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SAN FRANCISCO STATE UNIVERSITY

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

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SAN FRANCISCO STATE UNIVERSITY

Table of Contents

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Independent Auditors' Report

Dr. Robert A. Corrigan
President
San Francisco State University:

We have audited the accompanying financial statements of San Francisco State University (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely on the reports of the other auditors.

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

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

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

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

Management's Discussion and Analysis on pages 3 through 13 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.

January __, 2008

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

Introduction to the Financial Statements

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

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

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

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

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

Analytical Overview

Summary

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

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

Condensed Summary of Net Assets

		June 30	
		2007	**2006**
Assets:			
Current assets	$	117,081,522	104,528,114
Capital assets		476,791,961	399,488,398
Other noncurrent assets		28,881,054	32,822,390
Total assets		622,754,537	536,838,902
Liabilities:			
Current liabilities		75,263,780	60,486,984
Long-term debt obligations, net of current portion		263,988,317	188,142,893
Other noncurrent liabilities		21,845,901	20,698,373
Total liabilities		361,097,998	269,328,250
Net assets:			
Invested in capital assets, net of related debt		210,976,937	212,818,682
Restricted, expendable		9,240,809	15,408,247
Unrestricted		41,438,793	39,283,723
Total net assets	$	261,656,539	267,510,652

Assets

Total assets increased by $85.9 million from prior year due to increases of $12.6 million in current assets and $77.3 million in capital assets, which was partially offset by a $3.9 million decrease in other noncurrent assets. Total current assets increased $12.6 million primarily due to an increase in total cash and short-term investments of $14.2 million. Effective July 1, 2006, Senate Bill 1802 was passed which allowed the University to invest student fees as soon as they are collected and deposited in local banks (known as the Revenue Management Program or RMP). The $23.0 million decrease in cash contributed to the $37.3 million increase in short-term investments. In addition, $6.2 million of investment income was reinvested in the current year. Capital assets increased $77.3 million primarily due to $98.9 million of additions related to the acquisition of two housing units from The University Corporation (Centennial Village and University Park South for a purchase price of $80.4 million), purchases of equipment ($4.7 million) and $11.3 million increase in construction work in progress related primarily to Romberg Tiburon Center, Building 36, Downtown Center, Administration first and second floor tenant improvement, Telecommunication Infrastructure, HVAC and University Park North projects. This increase was partially offset by current year depreciation expense of $20.4 million and the retirement of capital assets primarily equipment with a net book value of $1.2 million ($17.8 million cost net of $16.6 million accumulated depreciation), which resulted in a $1.2 million loss recorded in the current year within other nonoperating expenses. Other noncurrent assets decreased $3.9 million primarily due to a $4.2 million decrease in state appropriations receivable, noncurrent, as a result of $6.1 million of fiscal year 2004 appropriations for capital projects reverted to the State of California in the current year offset by $1.9 million unspent capital projects funds appropriated in the current year ($4.3 million new appropriation less $2.4 million capital spending).

Liabilities

Total liabilities increased $91.8 million from prior year due to a $14.8 million increase in current liabilities and a $75.8 million increase in long-term debt obligations and a $1.1 million increase in other noncurrent liabilities. Current liabilities primarily increased due to a 1) $3.7 million increase in accounts payable, 2) $2.0 million increase in accrued salaries and benefits payable, 3) $0.9 million increase in accrued compensated absences, current portion, 4) $4.8 million increase in deferred revenue, 5) $1.5 million increase in current portion of long-term debt, and 6) $2.0 million increase in other current liabilities. Accounts payable increased $3.7 million due to the reclassification of outstanding checks ($3.4 million) from cash to accounts payable. Accrued salaries and benefits payable increased $2.0 million or 11.1% which is in line with the 11% increase in salary and benefits expenses. Accrued compensated absences, current, increased $0.9 million or 12% which is also in line with the 11% increase in salary and benefit expenses. Deferred revenue increased $4.8 million due to higher advanced collection ($3.3 million) because of a 10% fee increase for Fall 2007 and changing the priority registration date to an earlier date. The $1.5 million increase in long-term debt obligations, current portion, was due to the new Systemwide Revenue Bonds (SRB) Series 2007D of $.7 million and a higher principal payment of $.8 million for SRB Series 2005A due in the following year. Other current liabilities increased $2.0 million primarily due to a $600,000 maintenance reserve and $230,000 of security deposits, acquired as part of the acquisition of the two housing units from the University Corporation in the current year, and $607,000 of accrued interest related to the SRB Series 2007D issued in the current year.

Long-term debt obligations, net of current portion, increased $75.8 million as a result of the issuance of Systemwide Revenue Bonds Series 2007D bonds in the amount of $80.4 million which was partially offset by current year principal payments ($2.8 million). Total capitalized lease obligations increased $1.2 million due to a new $2.0 million capital lease in the current year for the Downtown Center renovation which was partially offset by current year principal payments of $ 0.9 million.

