



CALIFORNIA STATE UNIVERSITY, EAST BAY

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, EAST BAY

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KPMG LLP
Suite 800
400 Capitol Mall
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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), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2008, which collectively comprise the University's 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 of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008, the changes in their financial position, or where applicable, their 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, 2008, 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.



As described in note 2(c) to the accompanying financial statements of the University, the discretely presented Component units' net assets at the beginning of the year have been restated. Net assets as of June 30, 2008 have been restated to correct a misstatement from the University's previously issued financial statements.

As discussed in notes 2 and 10 to the financial statements, effective July 1, 2007, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs.

Management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

April 6, 2009

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2008

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, 2008. 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 only 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.

The statement of cash flows for the discretely presented auxiliary organizations is not included in the University's financial statements.

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, 2008

The University's condensed summary of net assets as of June 30, 2008 and 2007 are as follows:

Condensed Summary of Net Assets

	June 30	
	<u>2008</u>	<u>2007</u>
Assets:		
Current assets	\$ 38,077,896	35,706,522
Capital assets	191,714,269	144,328,513
Other noncurrent assets	75,370,205	19,760,688
Total assets	<u>305,162,370</u>	<u>199,795,723</u>
Liabilities:		
Current liabilities	38,152,317	20,982,386
Long-term debt obligations, net of current portion	93,993,613	44,966,453
Other noncurrent liabilities	20,222,306	14,394,825
Total liabilities	<u>152,368,236</u>	<u>80,343,664</u>
Net assets:		
Invested in capital assets, net of related debt	102,376,914	93,115,744
Restricted, nonexpendable	426,826	395,369
Restricted, expendable	37,761,784	11,296,235
Unrestricted	12,228,610	14,644,711
Total net assets	<u>\$ 152,794,134</u>	<u>119,452,059</u>

Assets

Total assets increased \$105.4 million from prior year due to a \$2.4 million increase in current assets, a \$47.4 million increase in capital assets, and a \$55.6 million increase in other noncurrent assets. Total current assets increased \$2.4 million primarily due to an increase in accounts receivable, current, of \$3.6 million and an increase in short-term investments of \$0.1 million. This was offset by a reduction in prepaid expenses and other assets of \$1.3 million. The increase in accounts receivable, current, was primarily due to a \$1.7 million increase in the balance due from the Auxiliary organizations, \$1.5 million increase in net student receivables and a \$0.4 increase in other accounts receivable.

Capital assets, net, increased \$47.4 million primarily due to \$54.7 million of net current year additions, which were partially offset by \$8.1 million in current year depreciation expense. The \$54.7 million in net current year additions is primarily related to \$31.3 million the Housing Phase III project, \$13.3 million for the Student Services Replacement building and \$9.1 million for Design and Implementation of the Energy Management Project. Other noncurrent assets increased \$55.6 million primarily due to a \$24.8 million increase in other long-term investments, representing unspent bond proceeds for the Housing project, and a \$30.3 million increase in accounts receivable, noncurrent, related to the Student Services replacement building.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Management's Discussion and Analysis

June 30, 2008

Liabilities

Total liabilities increased \$72.0 million from prior year due to a \$17.2 million increase in current liabilities and a \$49.0 million increase in long-term debt obligations, net of current portion, and a \$5.8 million increase in other noncurrent liabilities. Total current liabilities increased \$17.2 million primarily due to a \$14.6 million increase in accounts payable primarily associated with the construction work in progress for the Housing and the Student Services projects. There is also a \$1.9 million increase in accrued compensated absences, a \$0.5 million increase in accrued salaries and benefits with a corresponding offset in noncurrent liabilities. In addition, capitalized lease obligations increased by \$0.8 million due to the Energy Management project. These increases were partially offset by a \$0.3 million decrease in deferred revenue.

Total long-term debt obligations, net of current portion, increased \$49.0 million primarily due to the issuance of Systemwide Revenue Bonds Series 2008A in the amount of \$50.2 million related to Housing Phase III. Total other noncurrent liabilities increased \$5.8 million primarily due to a \$1.6 million reduction in noncurrent accrued compensated absences balances. Noncurrent capitalized lease obligations increased by \$7.3 million due to the Energy Management Project.

Net Assets

Total net assets increased \$33.3 million from the prior year. A significant portion, \$102.4 million, of net assets at the end of the year is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt increased \$9.3 from the prior year primarily due to construction work in progress related to the Housing Phase III project. \$37.8 million of net assets at the end of the year is restricted for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which increased \$26.5 million from the prior year as discussed below. \$12.2 million of net assets at the end of the year is unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

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	
	2008	2007
Expendable:		
Scholarships and fellowships	\$ 1,675,058	1,216,793
Loans	485,249	73,307
Capital projects	29,322,079	5,323,059
Debt service	6,279,398	4,624,152
Other	—	58,924
Total restricted net assets – expendable	\$ 37,761,784	11,296,235

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Management's Discussion and Analysis

June 30, 2008

Total restricted net assets – expendable increased \$26.5 million. This is primarily due to a \$24.0 million increase in net assets restricted for capital projects as a result of receiving state capital appropriations for the Student Service Replacement Building. In addition, there was an increase in net assets restricted for debt service of \$1.7 million which represents increased amounts needed to cover upcoming debt service payments. There were also smaller increases in net assets restricted for scholarships and fellowships of \$0.5 million and loans of \$0.4 million.

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2008 and 2007 is as follows:

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

	Year ended June 30	
	2008	2007
Operating revenues:		
Student tuition and fees, net	\$ 54,742,887	47,018,184
Grants and contracts, noncapital	103,919	1,766,612
Sales and services of educational activities	1,850,794	2,527,652
Sales and services of auxiliary enterprises, net	8,201,978	6,387,763
Other operating revenues	721,635	453,956
Total operating revenues	<u>65,621,213</u>	<u>58,154,167</u>
Operating expenses	<u>(185,417,385)</u>	<u>(170,153,495)</u>
Operating loss	<u>(119,796,172)</u>	<u>(111,999,328)</u>
Nonoperating revenues (expenses):		
State appropriations, noncapital	91,350,150	88,872,961
Federal financial aid grants, noncapital	10,579,378	10,255,751
State and local financial aid grants, noncapital	3,096,106	3,398,208
Gifts, noncapital	2,788,159	3,217,647
Investment income, net	1,372,515	2,367,031
Other nonoperating revenues, net	1,404,225	3,320,067
Total nonoperating revenues (expenses)	<u>110,590,533</u>	<u>111,431,665</u>
Loss before other additions	(9,205,639)	(567,663)
State appropriations, capital	42,196,714	4,956,000
Grants and gifts, capital	351,000	5,520,323
Increase in net assets	<u>33,342,075</u>	<u>9,908,660</u>
Beginning net assets	<u>119,452,059</u>	<u>109,543,399</u>
Ending net assets	<u>\$ 152,794,134</u>	<u>119,452,059</u>

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Management's Discussion and Analysis

June 30, 2008

Certain reclassifications have been made to the 2007 condensed financial information to conform to the 2008 financial information presented. The changes were primarily related to the classification of certain financial aid grant revenues from operating revenues to nonoperating revenues. There was no impact on the previously reported changes in net assets or total net assets of the University.

