



CALIFORNIA STATE UNIVERSITY, EAST BAY

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, EAST BAY

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KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

Dr. Mohammad H. Qayoumi
President
California State University, East Bay:

We have audited the accompanying financial statements of California State University, East Bay (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 aggregate discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2, the financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.



Management's Discussion and Analysis on pages 3 through 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

February 25, 2008

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

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

Introduction to the Financial Statements

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

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

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

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

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

Analytical Overview

Summary

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

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

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

Condensed Summary of Net Assets

	June 30	
	2007	2006
Assets:		
Current assets	\$ 35,706,522	42,272,197
Capital assets	144,328,513	126,906,673
Other noncurrent assets	19,760,688	24,963,592
Total assets	199,795,723	194,142,462
Liabilities:		
Current liabilities	22,699,297	24,480,669
Long-term obligations, net of current portion	50,938,583	52,526,608
Other noncurrent liabilities	6,705,784	7,591,786
Total liabilities	80,343,664	84,599,063
Net assets:		
Invested in capital assets, net of related debt	93,115,744	83,520,027
Restricted, non-expendable	395,369	393,951
Restricted, expendable	11,296,235	6,899,875
Unrestricted	14,644,711	18,729,546
Total net assets	\$ 119,452,059	109,543,399

Assets

Total assets increased \$5.7 million for the year ended June 30, 2007. Cash and cash equivalent decreased by \$10 million to partially fund the increase in operating costs of \$13 million during the year. Prepaid expenses decreased by \$4 million due to a change in prepayment of insurance premium related to the California State University risk pool. In the previous year, the University advanced contributions to the California State University risk pool by prepaying insurance premium for fiscal year 2007 and partial for fiscal year 2008. The University discontinued prepaying the insurance premium effective July 1, 2006. The remaining prepaid includes the University's advanced payment of insurance premiums for the first half of fiscal year 2008. Capital assets increased by \$17 million reflecting current year construction work in progress for three major building projects at the University, the Wayne and Gladys Valley Business and Technology Center, Pioneer Heights Phase II Student Housing and the University Union expansion. Long term investments increased by \$3 million due to an increase in investments held by the Chancellor's Office related to the systemwide revenue bond program.

Liabilities

The \$4 million decrease in total liabilities from the prior year is primarily due to a \$1 million decrease in long-term obligations. This is the result of 1) current year payments on capital lease obligations and bonds outstanding and 2) a \$3 million decrease in accounts payable as a result of the considerable reduction in accounts payable accruals as of June 30, 2007 due to timely procuring of suppliers' invoices. These decreases were offset by a \$0.8 million increase in accrued salaries and benefits.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

Net Assets

At June 30, 2007, the significant portion of net assets, \$93 million is invested in capital assets, net of related debt. The increase in net assets of \$10 million is primarily related to an increase of \$6 million in state appropriations and a capital gift of \$4 million made to the Wayne & Gladys Valley Business Technology Center building. Unrestricted net assets decreased by \$4 million as the University continues to fund other capital costs.

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	
	2007	2006
Expendable:		
Scholarships and fellowships	\$ 1,216,793	768,626
Loans	73,307	453,389
Capital projects	5,323,059	3,016,603
Debt service	4,624,152	2,661,257
Other	58,924	—
Total restricted net assets – expendable	<u>\$ 11,296,235</u>	<u>6,899,875</u>

The \$4 million increase in restricted expendable net assets is primarily due to a \$1.6 million increase in state appropriations-capital, a \$2.0 million increase in debt service related to the Housing and UU construction projects, and \$0.4 million increase in scholarships and fellowships.

CALIFORNIA STATE UNIVERSITY, EAST BAY

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	\$ 47,018,184	50,962,665
Grants, contracts, and gifts	15,420,571	15,667,318
Sales and services of educational activities	2,527,652	1,753,290
Sales and services of auxiliary enterprises, net	6,387,763	4,303,325
Other operating revenues	453,956	2,895,762
Total operating revenues	<u>71,808,126</u>	<u>75,582,360</u>
Operating expenses	<u>(170,153,495)</u>	<u>(157,066,470)</u>
Operating loss	<u>(98,345,369)</u>	<u>(81,484,110)</u>
Nonoperating revenues (expenses):		
State appropriations	88,872,961	81,439,031
Gifts, noncapital	3,217,647	845,859
Investment income	2,367,031	1,865,585
Interest on capital-related debt	(879,419)	(1,634,747)
Other nonoperating revenues (expenses)	4,199,486	(31,165)
Net nonoperating revenues	<u>97,777,706</u>	<u>82,484,563</u>
Income (loss) before other additions	(567,663)	1,000,453
State appropriations, capital	4,956,000	3,367,000
Grants and gifts, capital	5,520,323	3,590,020
Increase in net assets	<u>9,908,660</u>	<u>7,957,473</u>
Beginning net assets	<u>109,543,399</u>	<u>101,585,926</u>
Ending net assets	<u>\$ 119,452,059</u>	<u>109,543,399</u>