Other noncurrent liabilities increased $1.1 million from prior year due to a $0.7 million increase in accrued compensated absences, net of current portion, a $.2 million decrease in grants refundable, and a $.4 million decrease in other noncurrent liabilities, which was partially offset by a $.4 million increase in depository accounts.

Net Assets

The $2.2 million increase in unrestricted net assets was primarily due to $4.1 million higher investment income due to implementation of RMP in the current year.

Restricted Resources

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

Restricted Net Assets

		June 30	
		2007	**2006**
Nonexpendable- endowment funds	$	2,601,183	2,601,184
Expendable:			
Scholarships and fellowships		1,491,421	1,340,981
Loans		481,983	582,349
Capital projects		4,666,222	10,883,733
Total restricted net assets – expendable	$	9,240,809	15,408,247

The $6.2 million decrease in net assets restricted for capital projects was primarily due to a $6.1 million appropriation from fiscal year 2004 that was reverted to the State of California in current year.

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

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

	Year ended June 30	
	2007	**2006**
Operating revenues:		
Student tuition and fees, net	$ 97,190,671	97,382,080
Grants and contracts, noncapital	90,122,239	88,318,987
Sales and services of educational activities	4,904,922	4,750,080
Sales and services of auxiliary enterprises, net	29,079,484	26,273,849
Other operating revenues	3,127,443	3,457,634
Total operating revenue	224,424,759	220,182,630
Operating expenses	392,476,541	363,489,713
Operating loss	(168,051,782)	(143,307,083)
Nonoperating revenues (expenses):		
State appropriations	161,677,962	145,240,204
Investment income	6,007,836	2,047,965
Other nonoperating revenues (expenses)	(5,056,538)	(5,707,422)
Total nonoperating revenues (expenses)	162,629,260	141,580,747
Income (loss) before other additions	(5,422,522)	(1,726,336)
State appropriations, capital	4,345,000	2,423,981
State appropriations, capital reverted	(6,134,782)	—
Grants and gifts, capital	1,358,191	15,000
Increase (decrease) in net assets	(5,854,113)	712,645
Beginning net assets	267,510,652	266,798,007
Ending net assets	$ 261,656,539	267,510,652

Operating Revenues and Expenses

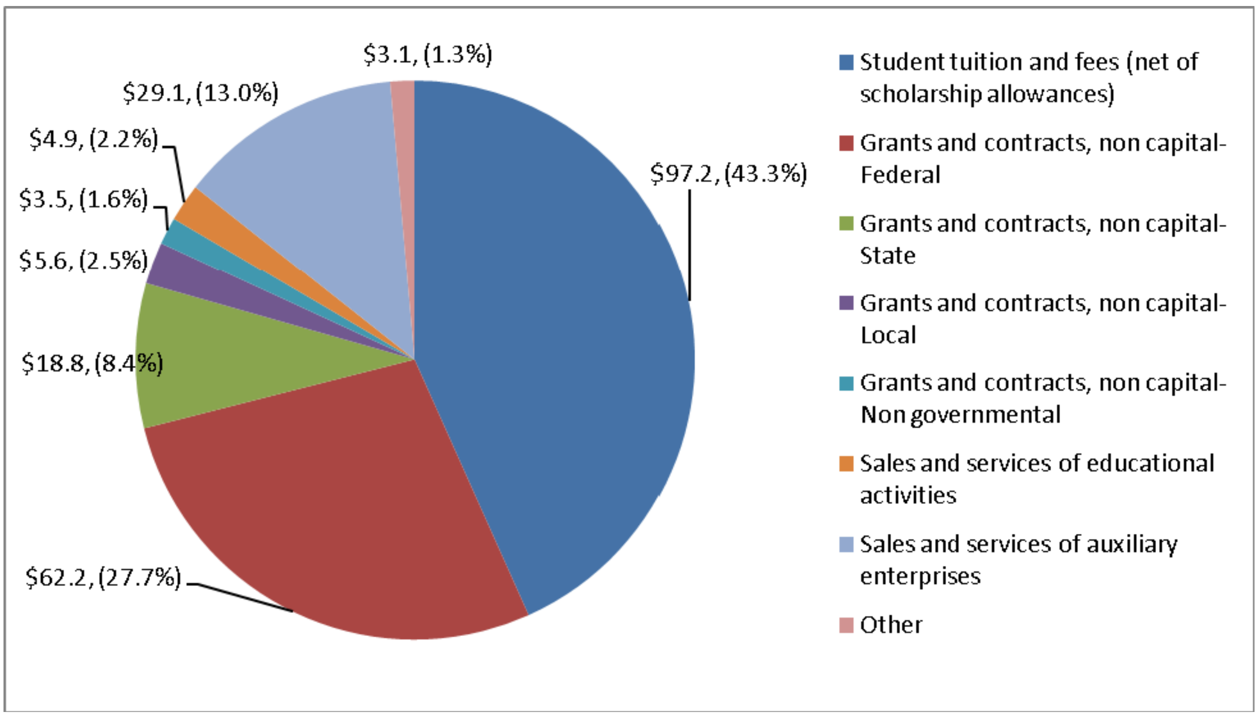
Operating revenues and expenses come from sources that are connected directly to the University's primary business function. This includes revenues from categories such as tuition and fees, grants, and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises.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

