CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

Financial Statements

June 30, 2006

(With Independent Auditors’ Report Thereon)
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Independent Auditors’ Report

Dr. Horace Mitchell
President
California State University, Bakersfield:

We have audited the accompanying financial statements of the California State University, Bakersfield (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2006, which collectively comprise the University’s basic financial statements as listed in the 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 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, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with U.S. generally accepted accounting principles.
Management’s Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 15, 2006
This section of California State University, Bakersfield’s (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

**Introduction to the Financial Statements**

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

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, 2006 and 2005 are as follows:

### Condensed Summary of Net Assets

**June 30, 2006 and 2005**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>24,073,813</td>
<td>22,283,917</td>
</tr>
<tr>
<td>Capital assets</td>
<td>64,141,393</td>
<td>62,569,121</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>21,953,265</td>
<td>22,852,854</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>110,168,471</td>
<td>107,705,892</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>12,371,686</td>
<td>11,664,818</td>
</tr>
<tr>
<td>Long-term debt obligations, net of current portion</td>
<td>1,385,000</td>
<td>1,440,000</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>5,987,936</td>
<td>5,286,503</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>19,744,622</td>
<td>18,391,321</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>61,913,032</td>
<td>60,121,528</td>
</tr>
<tr>
<td>Restricted, expendable</td>
<td>25,401,097</td>
<td>26,501,831</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,109,720</td>
<td>2,691,212</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$90,423,849</td>
<td>$89,314,571</td>
</tr>
</tbody>
</table>

**Assets**

The $2.5 million increase in total assets is primarily due to a $630 thousand increase in cash due to three additional student fee referendums that were passed for Division I Athletics program, the Antelope Valley campus, and Student Clubs; a $1.8 million increase in short-term investments; a $1 million decrease in state appropriations receivable as a result of lower current year state appropriations for capital projects; a $300 thousand decrease in prepaid California State University Risk Management Authority (CSURMA) insurance premiums, and a $1.6 million increase in capital assets.

The $1.6 million increase in capital assets is due to $1 million additional costs for the Telecommunication Infrastructure project that started in fiscal 2004/2005, and construction commencement for the new Math and Computer Science Building and the Student Recreation Center. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System.

**Liabilities**

The $1.4 million increase in total liabilities from the prior year is primarily due to a $650 thousand increase in accrued salaries and benefits and $290 thousand increase in accrued compensated absences as a result of an increase in faculty pay, a $470 thousand increase in deferred revenue as a result of three new student fee
referendums, and a $670 thousand increase in depository accounts. These increases were offset by $880 thousand decrease in accounts payable, due to the reclassification of negative cash in the revolving fund during the fiscal year 2004-2005.

Net Assets

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of $1.1 million from the prior year is primarily related to an increase in capital assets, net of accumulated depreciation.

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:

<table>
<thead>
<tr>
<th>Restricted Net Assets</th>
<th>June 30, 2006 and 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Expendable:</td>
<td></td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>$ 14,590</td>
</tr>
<tr>
<td>Loans</td>
<td>404,397</td>
</tr>
<tr>
<td>Capital projects</td>
<td>24,858,148</td>
</tr>
<tr>
<td>Debt service</td>
<td>123,962</td>
</tr>
<tr>
<td>Total restricted net assets – expendable</td>
<td>$ 25,401,097</td>
</tr>
</tbody>
</table>

The $1.1 million decrease in restricted net assets – expendable is primarily due to decrease in capital appropriations received during the year.
The University’s condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005 is as follows:

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

<table>
<thead>
<tr>
<th></th>
<th>Year ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees</td>
<td>$ 18,801,751</td>
</tr>
<tr>
<td>Grants, contracts, and gifts</td>
<td>16,329,814</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises, net</td>
<td>3,206,700</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>38,338,265</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(96,064,099)</td>
</tr>
<tr>
<td><strong>Nonoperating revenues (expenses):</strong></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>55,792,701</td>
</tr>
<tr>
<td>Investment income</td>
<td>301,430</td>
</tr>
<tr>
<td>Other nonoperating revenues, net</td>
<td>1,323,951</td>
</tr>
<tr>
<td><strong>Total nonoperating revenues, net</strong></td>
<td>57,418,082</td>
</tr>
<tr>
<td><strong>Other capital-related revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>State appropriations, capital</td>
<td>1,313,000</td>
</tr>
<tr>
<td>Grants and gifts, capital</td>
<td>104,030</td>
</tr>
<tr>
<td><strong>Increase in net assets</strong></td>
<td>1,109,278</td>
</tr>
<tr>
<td><strong>Beginning net assets</strong></td>
<td>89,314,571</td>
</tr>
<tr>
<td><strong>Ending net assets</strong></td>
<td>$ 90,423,849</td>
</tr>
</tbody>
</table>