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, certain grants and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises. Expenses include categories such as salaries, benefits, supplies and other services, scholarships and fellowships, and depreciation and amortization. In this discussion and analysis, expenses are reported by functional program such as instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, student grants and scholarships, auxiliary enterprise expenses, and depreciation and amortization.

Operating Revenues

- Total operating revenues increased \$7.5 million primarily due to \$7.7 million increase student tuition and fees and \$1.8 million increase of sales and services of auxiliary enterprises. The increases were partially offset by a \$0.7 million decrease sales and services of educational activities, a \$1.7 million decrease in grants and contracts – noncapital and an approximately \$0.3 million increase in other operating revenues. Student tuition and fees, net, increased \$7.7 million (16.4%) from prior year primarily due to increased full-time equivalent students and a 10% increase in tuition and fees. Grants and contracts, noncapital, decreased \$1.7 million from the prior year primarily due to a decrease in road easement revenues for providing temporary construction access to an adjacent land owner in Concord. Sales and services of auxiliary enterprises, net increased by \$1.8 million from the prior year. Most of this increase came from the \$1.3 million increase in dormitory housing revenue, as a result of a small rate increase and higher occupancy due to 179 new housing units being completed and occupied.

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Management's Discussion and Analysis

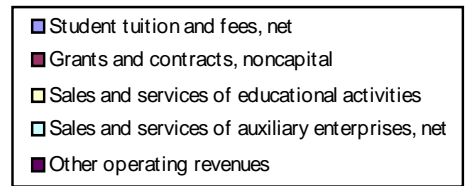
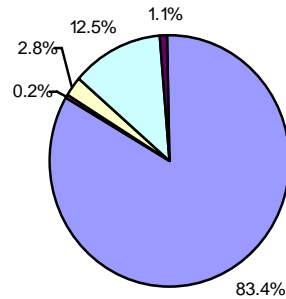
June 30, 2008

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2008 and 2007:

Operating Revenues

Year ended June 30, 2008

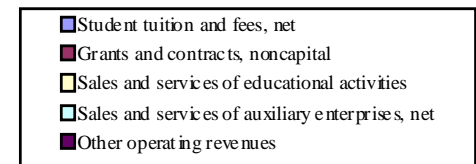
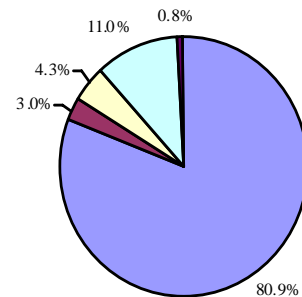
Student tuition and fees, net	\$ 54,742,887	83.4%
Grants and contracts, noncapital	103,919	0.2
Sales and services of educational activities	1,850,794	2.8
Sales and services of auxiliary enterprises, net	8,201,978	12.5
Other operating revenues	<u>721,635</u>	<u>1.1</u>
Total operating revenues	<u>\$ 65,621,213</u>	<u>100.0%</u>



Operating Revenues

Year ended June 30, 2007

Student tuition and fees, net	\$ 47,018,184	80.9%
Grants and contracts, noncapital	1,766,612	3.0
Sales and services of educational activities	2,527,652	4.3
Sales and services of auxiliary enterprises, net	6,387,763	11.0
Other operating revenues	<u>453,956</u>	<u>0.8</u>
Total operating revenues	<u>\$ 58,154,167</u>	<u>100.0%</u>