Operating Revenues

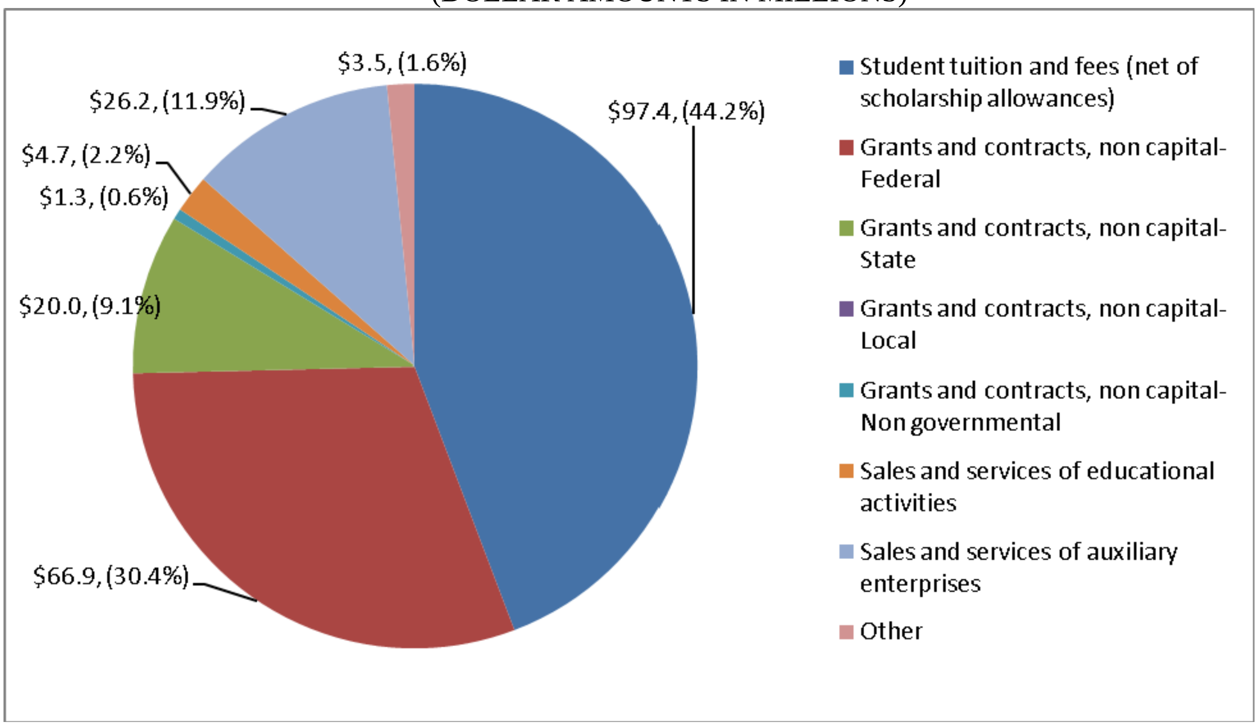
The University recognized $224.7 million in operating revenues during this fiscal year, as compared to $220.2 million in the prior year. This comprised 57.2% of total revenues for the year ended June 30, 2007, compared to 60.9% of total revenues for the year ended June 30, 2006. Total operating revenues increased $4.2 million primarily due to a $1.8 million increase in grants and contracts, noncapital and a $2.8 million increase in sales and services of auxiliary enterprise net. As the State University fee did not change from the prior year, tuition and fees remained consistent. Grants and contracts, noncapital increased $1.8 million due to increases of $4.4 million in state and local grants and contracts and $2.2 million in nongovernmental grants and contracts which was partially offset by a $4.7 million decrease in federal grants and contracts revenue. State and local grants and contracts increased $4.4 million due to higher Cal Grants ($1.5 million) and higher grants for sponsored programs ($3.0 million). Specifically, Early Care and Education grant increased by $1.2 million and Coastal Ocean Currents Monitoring Program increased by $1.7 million. Nongovernmental grants and contracts increased $2.2 million primarily due to the following programs: Satellite Nursing Program ($.5 million), Dual Language Teacher Ed Program ($.3 million), Leadership consortium FY 0607 ($.2 million), and Family Acceptance Project Phase II ($.4 million) . Federal grants and contracts decreased $4.7 million primarily due to the Minority Biomedical Research Support project ($2.4 million) which ended in prior year and the San Francisco Bay Nerr Construction project ($1.2 million) which ended in the current year. Sales and services of auxiliary enterprises, net increased by $2.8 million primarily due to higher housing rental income of $2.2 million, mainly from two months of rental income in the current year from the acquisition of the two housing units in April 2007.