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.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

Operating Revenues

The University recognized \$72 million in operating revenues during this fiscal year, as compared to \$76 million in the prior year. This comprised 42% of total revenues for the year ended June 30, 2007, compared to 48% of total revenues for the year ended June 30, 2006. Although the State University fee did not change from the prior year, tuition and fees decreased 7.7% due to: 1) decline in Continuing Education Fees of \$1.5 million from reduced special sessions offerings and 2) other minor factors that collectively contributed to this change. Other operating revenues decreased by \$2.4 million due to the discontinued Extended Education MBA Trust program. Federal and state grants and contracts revenue decreased \$0.3 million from \$15.7 million to \$15.4 million for the fiscal years ended June 30, 2006 and 2007, respectively, due to minimal decrease in non-governmental grants. Sales and services of auxiliary enterprises increased by \$2 million primarily due to an increase in dormitory housing revenue, resulting from additional housing space being completed and occupied.

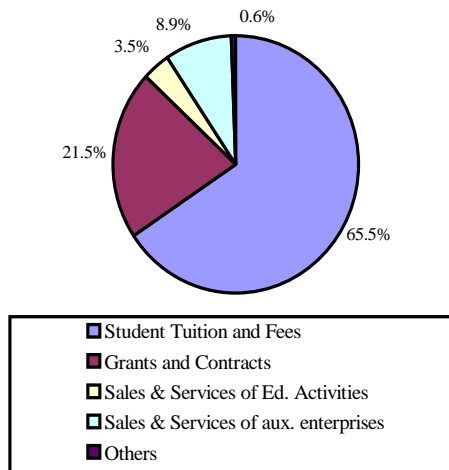
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2007 and 2006:

Operating Revenues

Year ended June 30, 2007

(In thousands)

Student tuition and fees, net of allowance	\$ 47,017,184	65.5%
Grants and contracts, noncapital	15,420,571	21.5
Sales and services of educational activities	2,527,652	3.5
Sales and services of auxiliary enterprises, net	6,387,763	8.9
Other operating revenues	453,956	0.6
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Total operating revenues	\$ 71,807,126	100.0%
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CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

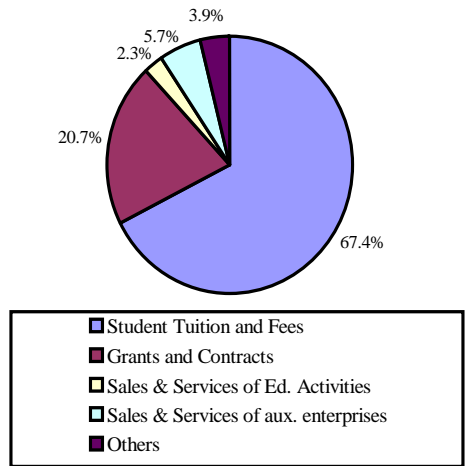
June 30, 2007

Operating Revenues

Year ended June 30, 2006

(In thousands)

Student tuition and fees, net of allowance	\$ 50,962,665	67.4%
Grants and contracts, noncapital	15,667,318	20.7
Sales and services of educational activities	1,753,290	2.3
Sales and services of auxiliary enterprises, net	4,303,325	5.7
Other operating revenues	2,895,762	3.9
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Total operating revenues	\$ 75,582,360	100.0%