CALIFORNIA STATE UNIVERSITY, EAST BAY

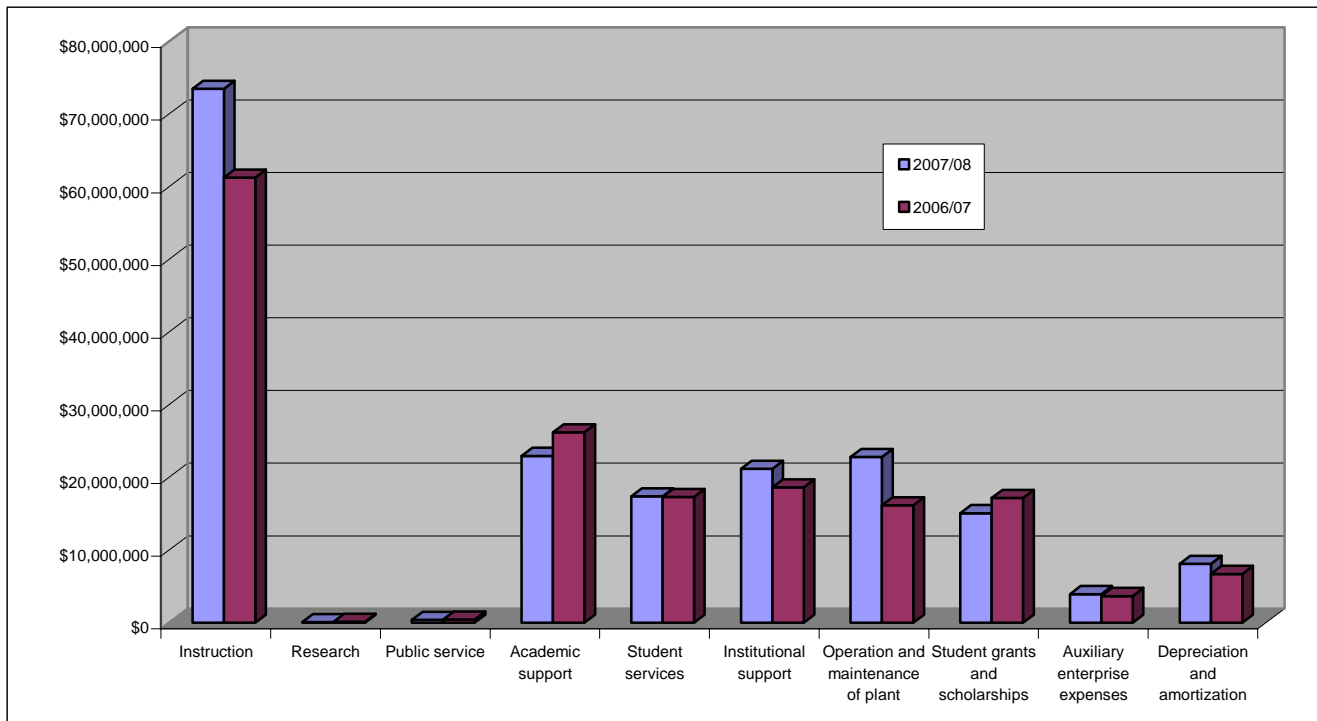
Management's Discussion and Analysis

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Operating Expenses

Total operating expenses increased by \$15.3 million, or 9.0%, primarily due to a \$12.2 million increase in instruction, a \$6.6 million increase in operations and maintenance of plant, a \$1.0 million decrease in institutional support, academic support, a \$1.4 million increase in depreciation, a \$0.3 million increase in auxiliary enterprise expenses, a \$2.3 million decrease in academic support, and a \$2.1 million decrease student grants and scholarships. Salaries and benefits costs, within each of these functions, increased by \$7.9 million primarily due to salary rate increases of 3% to 8%, headcount increase of 3%, and a 10% health benefit increase. Supplies and other services expense, within each of these functions, increased by \$4.5 million due to a \$1.8 million increase in insurance premiums, \$1.1 million increase for noncapital campus improvements and \$0.9 million for master plan expenses. Student grants and scholarships decreased by \$2.1 million due to decrease in the scholarship allowance of \$1.0 million. The other remaining decrease resulted from a decrease in State University grants of \$0.9 million. The increase in depreciation and amortization expense of \$1.4 million relates to an increase in depreciation for the Pioneer Heights II, Valley Business & Technology, and University Union projects that completed in the prior year.

The following chart presents the distribution of resources in support of the University's mission for fiscal years 2008 and 2007:



Nonoperating Revenues (Expenses)

Nonoperating 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, certain financial aid grants,

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Management's Discussion and Analysis

June 30, 2008

grants and gifts, investment income, capital and interest on capital-related debt. Total nonoperating revenues decreased by \$0.8 million and total capital from state appropriations and grants and gifts increased \$32.1 million.

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. General (noncapital) appropriation revenues totaled \$91.4 million, an increase of \$2.5 million from the prior year. There was no change in total noncapital federal, state and local financial aid grants. A decrease in donations from outside parties to the Miscellaneous Scholarship Fund reduced noncapital gifts by \$0.4 million. Net investment income decreased by \$1.0 million due to reductions in interest earned in the LAIF and SMIF accounts, on bonds issued to finance the University Union dorm construction and depository accounts for the Foundation. Other nonoperating revenues (expenses), net, decreased \$1.9 million primarily due to an \$1.3 million increase in interest expense that had previously been capitalized.

Appropriations used for purposes of acquisition of capital assets totaled \$42.2 million for the fiscal year ended June 30, 2008, up from \$5.0 million for the fiscal year ended June 30, 2007. Capital state appropriations in the year included one-time appropriations of \$41.4 for the Student Services Replacement Building project. Grants and gifts, capital, decreased \$5.2 million as the capital gift campaign for the Valley Business Technology building ended.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2008	2007
Land and land improvements	\$ 3,253,785	3,253,785
Works of art and historical treasures	622,578	622,578
Buildings and building improvements	101,909,216	106,318,490
Improvements, other than buildings	4,457,818	5,086,636
Infrastructure	19,745,661	20,076,896
Personal property	3,107,816	3,182,980
Intangible assets	1,605,917	2,367,779
Construction work in progress	57,011,478	3,419,369
Total capital assets, net of accumulated depreciation	<u>\$ 191,714,269</u>	<u>144,328,513</u>

Capital assets increased \$47.4 million primarily due to \$54.7 million of current year net additions, which was partially offset by \$8.1 million in current year depreciation expense. The \$54.7 million in current year net additions is primarily due to the Student Housing, Phase III project and Student Services Replacement Building of \$31.3 million and \$13.3 million, respectively. The project was funded through systemwide revenue bonds.

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Management's Discussion and Analysis

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

Long-Term Debt Obligations

Debt outstanding at June 30, 2008 and 2007 is summarized below by type of debt instrument:

	June 30	
	2008	2007
Systemwide revenue bonds:		
Series 2002A	\$ 570,000	670,000
Series 2005A	40,830,000	41,545,000
Series 2005B	2,440,000	2,655,000
Series 2008A	50,220,000	—
Total	94,060,000	44,870,000
Unamortized bond premium	1,100,411	1,242,132
Unamortized loss on refunding	(101,798)	(115,679)
Total long-term debt	95,058,613	45,996,453
Less current portion	1,065,000	1,030,000
Long-term debt, net of current portion	\$ 93,993,613	44,966,453

During fiscal year 2008, the University issued Systemwide Revenue Bonds Series 2008A in the amount of \$50.2 million. Series 2008A were issued to fund the construction of additional student housing.

Bond Ratings

Moody's Investors Service currently provides intrinsic ratings of Aa3, with a "stable outlook," for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides intrinsic ratings of A+, with a "positive outlook," for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, and Series 2008A, all Systemwide Revenue Bonds are insured. At the time of issuance, all providers of insurance for Systemwide Revenue Bonds were rated Aaa/AAA by Moody's Investors Service and Standard & Poor's Rating Service, respectively. During fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds were downgraded to ratings below Aaa/AAA, which had no impact on any related bond covenants. See notes 8 and 9 to the financial statements for further information on long-term debt obligations. Those bonds that are uninsured bear the same rating as the Systemwide Revenue Bonds, which are Aa3 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service.

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2008/2009. The allocation provided to the University is \$89.8 million, a decrease of \$0.6 million over fiscal year 2007/2008. The decrease is due to a reduction associated with California's statewide budget reductions.