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

OPERATING REVENUES 2007
(DOLLAR AMOUNTS IN MILLIONS)



OPERATING REVENUES 2006
(DOLLAR AMOUNTS IN MILLIONS)

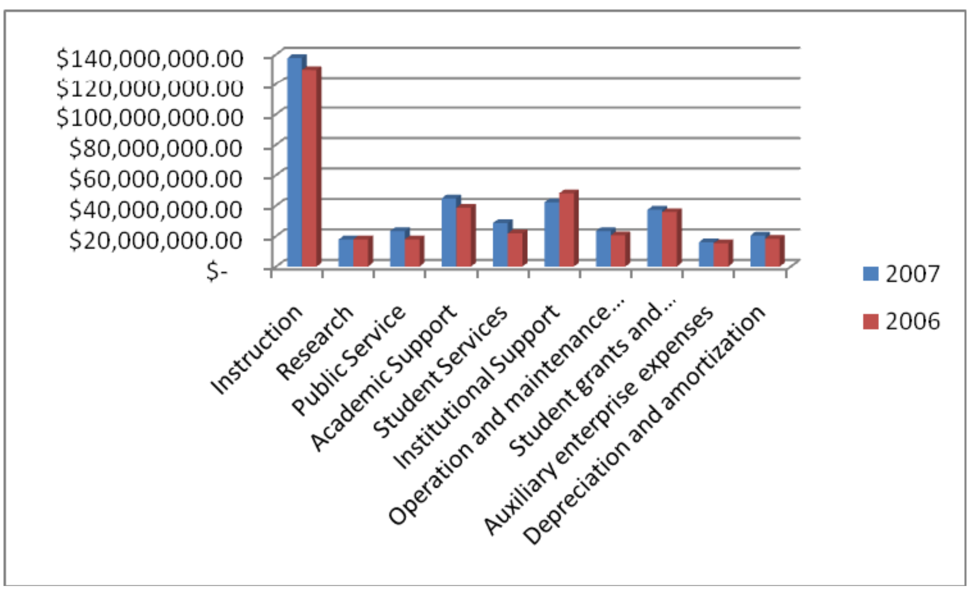


Operating Expenses

The University's operating expenses consist of salaries and fringe benefits of $261.0 million, supplies and services of $73.9 million, scholarships and fellowships of $37.2 million, and depreciation of $20.4 million. Salaries and benefits costs increased by $26.2 million or 11% primarily due to a 4.3% salary rate increase, 5% headcount increase and 9.4% health and retirement benefit increase, excluding contributions to California Employees' Retirement System (CalPERS). The University contribution to (CalPERS) increased by $3.8 million, or 16.6%. Supplies and services expenses remained flat with a small cut of $0.8 million to help fund the higher payroll costs. Student grants and scholarships increased by $1.5 million primarily due to higher Calgrants awarded to students. While the percentage of students receiving financial aid increased 17%, enrollment only increased by 584 students or 2.1%. The increase in depreciation expense of $2.0 million relates to current year capital asset additions, primarily due to two months of depreciation of the two housing units acquired in April 2007 for a purchase price of $80.4 million.

Total operating expenses, excluding depreciation, increased by $26.9 million, or 8%, primarily due to a $7.8 million increase in instruction, a $5.4 million increase in public service, a $6.1 million in academic support, a $4.5 million in student services, a 2.8 million in operation and maintenance of plant, a $1.5 million increase in student grants, a $3.0 million increase in auxiliary enterprise expense and scholarships, which was partially offset by a $4.3 million decrease in institutional support. The increase in instruction is primarily due to higher salaries and benefit costs ($10.5 million or 9%) partially offset by a $2.6 million cut in supplies and services costs to help fund the higher payroll costs. The increase in public service is due to $6.9 million increase in supplies and services offset by $1.5 million decrease in salaries and benefits caused by the change of project mix in sponsored programs. The increases in academic support and student services are due to higher salaries and benefit costs and supplies and services costs. The increase in operation and maintenance of plant is due to higher utility costs, deferred maintenance, and higher salary and benefit expenses. The increase in auxiliary enterprise is due to higher salaries and benefits costs and higher supplies and service costs in order to manage the Centennial Village and UPS housing units starting in the current year. The decrease in institutional support is attributable to $9.9 million decrease in supplies and service costs partially offset by $5.6 million or 22% increase in salary and benefits costs. The decrease in supplies and services costs is primarily due to spending cut in order to fund the higher payroll costs. In addition, there were professional and legal fees incurred in prior year but no similar fees were incurred in current year: 1) National Science Foundation audit ($1.4 million); 2) consulting fees for assistance in establishing policies and procedures for the sponsored program area ($1.0 million) and 3) professional services for the physical master plan ($0.7 million).