Operating Expenses

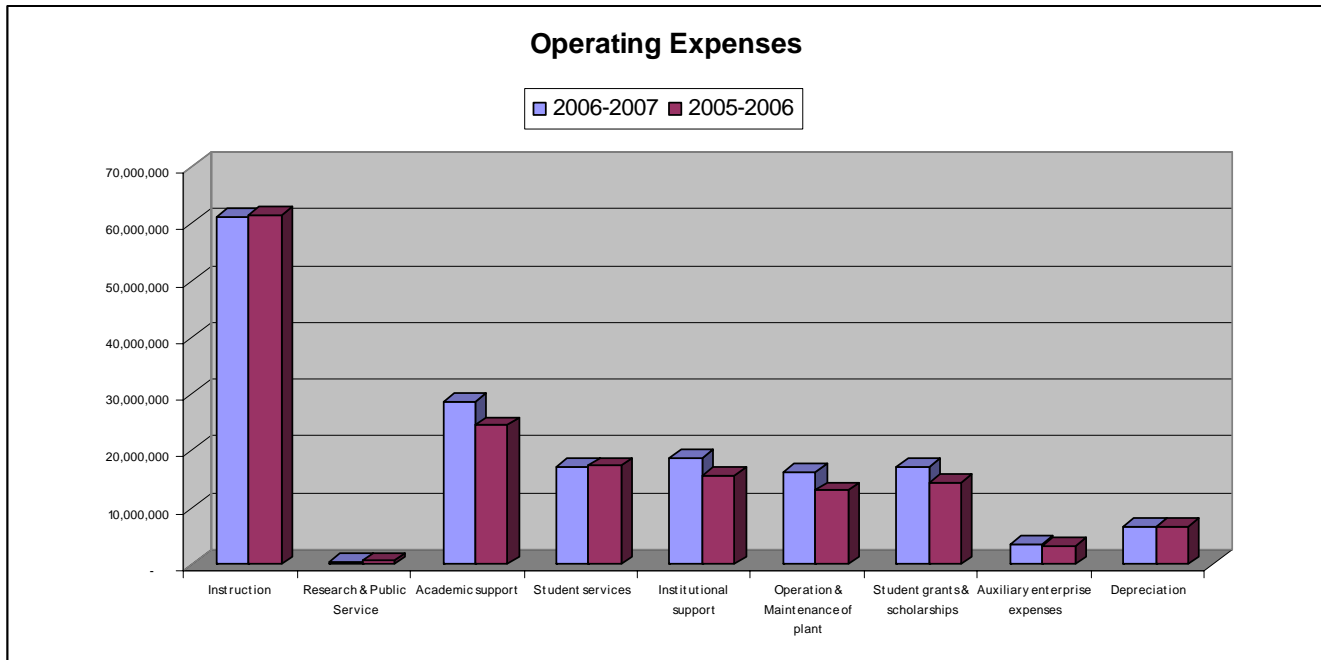
The University's operating expenses consist of salaries and fringe benefits of \$113 million, supplies and other services of \$33 million, student grants and scholarships of \$17 million, and depreciation of \$7 million. Total operating expenses, excluding depreciation, increased by \$17 million, or 11%, primarily due to grants and scholarships, academic support, and student services. Salaries and benefits costs increased by \$7.9 million due to salary rate increases and health and retirement benefit increases for all employees. The University contribution to the California Employees' Retirement System (CalPERS) increased by \$1.5 million, or 13%. Student grants and scholarships increased by \$2.8 million due to financial awards for SUG, EOP and other scholarship programs. The academic support function total increase of \$4.2 million is primarily attributed to increases in salaries and benefits of \$1.4 million and increase in supplies and services of \$2.8 million. The student services function remained at almost the same level for fiscal years 2007 and 2006.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

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



Nonoperating and Other Revenues (Expenses)

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

As the University is part of the California State University System, which is an agency of the state of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$5 million for the fiscal year ended June 30, 2007, an increase of \$1.6 million from the fiscal year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$89 million, an increase of \$7 million from the prior year. Other nonoperating revenues (expenses) increase of \$4 million is primarily due to funds transferred from the Chancellor's Office intended to support the dormitory housing project and systemwide academic technology (SWAT) services.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2007	2006
Land and land improvements	\$ 3,253,785	3,253,785
Works of art and historical treasures	622,578	622,578
Buildings and building improvements	106,318,490	32,029,170
Improvements, other than buildings	5,086,636	4,996,590
Infrastructure	20,076,896	20,697,868
Personal property	3,182,980	3,759,383
Intangible assets	2,367,779	—
Construction work in progress	3,419,369	61,547,299
Total capital assets, net of accumulated depreciation	<u>\$ 144,328,513</u>	<u>126,906,673</u>

At June 30, 2007 and 2006, the University had \$144 million and \$127 million, respectively, in capital assets, net of accumulated depreciation of \$144 million and \$138 million, respectively. Depreciation expense totaled \$6.7 million and \$6.6 million for the years ended June 30, 2007 and 2006, respectively.

The University had three major additions to capital assets during the year, namely, Wayne and Gladys Valley Business & Technology Center (\$6.4 million), University Union expansion (\$3.5 million) and Pioneer Heights Phase II Student Housing (\$7 million). At June 30, 2007, the total values of these capital assets are as follows:

Wayne and Gladys Business & Technology Center	\$ 26 million
University Union Expansion	15 million
Pioneer Heights Phase II Student Housing	35 million

See note 5 of the notes to the financial statements for further information on capital assets.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2007

Long-Term Obligations

Long-term obligations outstanding at June 30, 2007 and 2006 is summarized below by type of instrument:

	June 30	
	2007	2006
Systemwide Revenue Bonds	\$ 44,870,000	45,360,000
Capital leases	6,334,549	7,143,737
	<u>51,204,549</u>	<u>52,503,737</u>
Unamortized bond premium (discount)	1,242,132	1,296,619
Unamortized loss on refunding	(115,679)	(129,560)
	<u>52,331,002</u>	<u>53,670,796</u>
Total long-term obligations	52,331,002	53,670,796
Less current portion	<u>1,392,419</u>	<u>1,144,188</u>
Long-term obligations, net of current portion	<u>\$ 50,938,583</u>	<u>52,526,608</u>

The interest rates on outstanding debt range from 2.75% to 5.00%

At June 30, 2007 and 2006, the University had \$50.9 million and \$52.5 million, respectively, in debt outstanding. Total long-term debt decreased by \$1.3 million primarily due to current year principal paydowns.