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Due to the State's budget crisis and its difficulty in issuing bonds in the current financial market, the State of California issued a Budget Letter on December 18, 2008, suspending all State-funded capital projects, including General Obligation and Lease Revenue bond projects, and freezing disbursements on these projects beginning December 17, 2008. Capital projects that are financed by non-State sources, such as the Systemwide Revenue Bonds, are not affected by this suspension. Campuses continue to assess the costs of suspending these construction contracts, including any related legal costs or penalties incurred to suspend the projects. These costs, as well as any restart costs, will be paid from a project's contingency allowance, through a reduction in scope and/or augmentation approved by the State Public Works Board, and from other funding sources, where applicable.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Statement of Net Assets

June 30, 2008

Assets	University	Discretely presented component units	Total
		GASB Auxiliary Organizations	
Current assets:			
Cash and cash equivalents	\$ 7,449	1,201,975	1,209,424
Short-term investments	31,188,633	18,982,104	50,170,737
Accounts receivable, net	5,386,861	4,557,072	9,943,933
Pledges receivable, net	—	319,550	319,550
Prepaid expenses and other assets	1,494,953	1,644,395	3,139,348
Total current assets	38,077,896	26,705,096	64,782,992
Noncurrent assets:			
Restricted cash and cash equivalents	—	465,332	465,332
Accounts receivable, net	40,886,476	—	40,886,476
Student loans receivable, net	4,392,742	—	4,392,742
Pledges receivable, net	—	125,458	125,458
Endowment investments	426,826	4,116,093	4,542,919
Other long-term investments	29,664,161	—	29,664,161
Capital assets, net	191,714,269	7,001,871	198,716,140
Total noncurrent assets	267,084,474	11,708,754	278,793,228
Total assets	305,162,370	38,413,850	343,576,220
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	18,023,465	2,324,188	20,347,653
Accrued salaries and benefits payable	8,723,624	471,248	9,194,872
Accrued compensated absences – current portion	3,902,211	161,871	4,064,082
Deferred revenue	4,242,297	1,430,169	5,672,466
Capitalized lease obligations – current portion	1,167,667	—	1,167,667
Long-term debt obligations – current portion	1,065,000	160,000	1,225,000
Other liabilities	1,028,053	454,575	1,482,628
Total current liabilities	38,152,317	5,002,051	43,154,368
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,038,494	—	2,038,494
Grants refundable	4,597,460	—	4,597,460
Capitalized lease obligations, net of current portion	13,274,836	—	13,274,836
Long-term debt obligations, net of current portion	93,993,613	4,400,000	98,393,613
Depository accounts	211,516	7,397,160	7,608,676
Other liabilities	100,000	2,999,649	3,099,649
Total noncurrent liabilities	114,215,919	14,796,809	129,012,728
Total liabilities	152,368,236	19,798,860	172,167,096
Net assets:			
Invested in capital assets, net of related debt	102,376,914	2,441,871	104,818,785
Restricted for:			
Nonexpendable – endowments	426,826	4,116,093	4,542,919
Expendable:			
Scholarships and fellowships	1,675,058	2,809,151	4,484,209
Loans	485,249	—	485,249
Capital projects	29,322,079	292,440	29,614,519
Debt service	6,279,398	—	6,279,398
Other	—	2,324,501	2,324,501
Unrestricted	12,228,610	6,630,934	18,859,544
Total net assets	\$ 152,794,134	18,614,990	171,409,124

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, EAST BAY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2008

	University	Discretely presented component units GASB Auxiliary Organizations	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$8,355,151)	\$ 54,742,887	2,635,809	—	57,378,696
Grants and contracts, noncapital:				
Federal	33,331	6,378,156	—	6,411,487
State	—	3,217,148	—	3,217,148
Local	27,277	—	—	27,277
Nongovernmental	43,311	1,714,397	—	1,757,708
Sales and services of educational activities	1,850,794	—	—	1,850,794
Sales and services of auxiliary enterprises	8,201,978	7,583,557	—	15,785,535
Other operating revenues	721,635	909,796	—	1,631,431
Total operating revenues	65,621,213	22,438,863	—	88,060,076
Expenses:				
Operating expenses:				
Instruction	73,499,765	—	—	73,499,765
Research	93,555	10,166,341	(582,723)	9,677,173
Public service	393,548	—	—	393,548
Academic support	22,961,191	—	—	22,961,191
Student services	17,396,965	—	—	17,396,965
Institutional support	21,175,401	—	—	21,175,401
Operation and maintenance of plant	22,791,063	—	—	22,791,063
Student grants and scholarships	15,078,238	133,853	—	15,212,091
Auxiliary enterprise expenses	3,936,321	10,558,716	(878,653)	13,616,384
Depreciation and amortization	8,091,338	309,031	—	8,400,369
Total operating expenses	185,417,385	21,167,941	(1,461,376)	205,123,950
Operating (loss) income	(119,796,172)	1,270,922	1,461,376	(117,063,874)
Nonoperating revenues (expenses):				
State appropriations, noncapital	91,350,150	—	—	91,350,150
Federal financial aid grants, noncapital	10,579,378	—	(1,110,376)	9,469,002
State and local financial aid grants, noncapital	3,096,106	—	—	3,096,106
Gifts, noncapital	2,788,159	(1,347,636)	—	1,440,523
Investment income, net	1,372,515	(44,228)	—	1,328,287
Endowment income (loss)	1,700	(377,225)	—	(375,525)
Interest expense	(2,138,861)	(270,435)	—	(2,409,296)
Other nonoperating revenues, net	3,541,386	—	—	3,541,386
Net nonoperating revenues (expenses)	110,590,533	(2,039,524)	(1,110,376)	107,440,633
Loss before other additions	(9,205,639)	(768,602)	351,000	(9,623,241)
State appropriations, capital	42,196,714	—	—	42,196,714
Grants and gifts, capital	351,000	—	(351,000)	—
Additions to permanent endowments	—	157,233	—	157,233
Increase (decrease) in net assets	33,342,075	(611,369)	—	32,730,706
Net assets:				
Net assets at beginning of year, as restated	119,452,059	19,226,359	—	138,678,418
Net assets at end of year	\$ 152,794,134	18,614,990	—	171,409,124