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



Nonoperating and Other Revenues (Expenses)

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

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled $4.3 million for the fiscal year ended June 30, 2007 which was offset by a $6.1 million fiscal year 2004 appropriation reverted to the State of California. There was a $3.2 million increase of appropriation for two phases of heating,ventilation, air conditioning (HVAC) projects, $1.6 million for each phase in current year, while there were only appropriations for one phase in prior year. General (noncapital) appropriation revenues totaled $161.7 million, an increase of $16.4 million from the prior year. The increase of $3.9 million in investment income was due to implementation of RMP in the current year. Grants and contracts, capital increased $1.3 million due to land parcel gift in the current year for the Romberg Tiburon Center. The $.6 million increase in other nonoperating expenses is primarily due to a $1.2 million loss on retirement of capital assets (primarily equipment) in the current year offset by a donation from the Keck and Genesis Foundation ($.65 million) and Marin Community ($.2 million).

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2007	**2006**
Land and land improvements	$ 43,630,119	42,329,138
Works of art and historical treasures	4,411,522	4,421,022
Buildings and building improvements	387,484,344	315,742,123
Improvements, other than buildings	242,369	278,175
Infrastructure	5,517,743	5,691,794
Personal property	14,406,528	14,729,365
Leasehold improvements	3,847,310	—
Intangible assets	1,137,910	50,183
Construction work in progress	16,114,116	16,246,598
Total capital assets, net of accumulated depreciation	$ 476,791,961	399,488,398

At June 30, 2007 and 2006, the University had $476.8 million and $399.5 million, respectively, in capital assets, net of accumulated depreciation of $280.0 million and $276.2 million, respectively. Depreciation expense totaled $20.4 million and $18.3 million for the years ended June 30, 2007 and 2006, respectively. The $77.3 million increase in capital assets is due to $98.9 million of additions related to the acquisition of two housing units from The University Corporation (Centennial Village and University Park South for a purchase price of $80.4 million), purchases of equipment ($4.7 million) and $11.3 million increase in construction work in progress related primarily to Romberg Tiburon Center Building 36, Downtown Center, Administration, first and second floor tenant improvement, Telecommunication Infrastructure, HVAC and University Park North projects. This increase was partially offset by current year depreciation expense of $20.4 million and the retirement of capital assets(primarily equipment) with a net book value of $1.2 million ($17.8 million cost net of $16.6 million accumulated depreciation), which resulted in a $1.2 million loss recorded in the current year within other nonoperating expenses.

Major capital projects completed during fiscal year 2007 are as follows: Romberg Tiburon Center, Building 36 Renovation ($4.4 million), Administration, first and second floor tenant improvement project ($2.1 million), the Minor Capital Outlay Lighting Incentive ($0.3 million) and leasehold improvements for the Downtown Center.

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, 2007 and 2006 is summarized below by type of debt instrument:

	June 30, 2007	June 30, 2006
Student Union Revenue Bonds	$ 10,435,000	10,850,000
Systemwide Revenue Bonds	254,637,937	176,722,339
Total	265,072,937	187,572,339
Unamortized bond premium (discount)	4,075,856	4,245,694
Unamortized loss on refunding	(762,539)	(815,738)
Total long-term debt	268,386,254	191,002,295
Less current portion	(4,397,937)	(2,859,402)
Long-term debt obligation, net of current portion	$ 263,988,317	188,142,893

The interest rates on outstanding debt range from 2.75% to 5.25%.

At June 30, 2007 and 2006, the University had $270.1 million and $191.5 million, respectively, in debt outstanding. The University issued Systemwide Revenue Bond Series 2007D in the amount of $80.4 million for the acquisition of two housing units during fiscal year from the University Corporation: (Centennial Village and University Park South).

Bond Ratings

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

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

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2007/2008. The allocation provided to the University is $171.4 million, an increase of $ 9.7 million over fiscal year 2006/2007. The increase is budgeted to be used primarily to fund employee compensation and a 2.5% resident student enrollment growth.

(1) Organization

San Francisco State University (the University) was established as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As one of 23 campuses in the California State University System (the System), the University is included in the financial statements of the System. Responsibility for the University is vested in the Trustees of the System (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the System, and the president and 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:

- The University Corporation, San Francisco State (The University Corporation)
- San Francisco State University Student Center (Student Center)
- Associated Students of San Francisco State University (Associated Students)
- Franciscan Shops (Operating as SFSU Bookstore)