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 6 through 8 of the notes to the financial statements for further information on long-term obligations.

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2007/2008. The allocation provided to the University is \$90.2 million, an increase of \$4.3 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 targets for fiscal years 2007/2008 remains the same for fiscal years 2006/2007 at 11,075. Student body fees, student health service fees and parking fees have been increased by 24%, 16% and 22%, respectively for fiscal year 2007/2008 to augment the allocation.

The California State University Board of Trustees recently approved a student housing project for the University. The project will accommodate 400 occupants. The total cost of the project is projected to be approximately \$47.4 million and will be funded through issuance of systemwide revenue bonds. The project is scheduled for completion in September 2008.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Statement of Net Assets

June 30, 2007

Assets	University	Discretely presented component units GASB auxiliary organizations	Total
Current assets:			
Cash and cash equivalents	\$ 36,044	498,341	534,385
Short-term investments	31,120,685	23,770,842	54,891,527
Accounts receivable, net	1,789,439	2,368,508	4,157,947
Pledges receivable, net	—	810,226	810,226
Prepaid expenses and other assets	2,760,354	2,067,311	4,827,665
Total current assets	<u>35,706,522</u>	<u>29,515,228</u>	<u>65,221,750</u>
Noncurrent assets:			
Restricted cash and cash equivalents	76,039	440,181	516,220
Accounts receivable, net	10,545,876	—	10,545,876
Student loans receivable, net	4,293,704	—	4,293,704
Other long-term investments	4,845,069	—	4,845,069
Capital assets, net	144,328,513	6,929,757	151,258,270
Total noncurrent assets	<u>164,089,201</u>	<u>7,369,938</u>	<u>171,459,139</u>
Total assets	<u>199,795,723</u>	<u>36,885,166</u>	<u>236,680,889</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	3,442,071	1,115,834	4,557,905
Accrued salaries and benefits payable	8,220,975	247,238	8,468,213
Accrued compensated absences – current portion	3,674,040	143,977	3,818,017
Deferred revenue	4,568,197	1,686,890	6,255,087
Capitalized lease obligations – current portion	362,419	—	362,419
Long-term debt obligations – current portion	1,030,000	150,000	1,180,000
Other liabilities	1,401,595	225,854	1,627,449
Total current liabilities	<u>22,699,297</u>	<u>3,569,793</u>	<u>26,269,090</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	1,957,129	—	1,957,129
Grants refundable	4,498,655	—	4,498,655
Capitalized lease obligations, net of current portion	5,972,130	—	5,972,130
Long-term debt obligations, net of current portion	44,966,453	4,560,000	49,526,453
Depository accounts	—	5,727,205	5,727,205
Other liabilities	250,000	3,293,245	3,543,245
Total noncurrent liabilities	<u>57,644,367</u>	<u>13,580,450</u>	<u>71,224,817</u>
Total liabilities	<u>80,343,664</u>	<u>17,150,243</u>	<u>97,493,907</u>
Net assets:			
Invested in capital assets, net of related debt	93,115,744	2,219,757	95,335,501
Restricted for:			
Nonexpendable – endowments	395,369	4,384,288	4,779,657
Expendable:			
Scholarships and fellowships	1,216,793	3,658,120	4,874,913
Loans	73,307	—	73,307
Capital projects	5,323,059	720,820	6,043,879
Debt service	4,624,152	—	4,624,152
Other	58,924	3,383,843	3,442,767
Unrestricted	14,644,711	5,368,095	20,012,806
Total net assets	<u>\$ 119,452,059</u>	<u>19,734,923</u>	<u>139,186,982</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, EAST BAY
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 \$7,431,911)	\$ 47,018,184	2,437,384	—	49,455,568
Grants and contracts, noncapital:				
Federal	10,426,906	7,154,173	—	17,581,079
State	3,404,359	1,943,388	—	5,347,747
Local	150,884	1,188,571	—	1,339,455
Nongovernmental	1,438,422	—	—	1,438,422
Sales and services of educational activities	2,527,652	—	—	2,527,652
Sales and services of auxiliary enterprises (net of scholarship allowances of \$40,490)	6,387,763	8,426,309	—	14,814,072
Other operating revenues	453,956	285,060	—	739,016
Total operating revenues	<u>71,808,126</u>	<u>21,434,885</u>	<u>—</u>	<u>93,243,011</u>
Expenses:				
Operating expenses:				
Instruction	61,250,556	—	—	61,250,556
Research	138,813	9,159,879	—	9,298,692
Public service	443,760	—	—	443,760
Academic support	28,695,024	—	—	28,695,024
Student services	17,288,637	—	—	17,288,637
Institutional support	18,628,509	7,620,528	(7,000,571)	19,248,466
Operation and maintenance of plant	16,160,415	4,128	—	16,164,543
Student grants and scholarships	17,179,800	339,304	—	17,519,104
Auxiliary enterprise expenses	3,666,307	11,131,980	—	14,798,287
Depreciation and amortization	6,701,674	387,286	—	7,088,960
Total operating expenses	<u>170,153,495</u>	<u>28,643,105</u>	<u>(7,000,571)</u>	<u>191,796,029</u>
Operating loss	<u>(98,345,369)</u>	<u>(7,208,220)</u>	<u>7,000,571</u>	<u>(98,553,018)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	88,872,961	—	—	88,872,961
Gifts, noncapital	3,217,647	815,475	(1,480,248)	2,552,874
Investment income, net	2,367,031	1,566,882	—	3,933,913
Endowment income	—	395,238	—	395,238
Interest on capital-related debt	(879,419)	(256,647)	—	(1,136,066)
Other nonoperating revenues, net	4,199,486	—	—	4,199,486
Net nonoperating revenues	<u>97,777,706</u>	<u>2,520,948</u>	<u>(1,480,248)</u>	<u>98,818,406</u>
Income (loss) before other additions	<u>(567,663)</u>	<u>(4,687,272)</u>	<u>5,520,323</u>	<u>265,388</u>
State appropriations, capital	4,956,000	—	—	4,956,000
Grants and gifts, capital	5,520,323	264,010	(5,520,323)	264,010
Additions to permanent endowments	—	2,566,125	—	2,566,125
Increase (decrease) in net assets	<u>9,908,660</u>	<u>(1,857,137)</u>	<u>—</u>	<u>8,051,523</u>
Net assets:				
Net assets at beginning of year	<u>109,543,399</u>	<u>21,592,060</u>	<u>—</u>	<u>131,135,459</u>
Net assets at end of year	<u>\$ 119,452,059</u>	<u>19,734,923</u>	<u>—</u>	<u>139,186,982</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Statement of Cash Flows