*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 $38.3 million in operating revenues during this fiscal year, as compared to $33 million in the prior year. While the number of enrolled students increased by only 1.1% over the fiscal year ended June 30, 2005, net tuition and fees increased by $2.2 million, or 12.9%, due to the passage of three new student fee referendums. Federal and state grants and contracts revenue increased $2.2 million from $14.1 million to $16.3 million for the fiscal years ended June 30, 2006 and 2005, respectively, as a result of the transition of some grants from an auxiliary organization to the University. Sales and services of auxiliary enterprises increased by $400 thousand primarily due to transition of athletic activities from an auxiliary organization to the University.

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

Operating Expenses

The University’s operating expenses consist of salaries and fringe benefits of $68.1 million, supplies and services of $12.6 million, scholarships and fellowships of $10.7 million, and depreciation of $4.7 million. Total operating expenses, including depreciation, increased by $5.5 million, or 6%, primarily due to instruction, research, and academic support. Salaries and benefits costs increased by $7.7 million due to salary rate increases and health and retirement benefit increases for faculty employees. The University contribution to the California Employees’ Retirement System (CalPERS) alone increased by $130 thousand, or 2%. In anticipation of budget cuts, expenses related to supplies and other services were reduced by $130 thousand. The instruction function increased $2.7 million due to salary rate increases for faculty employees. The research function increased $2.8 million as a result of the transition of grants from an auxiliary organization. The academic support function increased $1.5 million as the result of a new department established for the administration of grants and research.
The following chart presents the distribution of resources in support of the University’s mission for fiscal years 2006 and 2005:

Nonoperating and Other Revenues (Expenses)

Nonoperating and other revenues (expenses) come from sources that are not part of the University’s primary business functions. Included in this classification are categories such as state appropriations, 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 $1.3 million for the fiscal year ended June 30, 2006, down from $19 million for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled $55.5 million, an increase of $1.6 million from the prior year.
Capital Assets and Long-term Debt Obligations

Capital Assets

Capital assets, net of accumulated depreciation are shown below:

<table>
<thead>
<tr>
<th></th>
<th>June 30 2006</th>
<th>June 30 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>39,418,231</td>
<td>41,969,475</td>
</tr>
<tr>
<td>Improvements, other than buildings</td>
<td>6,120,658</td>
<td>3,751,811</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>5,084,706</td>
<td>4,398,384</td>
</tr>
<tr>
<td>Personal property</td>
<td>3,579,681</td>
<td>4,214,327</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>25,740</td>
<td>45,010</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>8,912,377</td>
<td>7,190,114</td>
</tr>
<tr>
<td><strong>Total capital assets, net of accumulated depreciation</strong></td>
<td><strong>$64,141,393</strong></td>
<td><strong>62,569,121</strong></td>
</tr>
</tbody>
</table>

At June 30, 2006 and 2005, the University had $64.1 million and $62.6 million, respectively, in capital assets, net of accumulated depreciation of $95.9 million and $91.5 million, respectively. Depreciation expense totaled $4.7 million and $4.9 million for the years ended June 30, 2006 and 2005, respectively. See additional information in footnote (5).

Long-term Debt and Capital Lease Obligations

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

<table>
<thead>
<tr>
<th></th>
<th>June 30 2006</th>
<th>June 30 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing System Revenue Bonds</td>
<td>$1,440,000</td>
<td>1,495,000</td>
</tr>
<tr>
<td>Capital leases</td>
<td>788,137</td>
<td>1,001,396</td>
</tr>
<tr>
<td><strong>Total long-term debt and capital leases</strong></td>
<td><strong>2,228,137</strong></td>
<td><strong>2,496,396</strong></td>
</tr>
<tr>
<td>Less current portion</td>
<td>214,343</td>
<td>259,094</td>
</tr>
<tr>
<td><strong>Long-term debt and capital leases, net of current portion</strong></td>
<td><strong>$2,013,794</strong></td>
<td><strong>2,237,302</strong></td>
</tr>
</tbody>
</table>

The interest rates on outstanding debt range from 3.0% to 5.5%.