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Statement of Cash Flows

Year ended June 30, 2008

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 53,328,996
Federal grants and contracts	33,331
Local grants and contracts	153,974
Nongovernmental grants and contracts	43,311
Payments to suppliers	(34,981,060)
Payments to employees	(122,948,342)
Payments to students	(16,463,315)
Collections of student loans	495,911
Sales and services of auxiliary enterprises	8,118,525
Sales and services of educational activities	214,801
Other receipts	202,154
	<hr/>
Net cash used in operating activities	(111,801,714)
	<hr/>
Cash flows from noncapital financing activities:	
State appropriations	91,351,594
Federal financial aid grants	10,343,628
State and local financial aid grants	2,983,773
Gifts and grants received for other than capital purposes	2,788,159
Federal loan program receipts	1,016,897
Federal loan program disbursements	(1,004,649)
Monies received on behalf of others	78,944
Monies disbursed on behalf of others	(38,484)
Other	3,500,129
	<hr/>
Net cash provided by noncapital financing activities	111,019,991
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	50,132,167
State appropriations	11,403,036
Capital grants and gifts	351,000
Proceeds from sale of capital assets	577
Acquisition of capital assets	(34,471,525)
Interest paid on capital debt and leases	(2,051,028)
Principal payments on capital debt and leases	(1,541,046)
	<hr/>
Net cash provided by capital and related financing activities	23,823,181
	<hr/>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	125,254,373
Purchases of investments	(150,568,239)
Investment income received	2,167,774
	<hr/>
Net cash used in investing activities	(23,146,092)
	<hr/>
Net decrease in cash and cash equivalents	(104,634)
	<hr/>
Cash and cash equivalents at beginning of year	112,083
	<hr/>
Total cash and cash equivalents at end of year	\$ 7,449
	<hr/> <hr/>

CALIFORNIA STATE UNIVERSITY, EAST BAY

Statement of Cash Flows

Year ended June 30, 2008

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (119,796,172)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	8,091,338
Change in assets and liabilities:	
Accounts receivable, net	(3,567,990)
Student loans receivable, net	(33,006)
Prepaid expenses and other assets	1,265,401
Accounts payable	2,608,588
Accrued salaries and benefits	502,649
Accrued compensated absences	309,536
Deferred revenue	(325,900)
Other liabilities	(856,158)
Net cash used in operating activities	<u>\$ (111,801,714)</u>
Supplemental schedule of noncash transactions:	
Acquisition of capital asset through capital lease	\$ 8,619,000
Construction work in progress acquired from the Office of the Chancellor	246,610
Change in accrued capital asset costs (purchased but unpaid at year-end)	11,970,586

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(1) Organization

California State University, East Bay (the University), an agency of the State of California, 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, 2008

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

June 30, 2008	California State University, East Bay Foundation, Inc.	Associated Students Inc. of California State University East Bay*	Cal State East Bay Educational Foundation, Inc.	Total
Current assets	\$ 18,769,529	1,295,910	6,639,657	26,705,096
Capital assets, net	5,930,721	968,483	102,667	7,001,871
Other noncurrent assets	465,332	—	4,241,551	4,706,883
Total assets	25,165,582	2,264,393	10,983,875	38,413,850
Current liabilities	3,559,191	943,234	499,626	5,002,051
Noncurrent liabilities	14,615,909	180,900	—	14,796,809
Total liabilities	18,175,100	1,124,134	499,626	19,798,860
Invested in capital assets, net of related debt	1,370,721	968,483	102,667	2,441,871
Restricted	—	—	9,542,185	9,542,185
Unrestricted	5,619,761	171,776	839,397	6,630,934
Total net assets	\$ 6,990,482	1,140,259	10,484,249	18,614,990
Year ended June 30, 2008				
Operating revenues:				
Student tuition and fees, net	\$ —	2,635,809	—	2,635,809
Grants and contracts, noncapital	11,218,668	91,033	—	11,309,701
Sales and services of auxiliary enterprises, net	6,930,568	652,989	—	7,583,557
Other	847,905	23,102	38,789	909,796
Total operating revenues	18,997,141	3,402,933	38,789	22,438,863
Operating expenses:				
Research	\$ 10,166,341	—	—	10,166,341
Student grants and scholarships	—	71,341	62,512	133,853
Auxiliary enterprise expenses	7,385,226	3,117,983	55,507	10,558,716
Depreciation and amortization	210,038	89,660	9,333	309,031
Total operating expenses	17,761,605	3,278,984	127,352	21,167,941

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

June 30, 2008	California State University, East Bay Foundation, Inc.	Associated Students Inc. of California State University East Bay*	Cal State East Bay Educational Foundation, Inc.	Total
Operating income (loss)	\$ 1,235,536	123,949	(88,563)	1,270,922
Net nonoperating (expenses) revenues	<u>(107,478)</u>	<u>14,302</u>	<u>(1,946,348)</u>	<u>(2,039,524)</u>
Income (loss) before other additions	1,128,058	138,251	(2,034,911)	(768,602)
Additions to permanent endowments	<u>—</u>	<u>—</u>	<u>157,233</u>	<u>157,233</u>
Increase (decrease) in net assets	1,128,058	138,251	(1,877,678)	(611,369)
Beginning net assets, July 1, 2007, as restated (note 2(c))	<u>5,862,424</u>	<u>1,002,008</u>	<u>12,361,927</u>	<u>19,226,359</u>
Ending net assets, June 30, 2008	<u>\$ 6,990,482</u>	<u>1,140,259</u>	<u>10,484,249</u>	<u>18,614,990</u>

* Note: The University Union, Inc. of California State University East Bay was merged into the Associated Students, Inc. of California State University, East Bay during the 2007/2008 academic year and their results are combined in this table.

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 only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University and the financial statements do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008, and the changes in their financial position, and, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(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) Auxiliary Organizations Restatement

The beginning net assets of the auxiliary organizations have been restated due to the correction of an error in the financial statements of the Cal State East Bay Educational Foundation, Inc. for incorrectly reporting an agency account which was not reported as a liability. A summary of the restatement to net assets at July 1, 2007 related to the Cal State East Bay Educational Foundation, Inc. is as follows:

Net assets as of June 30, 2007, as previously reported	\$ 12,870,491
Correct prior year agency account not reported as a liability	<u>(508,564)</u>
Net assets at July 1, 2007, as restated	<u>\$ 12,361,927</u>

(d) Election of Applicable FASB Statements

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

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(e) Classification of Current and Noncurrent Assets (other than Investments) 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. For classification of current and noncurrent investments, refer to note 2(g).

(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. The University considers amounts included in the California State University Investment Pool to be investments. The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

(g) Investments

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

Investments that are restricted for withdrawal or use, for other than current operations, are designated for the acquisition of construction or noncurrent assets, or are segregated for the liquidation of long-term debt are classified within other long-term investments.

(h) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such costs include, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the State of California (the State). 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.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(i) *Deferred Revenue*

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

(j) *Compensated Absences*

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

(k) *Grants Refundable*

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

(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. Moreover, the Office of the Chancellor administers and charges campuses for centralized expenses such as State pro rata and management of capital projects and pooled investments, which are

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

included in operating expenses by function in the accompanying statement of revenues, expenses, and changes in net assets.

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 capital and noncapital appropriations from the State, certain financial aid grants, noncapital, net investment income, gifts, interest expense, and capital contributions.

