Revenue Bonds –				
Series 2004A	2.00% – 5.25%	2018/19	12,555,000	11,285,000
Housing Revenue Bonds –				
Series 2005B	4.00% – 5.00%	2021/22	34,225,000	32,575,000
Student Union Revenue				
Bonds – Series 2004A	2.50% – 5.25%	2034/35	6,445,000	6,340,000
Student Union Revenue				
Bonds – Series 2005A	2.50% – 5.00%	2035/36	8,815,000	8,815,000
Auxiliary Organization Food				
Services Revenue Bonds –				
Series 2003A	2.50% – 5.25%	2033/34	6,795,000	<u>6,560,000</u>
Total				101,564,780
Unamortized bond premium				1,745,455
Unamortized loss on refunding				<u>(1,529,620)</u>
Total long-term debt				101,780,615
Less current portion				<u>(3,819,822)</u>
Long-term debt, net of current portion				<u>\$ 97,960,793</u>

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Notes to Financial Statements

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2007	\$ 3,819,822	4,744,139
2008	3,926,958	4,580,882
2009	4,005,000	4,409,258
2010	4,190,000	4,227,459
2011	4,380,000	4,037,653
2012 – 2016	25,240,000	16,944,571
2017 – 2021	26,778,000	10,333,649
2022 – 2026	13,630,000	5,282,973
2027 – 2031	10,400,000	2,548,217
2032 – 2036	5,195,000	570,875
	<u>\$ 101,564,780</u>	<u>57,679,676</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) Advance Refundings

In August 2005, the University defeased Housing System Revenue Bonds Series AV (refunded bonds) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005B refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2005B refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. This transaction will reduce the University's total debt service payments by \$3,100,185 over the life of the bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from this transaction was \$2,346,100. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the University's current-year defeased bonds outstanding as of June 30, 2006 totaled \$34,180,000.

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Notes to Financial Statements

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(10) Long-Term Liabilities Activity

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 8,806,367	6,829,915	(6,437,353)	9,198,929	3,679,572
Capitalized lease obligations (note 7)	36,640	—	(36,640)	—	—
Long-term debt obligations (note 8):					
Student Union Revenue Bonds	11,995,000	—	(420,000)	11,575,000	445,000
Systemwide Revenue Bonds	<u>92,999,274</u>	<u>34,225,000</u>	<u>(37,234,494)</u>	<u>89,989,780</u>	<u>3,374,822</u>
Total	104,994,274	34,225,000	(37,654,494)	101,564,780	3,819,822
Unamortized bond premium	282,053	1,562,658	(99,256)	1,745,455	—
Unamortized loss on refunding	<u>—</u>	<u>(1,622,580)</u>	<u>92,960</u>	<u>(1,529,620)</u>	<u>—</u>
Total long-term debt obligations	<u>105,276,327</u>	<u>34,165,078</u>	<u>(37,660,790)</u>	<u>101,780,615</u>	<u>3,819,822</u>
Total long-term liabilities	<u>\$ 114,119,334</u>	<u>40,994,993</u>	<u>(44,134,783)</u>	<u>110,979,544</u>	<u>7,499,394</u>

(11) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

(b) Funding Policy

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 15.942% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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June 30, 2006

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

2004	\$	19,971,880
2005		22,648,445
2006		21,681,709

(c) Faculty Early Retirement Program

During fiscal year 2004, the System implemented the Faculty Early Retirement Program, which was authorized by Executive Order S-8-04 issued by the Governor on May 6, 2004. In order to enroll in the program, participants must meet the CalPERS retirement eligibility requirements of age 50 or more on the date of retirement and have five years or more of service credit. Eligible employees who elect to participate in this program will receive two additional years of service credit in their retirement income calculation if their (1) separation date is no earlier than May 5, 2004, and no later than July 27, 2004, and (2) CalPERS retirement date is no earlier than May 6, 2004, and no later than July 28, 2004. In return, the System must contribute to CalPERS an amount representing the actuarial equivalent of the value of this benefit. The early retirement benefit is not dependent upon future services and, therefore, is already earned as of June 30, 2004 by those who have elected to participate in the program. The University's total estimated liability under the program is \$1,400,000, of which \$1,400,000 was paid during fiscal year ended 2006.

(12) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case-basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2006.

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

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

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

The University's allocation of the System's total self-insurance claims liability as of June 30, 2006 was approximately 7%, or \$7,875,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2006.

The University's receivable from CSURMA totaled \$50,000 at June 30, 2006, which is recorded as a component of accounts receivable-current in the accompanying financial statements. The receivable balance is a result of amounts paid by the University to CSURMA prior to year end related to the University's share of the estimated future funding liability.

(13) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2006 totaled \$13,077,308. These expenditures will be funded primarily from state appropriations.

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Notes to Financial Statements

June 30, 2006

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 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, 2006, operating expenses by natural classification consisted of the following:

<u>2006</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 93,641,546	27,046,832	—	10,065,912	—	130,754,290
Research	994,031	257,496	—	274,656	—	1,526,183
Public service	1,122,198	212,058	—	338,674	—	1,672,930
Academic support	14,913,795	6,456,894	—	7,703,242	—	29,073,931
Student services	22,685,234	7,609,626	—	2,572,419	—	32,867,279
Institutional support	15,044,764	5,732,882	—	13,708,848	—	34,486,494
Operation and maintenance of plant	11,969,920	5,211,766	—	10,026,841	—	27,208,527
Student grants and scholarships	—	—	38,109,968	—	—	38,109,968
Auxiliary enterprise expenses	3,833,397	1,633,225	—	11,983,967	—	17,450,589
Depreciation	—	—	—	—	17,613,514	17,613,514
Total	\$ <u>164,204,885</u>	<u>54,160,779</u>	<u>38,109,968</u>	<u>56,674,559</u>	<u>17,613,514</u>	<u>330,763,705</u>

(15) Transactions with Related Entities

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$168,788,852 for the year ended June 30, 2006. State appropriations receivable aggregated \$78,689,413 at June 30, 2006. The University also received lottery fund distributions from the State of California in the amount of \$2,236,518 for the year ended June 30, 2006, which is included in other nonoperating revenues and expenses.

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

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The University has recorded capital assets that have been financed by System originated debt, for which the related liability is not reflected in the accompanying financial statements. For the year ended June 30, 2006, \$8,445 of such additions of capital assets are included in other nonoperating income in the accompanying 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, 2006:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	1,945,873
Reimbursements from recognized auxiliary organizations for other than salaries of University employees		6,391,961
Payments to recognized auxiliary organizations for services, office space rental, and programs		4,723,377
Gifts-in-kind to the University from recognized auxiliary organizations		341,770
Amounts receivable from the Office of the Chancellor		412,760
Amounts payable to the Office of the Chancellor		113,521
Amounts receivable from recognized auxiliary organizations		368,693
Amounts payable to recognized auxiliary organizations		811,601