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

June 30, 2007		The University Corporation	Other auxiliary organizations	Total
Current assets	$	29,337,726	16,429,864	45,767,590
Capital assets, net		2,968,532	5,611,402	8,579,934
Other noncurrent assets		24,031,966	757,196	24,789,162
Total assets		56,338,224	22,798,462	79,136,686
Current liabilities		1,100,268	3,291,928	4,392,196
Noncurrent liabilities		4,257,861	2,209,651	6,467,512
Total liabilities		5,358,129	5,501,579	10,859,708
Invested in capital assets, net of related debt		2,968,532	4,735,454	7,703,986
Restricted		42,317,929	—	42,317,929
Unrestricted		5,693,634	12,561,429	18,255,063
Total net assets	$	50,980,095	17,296,883	68,276,978
Year Ended June 30, 2007				
Operating revenues:				
Student tuition and fees	$	—	5,130,464	5,130,464
Grants and contracts, noncapital		2,013,132	453,680	2,466,812
Sales and services of auxiliary enterprises, net		6,359,140	19,717,553	26,076,693
Other		1,175,548	879,360	2,054,908
Total operating revenues		9,547,820	26,181,057	35,728,877
Operating expenses:				
Instruction	$	355,855	—	355,855
Research		785,937	—	785,937
Public service		2,014,284	—	2,014,284
Academic support		1,536,472	—	1,536,472
Student services		62,210	2,371,342	2,433,552
Institutional support		1,017,971	908,428	1,926,399
Student grants and scholarships		544,719	38,452	583,171
Auxiliary enterprise expenses		3,710,479	21,423,253	25,133,732
Depreciation and amortization		2,768,553	780,446	3,548,999
Total operating expenses		12,796,480	25,521,921	38,318,401
Operating income		(3,248,660)	659,136	(2,589,524)
Net nonoperating revenues		10,721,735	795,970	11,517,705
Income before other additions		7,473,075	1,455,106	8,928,181
Grants and gifts, capital		2,091,920	—	2,091,920
Additions to permanent endowments		2,153,057	—	2,153,057
Increase in net assets		11,718,052	1,455,106	13,173,158
Beginning net assets, July 1, 2006, as restated		39,262,043	15,841,777	55,103,820
Ending net assets, June 30, 2007	$	50,980,095	17,296,883	68,276,978

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

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

(b) Basis of Presentation

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

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

The Student Center, Associated Students, and Franciscan Shops auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB), while The University Corporation applies 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 errors reported in the separately audited financial statements of The University Corporation. A summary of the restatements to net assets at the beginning of the year related to The University Corporation is as follows:

		GASB Auxiliary Organizations
Net assets as of June 30, 2006, as previously reported	$	39,632,246
Rental revenue adjustment applicable to FY06, but recorded in FY07		95,531
Correct balance relating to UPS and the Village		(219,410)
Record project revenues related to prior year		203,380
Record utilities expense related to prior year		(422,809)
Record Spring 2006 operating expense subsidy related to prior year		(84,440)
Reverse direct postings to equity and additional posting to expense		135,511
Record costs incurred related to prior year		(77,966)
Net assets at beginning of year, as restated	$	39,262,043

(d) Election of Applicable FASB Statements

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

(e) Classification of Current and Noncurrent Assets and Liabilities

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

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

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.

(h) Capital Assets

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

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

(i) Deferred Revenue

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

(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:

(Continued)

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

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

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

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

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

(m) Classification of Revenues and Expenses

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

The State of California appropriates funds to the System on an annual basis. The appropriations are, in turn, allocated among the campuses by the Office of the Chancellor. Appropriations are recognized as revenue when authorization is received, and are reported as either noncapital appropriations when used to support general operations or capital appropriations when used for capital projects.

Student tuition and fee revenue and sales and services of auxiliary enterprises, including revenues from student housing programs, are presented net of scholarships and fellowships applied to student accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

(n) Income Taxes

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

(o) Eliminations

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

(p) Use of Estimates

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

(q) Reclassifications

Certain reclassifications have been made to prior year amounts in order to conform to current year presentation.

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2007 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	$ 1,696,796
Restricted cash and cash equivalents	—
Total cash and cash equivalents	1,696,796
Short-term investments	90,934,906
Endowment investments	2,742,635
Other long-term investments	10,283,749
Total investments	103,961,290
Total cash and cash equivalents and investments	$ 105,658,086

(a) Cash and Cash Equivalents

At June 30, 2007, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of $1,696,796 had a corresponding carrying value balance with the State Treasury of $2,681,039 at June 30, 2007. The difference relates primarily to deposits in transit and outstanding checks.

(Continued)

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that the University will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that the University's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

(b) Investments

At June 30, 2007, the University's investment portfolio consists primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

Investment Policy

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2007 is presented in the table below.