The State 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) Internal Services Activities

Certain institutional internal service providers offer goods and services to University departments, as well as to their external customers. These include activities such as copy centers, postal services, and telecommunications. All internal service activities to University departments have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

(o) Income Taxes

The System was established under the State of California Education Code as an agency of the State. 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.

(p) New Accounting Pronouncements

On July 1, 2007, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs. The University participates in a postretirement healthcare program sponsored by the State administered by the California Public Employees' Retirement System (CalPERS). The State provides medical and prescription drug (healthcare benefits) to retired statewide employees, including retirees from the University (OPEB Plan). Currently, the majority of the University's retiree premium payments are paid by the State and not reflected within the University's financial statements. The OPEB liability and expense related to GASB Statement No. 45 for the System has been reported in the System's

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

consolidated financial statements. Since breakdown by campus information is not available, the OPEB liability and expense are not reflected within the University's financial statements. See note 10(b) for a description of the OPEB plan.

On July 1, 2007 the University adopted Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets*, which requires additional disclosures related to pledged future revenues. The University has pledged future housing and student union revenues, net of specified operating expenses, to repay system revenue bonds. The bonds are payable solely from housing and student union revenues. See note 8 (b) for further details.

(q) 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.

(r) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2008 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 7,449
Short-term investments	31,188,633
Endowment investments	426,826
Other long-term investments	29,664,161
Total investments	61,279,620
Total cash, cash equivalents and investments	\$ 61,287,069

(a) Cash and Cash Equivalents

As of June 30, 2008, cash and cash equivalents consisted primarily of petty cash.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

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, 2008, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the University's various funds and programs.

Investment Policy

State law and regulations require that surplus monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, high grade corporate and fixed income securities 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 long-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, 2008 is presented in the table in 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, EAST BAY

Notes to Financial Statements

June 30, 2008

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, 2008:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	AA	A	Not rated
Money market	\$ 22,721	—	\$ 22,721	—	—	—
Commercial paper	15,450,371	0.05	—	—	15,450,371	—
Certificates of deposit	13,126,157	0.13	—	—	13,126,157	—
Repurchase agreements	1,446,887	0.50	—	—	1,446,887	—
U.S. agency securities	7,554,769	1.17	6,399,855	—	1,154,914	—
Corporate and fixed income securities	21,054,028	1.68	6,492,528	6,941,478	7,120,521	499,501
State of California Surplus Money Investment Fund	25,729	0.58	—	—	—	25,729
Mortgage-backed securities	<u>2,027,560</u>	11.97	<u>2,027,560</u>	—	—	—
Total	60,708,222		<u>\$ 14,942,664</u>	<u>6,941,478</u>	<u>38,298,850</u>	<u>525,230</u>
Not subject to ratings:						
U.S. Treasury securities	<u>144,572</u>	1.68				
Total investments	<u>\$ 60,852,794</u>					

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, 2008, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank bonds \$4,262,741, (7.0%) and Freddie Mac \$3,574,694, (5.9%).

Risk and Uncertainties

The University may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

The University invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

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

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(4) Accounts Receivable

Accounts receivable at June 30, 2008 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 4,973	35,612,349	35,617,322
Auxiliary organizations	1,965,557	4,970,745	6,936,302
Student accounts	3,041,633	—	3,041,633
Government grants and contracts	559,432	—	559,432
State Controller's office	568,453	—	568,453
Other	456,697	303,382	760,079
	<u>6,596,745</u>	<u>40,886,476</u>	<u>47,483,221</u>
Less allowance for doubtful accounts	<u>(1,209,884)</u>	<u>—</u>	<u>(1,209,884)</u>
Total	<u>\$ 5,386,861</u>	<u>40,886,476</u>	<u>46,273,337</u>

(5) Student Loans Receivable

Student loans receivable, net at June 30, 2008 consisted of the following:

Perkins loans	\$ 4,825,027
Other loans	<u>82,098</u>
Total student loans receivable, gross	4,907,125
Less allowance for doubtful accounts	<u>(514,383)</u>
Total student loans receivable, net	<u>\$ 4,392,742</u>

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(6) Capital Assets

Capital assets activity for the year ended June 30, 2008 consisted of the following:

	<u>Balance, June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2008</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>3,419,369</u>	<u>53,885,513</u>	<u>—</u>	<u>(293,404)</u>	<u>57,011,478</u>
Total nondepreciable capital assets	<u>7,295,732</u>	<u>53,885,513</u>	<u>—</u>	<u>(293,404)</u>	<u>60,887,841</u>
Depreciable capital assets:					
Buildings and building improvements	203,419,142	288,687	—	—	203,707,829
Improvements, other than buildings	17,439,120	236,930	—	—	17,676,050
Infrastructure	26,061,774	—	—	293,404	26,355,178
Personal property:					
Equipment	16,491,013	523,563	(754,841)	—	16,259,735
Library books and materials	14,256,961	281,451	(15,185)	—	14,523,227
Intangible assets	<u>2,953,821</u>	<u>274,300</u>	<u>—</u>	<u>—</u>	<u>3,228,121</u>
Total depreciable capital assets	<u>280,621,831</u>	<u>1,604,931</u>	<u>(770,026)</u>	<u>293,404</u>	<u>281,750,140</u>
Total cost	<u>287,917,563</u>	<u>55,490,444</u>	<u>(770,026)</u>	<u>—</u>	<u>342,637,981</u>
Less accumulated depreciation:					
Buildings and building improvements	(97,100,652)	(4,697,961)	—	—	(101,798,613)
Improvements, other than buildings	(12,352,484)	(865,748)	—	—	(13,218,232)
Infrastructure	(5,984,878)	(624,639)	—	—	(6,609,517)
Personal property:					
Equipment	(15,390,571)	(462,511)	741,491	—	(15,111,591)
Library books and materials	(12,174,423)	(404,317)	15,185	—	(12,563,555)
Intangible assets	<u>(586,042)</u>	<u>(1,036,162)</u>	<u>—</u>	<u>—</u>	<u>(1,622,204)</u>
Total accumulated depreciation	<u>(143,589,050)</u>	<u>(8,091,338)</u>	<u>756,676</u>	<u>—</u>	<u>(150,923,712)</u>
Net capital assets	\$ <u>144,328,513</u>	<u>47,399,106</u>	<u>(13,350)</u>	<u>—</u>	<u>191,714,269</u>

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

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(7) Lease Obligations

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a present value of \$14,442,503 at June 30, 2008. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.24% - 4.8074% and have terms expiring in various years through 2021.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2011. 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:		
2009	\$ 1,765,719	547,118
2010	1,781,317	540,465
2011	1,783,990	432,093
2012	1,786,989	—
2013	1,788,729	—
2014 – 2018	6,684,584	—
2019 – 2023	2,733,158	—
Total minimum lease payments	<u>18,324,486</u>	\$ <u>1,519,676</u>
Less amount representing interest	<u>(3,881,983)</u>	
Present value of future minimum lease payments	14,442,503	
Less current portion	<u>(1,167,667)</u>	
Capital lease obligations, net of current portion	\$ <u>13,274,836</u>	

Rent expense under operating leases for the year ended June 30, 2008 totaled \$1,827,979.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State 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, 2008 totaled \$536,727,000.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

June 30, 2008

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State 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 General Obligation Bonds is not allocated to the System by the State. 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 \$1,494,093,000 as of June 30, 2008.