Year ended June 30, 2007

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 46,575,436
Federal grants and contracts	11,189,452
State grants and contracts	3,404,359
Local grants and contracts	150,884
Nongovernmental grants and contracts	1,438,422
Payments to suppliers	(31,175,294)
Payments to employees	(111,807,999)
Payments to students	(17,249,635)
Sales and services of educational activities	6,387,763
Sales and services of auxiliary enterprises	2,527,652
Other receipts	905,698
Net cash used in operating activities	<u>(87,653,262)</u>
Cash flows from noncapital financing activities:	
State appropriations	90,381,164
Gifts and grants received for other than capital purposes	3,217,647
Federal loan program receipts	18,217,782
Federal loan program disbursements	(18,397,716)
Monies received on behalf of others	8,010,354
Monies disbursed on behalf of others	(7,893,300)
Other	4,332,701
Net cash provided by noncapital financing activities	<u>97,868,632</u>
Cash flows from capital and related financing activities:	
State appropriations	2,923,505
Capital grants and gifts	5,520,323
Proceeds from sale of capital assets	16,017
Acquisition of capital assets	(25,672,025)
Principal paid on capital debt and leases	(1,299,188)
Interest paid on capital debt and leases	(933,866)
Net cash used in capital and related financing activities	<u>(19,445,234)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	57,518,241
Purchases of investments	(61,570,088)
Investment income received	2,456,443
Net cash used in investing activities	<u>(1,595,404)</u>
Net decrease in cash and cash equivalents	(10,825,268)
Cash and cash equivalents at beginning of year	<u>10,937,351</u>
Cash and cash equivalents at end of year	\$ <u>112,083</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 36,044
Restricted cash and investments	76,039
Total cash and cash equivalents at end of year	\$ <u>112,083</u>

CALIFORNIA STATE UNIVERSITY, EAST BAY

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	\$ (98,345,369)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	6,701,674
Change in assets and liabilities:	
Accounts receivable, net	1,701,074
Student loans receivable, net	7,133
Prepaid expenses and other assets	4,005,330
Accounts payable	(1,861,495)
Accrued salaries and benefits	807,468
Accrued compensated absences	102,661
Deferred revenue	(1,263,733)
Other liabilities	491,995
Net cash used in operating activities	<u>\$ (87,653,262)</u>
Supplemental schedule of noncash transactions:	
Accrued capital asset costs (purchased but unpaid at year end)	\$ 1,630,363

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

(1) Organization

California State University, East Bay (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 four recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The discretely presented auxiliary organizations are as follows:

- California State University, East Bay Foundation, Inc.
- Associated Students, Inc. of California State University, East Bay
- University Union, Inc. of California State University, East Bay
- Cal State, East Bay Educational Foundation, Inc.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