Credit Risk

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

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2007:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year end AAA	Aa	A	Not rated
Money market mutual funds	$ 104,819	0.01	—	—	—	104,819
Certificates of deposit	19,431,829	0.38	$ —	14,252,879	5,178,950	—
Commercial paper	20,839,635	0.01			20,446,112	393,523
U.S. agency securities	4,280,007	1.07	4,280,007	—	—	—
U.S. Treasury securities	290,498	2.43	290,498			
Mortgage-backed securities	2,172,793	8.94	2,172,793	—	—	—
Corporate and fixed income securities	30,310,141	1.42	3,322,159	12,678,915	14,309,067	—
State of California Surplus Money Investment Fund	26,531,568	0.48	—	—	—	26,531,568
			$ 10,065,457	26,931,794	39,934,129	27,029,910
Total investments	$ 103,856,471					

Concentration of Credit Risk

As of June 30, 2007, there were no investments representing 5% or more of the University's investment portfolio.

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

(4) Accounts Receivable

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

[redacted]

(5) Capital Assets

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

	Balance, June 30, 2006	Additions	Retirements	Transfers	Balance, June 30, 2007
Nondepreciable capital assets:					
Land and land improvements	$ 42,329,138	1,300,981	—	—	43,630,119
Works of art and historical treasures	4,421,022	—	(9,500)	—	4,411,522
Construction work in progress	16,246,598	11,344,326	—	(11,476,808)	16,114,116
Total nondepreciable capital assets	62,996,758	12,645,307	(9,500)	(11,476,808)	64,155,757
Depreciable capital assets:					
Buildings and building improvements	535,992,721	80,356,329	—	7,427,008	623,776,058
Improvements, other than buildings	2,743,564	—	—	—	2,743,564
Infrastructure	8,896,946	—	—	—	8,896,946
Leasehold improvements				4,049,800	4,049,800
Personal property:					
Equipment	46,372,281	4,687,167	(17,184,903)	—	33,874,545
Library books and materials	17,538,504	849,625	(607,485)	—	17,780,644
Intangible assets	1,153,645	386,576	(14,182)	—	1,526,039
Total depreciable capital assets	612,697,661	86,279,697	(17,806,570)	11,476,808	692,647,596
Total cost	675,694,419	98,925,004	(17,816,070)	—	756,803,353
Less accumulated depreciation:					
Buildings and building improvements	(220,250,598)	(16,041,116)	—	—	(236,291,714)
Improvements, other than buildings	(2,465,389)	(35,806)	—	—	(2,501,195)
Infrastructure	(3,205,152)	(174,051)	—	—	(3,379,203)
Leasehold improvements		(202,490)			(202,490)
Personal property:					
Equipment	(36,035,563)	(2,967,234)	15,963,489	—	(23,039,308)
Library books and materials	(14,113,586)	(703,252)	607,485	—	(14,209,353)
Intangible assets	(135,733)	(254,592)	2,196	—	(388,129)
Total accumulated depreciation	(276,206,021)	(20,378,541)	16,573,170	—	(280,011,392)
Net capital assets	$ 399,488,398	78,546,463	(1,242,900)	—	476,791,961

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

(6) Lease Obligations

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of $5.3 million at June 30, 2007. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 1% to 11% and have terms expiring in various years through 2012.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2021. 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:

	Capital leases	Operating leases
Year ending June 30:		
2008	$ 1,710,251	5,045,126
2009	1,249,483	5,006,620
2010	1,065,362	5,015,474
2011	869,375	5,095,720
2012	694,303	5,141,468
2013 – 2017	—	24,743,080
2018 – 2022	—	23,002,500
Total minimum lease payments	5,588,774	$ 73,049,988
Less amount representing interest	(546,520)	
Present value of future minimum lease payments	5,042,254	
Less current portion	(1,496,940)	
Capital lease obligation, net of current portion	$ 3,545,314	

Rent expense under operating leases for the year ended June 30, 2007 totaled $4,148,570.

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the State of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of

(Continued)

such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2007 totaled $570,858,000.

(7) Long-term Debt Obligations

(a) General Obligation Bond Program

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

(b) Revenue Bond Programs

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

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

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

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

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

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

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

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was $2,302,428,000 at June 30, 2007. The University's portion of the total outstanding balance under this program was $254,637,937 at June 30, 2007.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2007, the System's outstanding balance for these senior bonds totaled $68,550,000. The University's total outstanding balance for these senior bonds was $10,435,000 at June 30, 2007.

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

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding
Student Union Revenue Bonds:				
Series B	4.0-4.6%	2023/24	$ 12,950,000	10,435,000
Systemwide Revenue Bonds:				
Housing Series B	3.00%	2007/08	4,420,656	117,937
Housing Series M	3.00%	2020/21	495,000	300,000
Housing Series P	3.00%	2021/22	975,000	610,000
Systemwide Revenue Bonds Series 2004A	3.0%-5.25%	2034/35	6,780,000	6,520,000
Systemwide Revenue Bonds Series 2005A	2.75%-5.00%	2035/36	150,655,000	149,315,000
Systemwide Revenue Bonds Series 2005B	5.00%	2021/22	18,160,000	17,415,000
Systemwide Revenue Bonds Series 2007D	4.00-5.00%	2037/38	80,360,000	80,360,000
Total				265,072,937
Unamortized bond premium (discount)				4,075,856
Unamortized loss on refunding				(762,539)
Total long-term debt				268,386,254
Less current portion				(4,397,937)
Long-term debt, net of current portion				$ 263,988,317