(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.

CALIFORNIA STATE UNIVERSITY, EAST BAY

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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 (SRB) 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 revenue producing projects.

The University participates in the SRB program and its allocated share of outstanding SRB debt as of June 30, 2008 is \$94,060,000, which has been used to finance certain projects.

The System has pledged future continuing education, health care facilities, housing, parking and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$2,804,033,000 in Systemwide Revenue Bonds issued through fiscal year 2008. The bonds are payable solely from continuing education, health care facilities, housing, parking, student union and designated auxiliary net income available for debt service and are payable through fiscal year 2044/2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$4,939,829,000. In fiscal year 2008, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$148,395,000 and \$213,695,000, respectively.

CALIFORNIA STATE UNIVERSITY, EAST BAY

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Long-term debt obligations of the University as of June 30, 2008 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 at June 30</u>
Systemwide revenue bonds:				
Housing Series 2005A	2.75% – 5%	2035/36	\$ 30,015,000	29,495,000
Housing Series 2005B	5	2015/16	3,060,000	2,440,000
Housing Series 2008A	3.5 – 5	2038/39	50,220,000	50,220,000
Student Union Series 2002A	4 – 5	2012/13	1,065,000	570,000
Student Union Series 2005A	2.75 – 5	2035/36	11,720,000	<u>11,335,000</u>
Total				94,060,000
Unamortized bond premium				1,100,411
Unamortized loss on refunding				<u>(101,798)</u>
Total long-term debt				95,058,613
Less current portion				<u>(1,065,000)</u>
Long-term debt, net of current portion				<u>\$ 93,993,613</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 1,065,000	4,682,878	5,747,878
2010	1,900,000	4,488,819	6,388,819
2011	1,990,000	4,414,184	6,404,184
2012	2,070,000	4,333,143	6,403,143
2013	2,160,000	4,247,382	6,407,382
2014 – 2018	11,045,000	19,684,525	30,729,525
2019 – 2023	12,655,000	16,901,875	29,556,875
2024 – 2028	16,210,000	13,344,750	29,554,750
2029 – 2033	20,800,000	8,744,750	29,544,750
2034 – 2038	21,035,000	3,115,625	24,150,625
2039 – 2043	3,130,000	78,250	3,208,250
	<u>\$ 94,060,000</u>	<u>84,036,181</u>	<u>178,096,181</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, refer to the separately issued auxiliary organizations' reports.

CALIFORNIA STATE UNIVERSITY, EAST BAY

Notes to Financial Statements

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(9) Long-Term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2008 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 5,631,169	4,168,211	(3,858,675)	5,940,705	3,902,211
Capitalized lease obligations (note 7)	6,334,549	8,619,000	(511,046)	14,442,503	1,167,667
Long-term debt obligations (note 8):					
Systemwide revenue bonds	44,870,000	50,220,000	(1,030,000)	94,060,000	1,065,000
Unamortized bond premium	1,242,132	(87,833)	(53,888)	1,100,411	—
Unamortized loss on refunding	(115,679)	—	13,881	(101,798)	—
Total long-term debt obligations	<u>45,996,453</u>	<u>50,132,167</u>	<u>(1,070,007)</u>	<u>95,058,613</u>	<u>1,065,000</u>
Total long-term liabilities	\$ <u>57,962,171</u>	<u>62,919,378</u>	<u>(5,439,728)</u>	<u>115,441,821</u>	<u>6,134,878</u>

(10) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

The University, as an agency of the State, contributes to CalPERS. The State's plan with CalPERS is an agent multiple-employer defined benefit retirement plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan which provides a defined benefit pension and postretirement program for substantially all eligible University employees.

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

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

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report

CALIFORNIA STATE UNIVERSITY, EAST BAY

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may be obtained from the California Public Employees' Retirement System Executive Office – 400 P Street – Sacramento, California 95814.

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 16.67% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University 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:

2006	\$	11,277,231
2007		12,783,887
2008		13,653,146

(b) Postretirement Healthcare Plan

The GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, relating to Other Postemployment Benefits (OPEB) which is effective July 1, 2007. Under this Statement, public employers sponsoring and subsidizing retiree healthcare benefit programs are required to recognize the cost of such benefits on an accrual basis.

Plan Description

The State provides retiree healthcare benefits to statewide employees, including University employees, through the programs administered by the CalPERS. The State's substantive plan represents a single-employer defined benefit OPEB plan which includes medical and prescription drug benefits (collectively healthcare benefits) to the retired University employees. The System provides dental benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with five years of service credit.

For healthcare benefits, CalPERS offers Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), and Exclusive Provider Organizations (EPOs) (limited to members in certain California counties); for dental benefits, a Dental Maintenance Organization (DMO) and dental indemnity plans to the University's retirees. Health plans offered, covered benefits, monthly rates, and copayments are determined by the CalPERS Board, which reviews health plan contracts annually.

CALIFORNIA STATE UNIVERSITY, EAST BAY

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The contribution requirements of retirees and the State are established and may be amended by the State legislature. For healthcare benefits, the State makes a contribution towards the retiree's monthly health premiums, with the retirees covering the difference between the State's contribution and the actual healthcare premium amount. The State contribution is normally established through collective bargaining agreements. No retiree contribution is required for dental benefits.

Funding Policy, Funded Status, and Funding Progress

For healthcare benefits, responsibility for funding the cost of the employer share of premiums is apportioned between the State and the System based on "billable" and "nonbillable" accounts. Billable accounts have special revenue sources such as fees, licenses, penalties, assessments, interest, which offset the costs incurred by a State department during the year. The System reimburses the State for retiree's health benefit costs allocated to billable accounts but not for costs allocated to nonbillable accounts. The System is responsible for funding the costs of the billable accounts on a pay-as-you-go basis as part of the statewide general administrative costs charged to the System. The University then reimburses the System for its share of healthcare premiums for all billable funds based on annual retirement expenses.