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

June 30, 2007	Foundations	Other auxiliary organizations	Total
Current assets	\$ 28,717,763	797,465	29,515,228
Capital assets, net	6,133,750	796,007	6,929,757
Other noncurrent assets	440,181	—	440,181
Total assets	35,291,694	1,593,472	36,885,166
Current liabilities	2,978,329	591,464	3,569,793
Noncurrent liabilities	13,580,450	—	13,580,450
Total liabilities	16,558,779	591,464	17,150,243
Invested in capital assets, net of related debt	1,423,750	796,007	2,219,757
Restricted	12,147,071	—	12,147,071
Unrestricted	5,162,094	206,001	5,368,095
Total net assets	\$ 18,732,915	1,002,008	19,734,923
Year ended June 30, 2007			
Operating revenues:			
Student tuition and fees	\$ —	2,437,384	2,437,384
Grants and contracts, noncapital	10,158,100	128,032	10,286,132
Sales and services of auxiliary enterprises, net	6,642,636	1,783,673	8,426,309
Other	258,279	26,781	285,060
Total operating revenues	17,059,015	4,375,870	21,434,885
Operating expenses:			
Research	9,159,879	—	9,159,879
Institutional support	7,620,528	—	7,620,528
Operation and maintenance of plant	—	4,128	4,128
Student grants and scholarships	269,346	69,958	339,304
Auxiliary enterprise expenses	7,270,891	3,861,089	11,131,980
Depreciation and amortization	296,704	90,582	387,286
Total operating expenses	24,617,348	4,025,757	28,643,105
Operating income (loss)	(7,558,333)	350,113	(7,208,220)
Net nonoperating revenues	2,503,843	17,105	2,520,948
Income (loss) before other additions	(5,054,490)	367,218	(4,687,272)
Grants and gifts, capital	264,010	—	264,010
Additions to permanent endowments	2,566,125	—	2,566,125
Increase (decrease) in net assets	(2,224,355)	367,218	(1,857,137)
Beginning net assets, July 1, 2006	20,957,270	634,790	21,592,060
Ending net assets, June 30, 2007	\$ 18,732,915	1,002,008	19,734,923

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

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

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2007 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

(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 GASB.

(c) *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, under those standards conflict with or contradict guidance of the GASB. The University also has the *option* of following subsequent private-sector guidance subject to the same limitation. The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

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

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

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

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

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

(f) *Investments*

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

(g) *Capital Assets*

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Title to all assets, whether purchased, constructed, or donated, is held by the state of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

(h) *Deferred Revenue*

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

(i) *Compensated Absences*

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

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

(j) **Grants Refundable**

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

(k) **Net Assets**

The University's net assets are classified into the following net asset categories:

Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted – nonexpendable – Net assets subject to externally imposed conditions that the University retain them in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.

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

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

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

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

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses or capital contributions in accordance with GASB Statement No. 35. These nonoperating activities include the University's operating and capital appropriations from the State of California, net investment income, gifts, interest expense, and capital contributions.

The State of California appropriates funds to the System on an annual basis. The appropriations are, in turn, allocated among the campuses by the Office of the Chancellor. Appropriations are

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

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.

(m) *Income Taxes*

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

(n) *Eliminations*

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

(o) *Use of Estimates*

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

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	\$ 36,044
Restricted cash and cash equivalents	76,039
Total cash and cash equivalents	<u>112,083</u>
Short-term investments	31,120,685
Other long-term investments	4,845,069
Total investments	<u>35,965,754</u>
Total cash and cash equivalents and investments	<u><u>\$ 36,077,837</u></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 \$112,083 had a corresponding carrying value balance with the State Treasury of \$106,033 at June 30, 2007. The differences related primarily to petty cash and change fund.

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 monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2007 is presented in the table 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	\$ 30,834	0.01	\$ —	—	—	30,834
Certificates of deposit	7,004,094	0.38	—	5,066,622	1,937,472	—
Commercial paper	7,267,654	0.01	—	—	7,159,194	108,460
U.S. agency securities	1,179,632	1.07	1,179,632	—	—	—
Mortgage-backed securities	605,271	8.94	605,271	—	—	—
Corporate and fixed income securities	10,645,707	1.42	1,151,706	4,463,382	5,030,619	—
State of California Surplus Money Investment Fund	<u>9,127,828</u>	0.48	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,127,828</u>
Total	35,861,020		<u>\$ 2,936,609</u>	<u>9,530,004</u>	<u>14,127,285</u>	<u>9,267,122</u>
Not subject to ratings:						
U.S. Treasury securities	80,065	2.43				
State of California Local Agency Investment Fund	<u>24,669</u>	—				
Total investments	<u>\$ 35,965,754</u>					

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

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 are no investments that represented 5% or more of the University's portfolio.