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

	Principal	Interest
Year ending June 30:		
2008	$ 4,397,937	12,264,996
2009	4,830,000	12,044,317
2010	5,115,000	11,867,444
2011	5,500,000	11,665,577
2012	5,800,000	11,446,411
2013 – 2017	33,895,000	53,220,782
2018 – 2022	44,580,000	44,058,125
2023 – 2027	44,185,000	33,412,723
2028 – 2032	54,065,000	21,813,200
2033 – 2037	57,790,000	7,317,162
2038 – 2042	4,915,000	110,588
	$ 265,072,937	219,221,325

(Continued)

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

(8) Long-term Liabilities Activity

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

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Accrued compensated absences	$ 13,538,184	9,852,461	(8,173,345)	15,217,300	8,173,345
Capitalized lease obligations (note 7):	3,887,404	2,300,541	(1,145,691)	5,042,254	1,496,940
Long-term debt obligations (note 8):					
Student Union Revenue Bonds	10,850,000	—	(415,000)	10,435,000	430,000
Systemwide Revenue Bonds	176,722,339	80,360,000	(2,444,402)	254,637,937	3,967,937
Total	187,572,339	80,360,000	(2,859,402)	265,072,937	4,397,937
Unamortized bond premium (discount)	4,245,694	—	(169,838)	4,075,856	—
Unamortized loss on refunding	(815,738)	—	53,199	(762,539)	—
Total long-term debt obligations	191,002,295	80,360,000	(2,976,041)	268,386,254	4,397,937
Total long-term liabilities	$ 208,427,883	92,513,002	(12,295,077)	288,645,808	14,068,222

(9) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

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

The University currently pays the full cost of the basic level dental coverage for eligible retirees and their eligible dependents.

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

(b) Funding Policy

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

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

[redacted]

(10) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2007.

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

[redacted]

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

The University's allocation of CSURMA's total self-insurance claims liability as of June 30, 2007 is 15.7%, or $7,535,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2007.

There is no amount due to or from CSURMA as of June 30, 2007.

(11) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2007 totaled $8,199,651. These expenditures will be funded primarily from state appropriations.

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

(12) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2007, operating expenses by natural classification consisted of the following:

2007	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Functional classification:						
Instruction	$ 102,429,931	31,364,618	—	3,737,671	—	137,532,220
Research	6,580,296	1,184,213	—	10,020,994	—	17,785,503
Public service	7,500,688	2,933,894	—	12,794,748	—	23,229,330
Academic support	23,101,662	7,202,962	—	14,373,800	—	44,678,424
Student services	17,770,976	6,425,847	—	4,356,223	—	28,553,046
Institutional support	23,100,916	8,059,336	—	12,656,350	—	43,816,602
Operation and maintenance of plant	10,946,914	5,304,729	—	7,013,944	—	23,265,587
Student grants and scholarships	—	—	37,241,396	—	—	37,241,396
Auxiliary enterprise expenses	5,317,663	1,729,291	—	8,948,938	—	15,995,892
Depreciation and amortization	—	—	—	—	20,378,541	20,378,541
Total	$ 196,749,046	64,204,890	37,241,396	73,902,668	20,378,541	392,476,541

(13) Transactions with Related Entities

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both capital and noncapital, allocated to the University through the Office of the Chancellor aggregated $166,022,962 for the year ended June 30, 2007. State appropriations receivable aggregated $5,939,513 at June 30, 2007. The University also received lottery fund distributions from the State of California in the amount of $2,440,547 for the year ended June 30, 2007, which is included in other nonoperating in the accompanying statement of revenues, expenses, and changes in net assets.

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

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

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2007:

Reimbursements from recognized auxiliary organizations for salaries of University personnel working on contracts, grants, and other programs	$	325,451
Reimbursements from recognized auxiliary organizations for other than salaries of University personnel		3,602,429
Payments to recognized auxiliary organizations for services, office space rental, and programs		9,160,170
Amounts receivable from the Office of the Chancellor		294
Amounts payable to the Office of the Chancellor		(224,570)
Amounts receivable from recognized auxiliary organizations		521,117
Amounts payable to recognized auxiliary organizations		(4,280,604)

(14) Subsequent Events

On August 7, 2007, the University issued Systemwide Revenue Bonds Series 2007C in the amount of $9,505,000 to refund the University's existing senior student union revenue bonds in the amount of $10,435,000. The Systemwide Revenue Bonds Series 2007C were issued at a premium, which provided adequate funding to defease the existing senior bonds. The interest rate on the bonds is 5% and matures on November 1, 2028.