The State is responsible for funding the cost of the employer share of healthcare premiums of retirees for all nonbillable accounts.

The System is responsible for funding the cost of dental benefits for all University retirees. The System makes payments directly to Delta Dental for the retiree's monthly dental premiums. The System is funding these benefits on a pay-as-you-go basis. The University does not pay the System for its share of dental premiums.

Annual OPEB Cost and Net OPEB Obligation

In fiscal year 2008, total annual OPEB cost (ARC) and net OPEB obligation (NOO) for the System were \$51.2 million and \$29.1 million, respectively, which include the OPEB for the billable accounts and the dental benefit only for the nonbillable accounts. The accrued OPEB liability and expense for the System were not broken down by campus and therefore were not allocated to the University. Refer to the issued System's consolidated financial report for fiscal year ended 2008 for more details.

Actuarial Methods and Assumptions and Plan Funding Information

As an agency of the State, the University was included in the State's OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controller's Office and allocated to the System. The dental portion of the ARC for the nonbillable accounts was estimated based on the percent of dental contributions compared to the total contributions. Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended 2008.

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(11) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2008.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2008 are as follows:

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
Incurred claims and changes in estimates	28,487,000
Claim payments	<u>(32,682,000)</u>
Liability at June 30, 2008	103,997,000
Less current portion	<u>(25,480,000)</u>
Long-term liability at June 30, 2008, net of current portion	<u><u>\$ 78,517,000</u></u>

For the year ended June 30, 2008, the CSURMA purchased a program of excess insurance to protect the members from catastrophic losses. The CSURMA maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchases excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of \$2,500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

Prior to July 1, 2004, the Authority maintained excess workers' compensation insurance coverage provided by SELF. The Authority remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. For the year ended June 30, 2008 and 2007, this assessment totaled \$19,834,000 and \$17,509,000, respectively.

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 the System's total self-insurance claims liability as of June 30, 2008 was approximately 3%, or \$2,587,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims

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Notes to Financial Statements

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relating to events that have occurred on or before June 30, 2008. 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.

(12) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2008 totaled \$36,404,913. These expenditures will be funded primarily from State appropriations and Systemwide Revenue Bonds.

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

(13) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2008, operating expenses by natural classification consisted of the following:

<u>2008</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 48,650,365	15,449,859	—	9,399,541	—	73,499,765
Research	—	—	—	93,555	—	93,555
Public service	80,538	7,752	—	305,258	—	393,548
Academic support	12,516,807	4,086,918	—	6,357,466	—	22,961,191
Student services	10,588,136	3,828,392	—	2,980,437	—	17,396,965
Institutional support	12,038,914	4,964,608	—	4,171,879	—	21,175,401
Operation and maintenance of plant	7,241,500	3,346,244	—	12,203,319	—	22,791,063
Student grants and scholarships	—	—	15,078,238	—	—	15,078,238
Auxiliary enterprise expenses	667,720	302,656	—	2,965,945	—	3,936,321
Depreciation and amortization	—	—	—	—	8,091,338	8,091,338
Total	\$ <u>91,783,980</u>	<u>31,986,429</u>	<u>15,078,238</u>	<u>38,477,400</u>	<u>8,091,338</u>	<u>185,417,385</u>

As discussed in note 2(n), the internal services activities between the University departments and the sales and service units have been eliminated in the accompanying financial statements. As a result, salaries and benefits of those internal services activities and sales and service units are reported as supplies and other services in the University departments, which received the services.

CALIFORNIA STATE UNIVERSITY, EAST BAY

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(14) Transactions with Related Entities

The System is an agency of the State and receives more than half of its total revenues through State appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed 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 \$133,546,864 for the year ended June 30, 2008. State appropriations receivable aggregated \$35,617,322 at June 30, 2008. The University also received lottery fund distributions from the State in the amount of \$1,419,595 for the year ended June 30, 2008, which is included in other nonoperating revenues (expense) in the accompanying statement of revenues, expenses, and changes in net assets.

Moreover, the State recovers statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from the University. Central service agencies (e.g., Department of Finance, Office of the State Controller, State Personnel Board, and Legislature) provide budgeting, accounting, auditing, payroll, and other services to all state agencies. The State's pro rata process apportions the costs of providing central administrative services to all state departments that benefit from the services. This apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund. The amount allocated to each fund is classified as "billable" accounts or "nonbillable" accounts. Billable accounts (1) have special revenue sources such as fees, licenses, penalties, assessments, interest, etc. and (2) support a state department.

The State's indirect costs associated with the billable funds are allocated to the individual universities through the Office of the Chancellor of the System. As headquarters for the System, the Office of the Chancellor administers not only the State pro rata charges, but also management of capital projects, and pooled investments centrally for the individual campuses and charges the campuses administrative or overhead fees. These fees are included in the various functional categories of operating expenses in the accompanying statement of revenues, expenses, and changes in net assets. Other activities such as debt administration and risk pool administration associated with the operations of the Office of the Chancellor are not allocated to the individual universities' financial statements.

As discussed in notes 7 and 8, 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.

CALIFORNIA STATE UNIVERSITY, EAST BAY

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The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2008:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 2,491,798
Payments to recognized auxiliary organizations for services, office space rental, and programs	661,827
Gifts-in-kind to the University from recognized auxiliary organizations	351,000
Payments to the Office of the Chancellor for State pro rata charges	260,687
Amounts receivable from the Office of the Chancellor	321,151
Amounts receivable from recognized auxiliary organizations	6,936,302
Amounts payable to recognized auxiliary organizations	(129,174)
State lottery appropriations received	1,419,595

(15) Subsequent Events

Due to the State's budget crisis and its difficulty in issuing bonds in the current financial market, the State of California issued a Budget Letter on December 18, 2008, suspending all State-funded capital projects, including General Obligation and Lease Revenue bond projects, and freezing disbursements on these projects beginning December 17, 2008. Capital projects that are financed by non-State sources, such as the Systemwide Revenue Bonds, are not affected by this suspension. Campuses continue to assess the costs of suspending these construction contracts, including any related legal costs or penalties incurred to suspend the projects. These costs, as well as any restart costs, will be paid from a project's contingency allowance, through a reduction in scope and/or augmentation approved by the State Public Works Board, and from other funding sources, where applicable.

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 99.96% in the California State University's Investment Pool and 0.04% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets.

Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.