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

(4) Accounts Receivable

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 6,417	4,818,671	4,825,088
Auxiliary organizations	189,391	5,727,205	5,916,596
Student accounts	1,124,715	—	1,124,715
Government grants and contracts	338,046	—	338,046
Other	980,738	—	980,738
	<u>2,639,307</u>	<u>10,545,876</u>	<u>13,185,183</u>
Less allowance for doubtful accounts	<u>(849,868)</u>	<u>—</u>	<u>(849,868)</u>
Total	<u>\$ 1,789,439</u>	<u>10,545,876</u>	<u>12,335,315</u>

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

(5) Capital Assets

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

	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 3,253,785	—	—	—	3,253,785
Works of art and historical treasures	622,578	—	—	—	622,578
Construction work in progress	<u>61,547,299</u>	<u>21,413,928</u>	<u>(116,813)</u>	<u>(79,425,045)</u>	<u>3,419,369</u>
Total nondepreciable capital assets	<u>65,423,662</u>	<u>21,413,928</u>	<u>(116,813)</u>	<u>(79,425,045)</u>	<u>7,295,732</u>
Depreciable capital assets:					
Buildings and building improvements	125,731,468	972,417	—	76,715,257	203,419,142
Improvements, other than buildings	16,548,444	968,263	(87,375)	9,788	17,439,120
Infrastructure	26,061,774	—	—	—	26,061,774
Personal property:					
Equipment	17,683,580	395,996	(1,588,563)	—	16,491,013
Library books and materials	13,828,738	622,832	(194,609)	—	14,256,961
Intangible assets	<u>112,486</u>	<u>141,335</u>	<u>—</u>	<u>2,700,000</u>	<u>2,953,821</u>
Total depreciable capital assets	<u>199,966,490</u>	<u>3,100,843</u>	<u>(1,870,547)</u>	<u>79,425,045</u>	<u>280,621,831</u>
Total cost	<u>265,390,152</u>	<u>24,514,771</u>	<u>(1,987,360)</u>	<u>—</u>	<u>287,917,563</u>
	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</u>
Less accumulated depreciation:					
Buildings and building improvements	\$ (93,702,298)	(3,398,354)	—	—	(97,100,652)
Improvements, other than buildings	(11,551,854)	(809,368)	8,738	—	(12,352,484)
Infrastructure	(5,363,906)	(620,972)	—	—	(5,984,878)
Personal property:					
Equipment	(15,774,056)	(1,009,271)	1,392,756	—	(15,390,571)
Library books and materials	(11,978,879)	(390,153)	194,609	—	(12,174,423)
Intangible assets	<u>(112,486)</u>	<u>(473,556)</u>	<u>—</u>	<u>—</u>	<u>(586,042)</u>
Total accumulated depreciation	<u>(138,483,479)</u>	<u>(6,701,674)</u>	<u>1,596,103</u>	<u>—</u>	<u>(143,589,050)</u>
Net capital assets	\$ <u>126,906,673</u>	<u>17,813,097</u>	<u>(391,257)</u>	<u>—</u>	<u>144,328,513</u>

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

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

(6) Lease Obligations

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$5,442,610 at June 30, 2007. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.24% to 4.81% and have terms expiring in various years through 2018.

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2008	\$ 649,816	1,782,011
2009	1,069,607	682,233
2010	916,432	582,898
2011	915,818	—
2012	2,324,772	—
2013 – 2017	1,386,235	—
2018 – 2022	564,177	—
Total minimum lease payments	<u>7,826,857</u>	<u>\$ 3,047,142</u>
Less amount representing interest	<u>(1,492,308)</u>	
Present value of future minimum lease payments	6,334,549	
Less current portion	<u>(362,419)</u>	
Capital lease obligation, net of current portion	<u>\$ 5,972,130</u>	

Rent expense under operating leases for the year ended June 30, 2007 totaled \$1,824,692.

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 \$570,858,000.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2007

(7) Long-Term Debt Obligations

(a) *General Obligation Bond Program*

The General Obligation Bond program of the state of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University System, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,393,141,000 as of June 30, 2007.

(b) *Revenue Bond Programs*

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

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

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

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

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

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

The auxiliary organization program provides for certain additional facilities on campus for the benefit of students and staff. The auxiliary organization program derives its revenues primarily from lease income received by the campus from the auxiliary organization using the facility. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$2,302,428,000 at June 30, 2007. The University's portion of the total outstanding balance under this program was \$44,870,000 at June 30, 2007.

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

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Long-term debt obligations of the University as of June 30, 2007 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds:				
Housing Series 2005A	2.75% – 5%	2035/36	\$ 30,015,000	30,015,000
Housing Series 2005B	5%	2015/16	3,060,000	2,655,000
Student Union Series 2002A	4% – 5%	2012/13	1,065,000	670,000
Student Union Series 2005A	2.75% – 5%	2035/36	11,720,000	<u>11,530,000</u>
Total				44,870,000
Unamortized bond premium				1,242,132
Unamortized loss on refunding				<u>(115,679)</u>
Total long-term debt				45,996,453
Less current portion				<u>(1,030,000)</u>
Long-term debt, net of current portion				<u>\$ 44,966,453</u>

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2008	\$ 1,030,000	2,144,651
2009	1,065,000	2,109,246
2010	1,110,000	2,070,844
2011	1,170,000	2,026,434
2012	1,215,000	1,978,893
2013 – 2017	6,145,000	9,029,907
2018 – 2022	5,945,000	7,569,875
2023 – 2027	7,625,000	5,882,625
2028 – 2032	9,780,000	3,717,500
2033 – 2037	9,785,000	1,008,875
	<u>\$ 44,870,000</u>	<u>37,538,850</u>

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

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(8) 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	\$ 5,528,509	3,776,701	(3,674,041)	5,631,169	3,674,040
Capitalized lease obligations (note 6)	7,143,737	—	(809,188)	6,334,549	362,419
Long-term debt obligations (note 7):					
Systemwide Revenue Bonds	45,360,000	—	(490,000)	44,870,000	1,030,000
Unamortized bond premium (discount)	1,296,619	—	(54,487)	1,242,132	—
Unamortized loss on refunding	(129,560)	—	13,881	(115,679)	—
Total long-term debt obligations	46,527,059	—	(530,606)	45,996,453	1,030,000
Total long-term liabilities	\$ 59,199,305	3,776,701	(5,013,835)	57,962,171	5,066,459

(9) 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.

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

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

(b) Funding Policy

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

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

2005	\$	11,291,534
2006		11,277,231
2007		12,783,887

(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 have met the CalPERS retirement eligibility requirements of age 50 or more on the date of retirement and have had five years or more of service credit. Eligible employees who elected to participate in this program received two additional years of service credit in their retirement income calculation if their (1) separation date was no earlier than May 5, 2004, and no later than July 27, 2004, and (2) CalPERS retirement date was no earlier than May 6, 2004, and no later than July 28, 2004. In return, the System was required to contribute to CalPERS an amount representing the actuarial equivalent of the value of this benefit. The early retirement benefit

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was not dependent upon future services and, therefore, was 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 \$755,972, of which \$362,756 was paid during fiscal year 2007. As of June 30, 2007, the University's remaining liability of \$393,216 has been recorded as a component of accrued salaries and benefits payable in the accompanying statement of net assets.

(10) 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>\$ 80,942,000</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.

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Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of CSURMA's total self-insurance claims liability as of June 30, 2007 was approximately 3%, or \$3,435,000. 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 prepaid premiums be CSURMA totaled \$1,687,000 at June 30, 2007, which is recorded as a component of prepaid expenses in the accompanying statement of net assets. The balance is a result of amounts paid by the University to CSURMA in fiscal year 2006 related to the University's share of the estimated future funding liability.

(11) 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.

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.

(12) 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>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	\$ 41,257,274	13,274,962	—	6,718,320	—	61,250,556
Research	—	—	—	138,813	—	138,813
Public service	78,285	14,369	—	351,106	—	443,760
Academic support	14,971,945	5,250,212	—	8,472,867	—	28,695,024
Student services	10,337,393	3,852,600	—	3,098,644	—	17,288,637
Institutional support	10,007,169	3,348,014	—	5,273,326	—	18,628,509
Operation and maintenance of plant	5,973,630	2,551,523	—	7,635,262	—	16,160,415
Student grants and scholarships	—	—	17,179,800	—	—	17,179,800
Auxiliary enterprise expenses	1,235,447	565,303	—	1,865,557	—	3,666,307
Depreciation and amortization	—	—	—	—	6,701,674	6,701,674
Total	\$ <u>83,861,143</u>	<u>28,856,983</u>	<u>17,179,800</u>	<u>33,553,895</u>	<u>6,701,674</u>	<u>170,153,495</u>

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(13) 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 \$93,828,961 for the year ended June 30, 2007. State appropriations receivable aggregated \$4,825,088 at June 30, 2007. The University also received lottery fund distributions from the state of California in the amount of \$1,887,147 the year ended June 30, 2007, which is included in other nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

Also included in the other nonoperating revenues and expenses are revenues passed down from the Chancellor's Office composed of (1) \$4 million net balance for systemwide academic technology services; (2) \$1,188,614 for CSU maintenance and reserve fund as a result of decentralization of student unions in 2004; and (3) \$578,228 for the CSU Dormitory revenue fund also as a result of decentralization of student unions in 2004 and 2005.

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

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2007, no such additions of capital assets are included 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, 2007:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	1,922,332
Reimbursements from recognized auxiliary organizations for other than salaries of University employees		56,088
Payments to recognized auxiliary organizations for services, office space rental, and programs		4,413,971
Gifts-in-kind to the University from recognized auxiliary organizations		5,520,323
Amounts receivable from the Office of the Chancellor		30,462
Amounts payable to the Office of the Chancellor		(16,297)
Amounts receivable from recognized auxiliary organizations		5,916,596
Amounts payable to recognized auxiliary organizations		(8,702)
Amounts payable to campuses other than Office of the Chancellor		(58,710)

(14) Subsequent Event

Revenue Bond Anticipation Notes in the amount of \$14.9 million and \$10.7 million were issued in August 2007 and December 2007, respectively, for the construction of Student Housing at the University.