At June 30, 2006 and 2005, the University had $2.0 million and $2.2 million, respectively, in long-term debt and capital lease obligations outstanding.
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD
Management’s Discussion and Analysis
June 30, 2006

Bond Ratings
Moody’s Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at A1 and the Student Union Revenue Bonds at A2 (however, these bonds are insured to Aaa). Standard & Poor’s currently rates the Systemwide Revenue Bonds at A+ and the Student Union Revenue Bonds at A (however, these bonds are insured to AAA).

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

Factors Impacting Future Periods
The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2006/2007. The allocation provided to the University is $55.5 million, an increase of $1.7 million over fiscal year 2005/2006. The increase is budgeted to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and complete deferred maintenance projects.

Budgeted full-time equivalent enrollment targets for fiscal years 2006/2007 are 6,801, representing an increase of 1.3%. This anticipated growth is expected to generate additional revenues of approximately $870,000 for the University.

During the fiscal year 2005/2006, the University was allocated $19.3 million in state capital appropriations to fund a new Math and Computer Science Building. Construction for the new Math and Computer Science Building began on July 2006 and is scheduled to complete during the fall quarter 2008. This building will hold 15 laboratories, 7 classrooms, and 70 faculty offices to enhance the University’s science and research programs and strengthen education in those fields.

Student union fees will increase another $27 annually in order to fund a new Student Recreation Center. This project is currently in the schematic design phase with a completion date scheduled for fall 2008. The cost for the new Student Recreation Center is estimated at $25 million.

The University will begin a new student housing project to be funded from revenue bonds at an estimated cost of $25 million. The project has an estimated start date of March 2007 with an estimated completion date of March, 2010. The new dorms are currently expected to house approximately 400 students.

On June 1, 2006, the University officially announced its intention to reclassify the athletics program to NCAA Division I. As part of the reclassification to Division I, the University will pursue membership in the Big West Conference with a goal of raising $6 million to help fund this affiliation. Currently, the University has raised $4.6 million from the community and is expected to achieve its goal in the fiscal year 2006/2007. A new women’s golf program has been added and the University expects to field its new baseball program in 2007/2008.
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

Statement of Net Assets

June 30, 2006

<table>
<thead>
<tr>
<th>Assets</th>
<th>University</th>
<th>Discretely presented component units</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 4,355,209</td>
<td>5,181,472</td>
<td></td>
<td>9,536,681</td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>12,184,446</td>
<td>283,794</td>
<td></td>
<td>12,468,240</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>6,182,108</td>
<td>2,366,701</td>
<td></td>
<td>8,548,809</td>
<td></td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>—</td>
<td>50,118</td>
<td></td>
<td>50,118</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>1,352,050</td>
<td>7,754</td>
<td></td>
<td>1,359,804</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>24,073,813</td>
<td>7,889,839</td>
<td></td>
<td>31,963,652</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>20,398,876</td>
<td>—</td>
<td></td>
<td>20,398,876</td>
<td></td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>1,498,223</td>
<td>—</td>
<td></td>
<td>1,498,223</td>
<td></td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>—</td>
<td>1,797,168</td>
<td></td>
<td>1,797,168</td>
<td></td>
</tr>
<tr>
<td>Endowment investments</td>
<td>—</td>
<td>9,570,117</td>
<td></td>
<td>9,570,117</td>
<td></td>
</tr>
<tr>
<td>Other long-term investments</td>
<td>56,166</td>
<td>4,346,990</td>
<td></td>
<td>4,403,156</td>
<td></td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>64,141,393</td>
<td>7,595,323</td>
<td></td>
<td>71,736,716</td>
<td></td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>86,094,658</td>
<td>23,309,598</td>
<td></td>
<td>109,404,256</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>110,168,471</td>
<td>31,199,437</td>
<td></td>
<td>141,367,908</td>
<td></td>
</tr>
</tbody>
</table>

**Liabilities and Net Assets**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>University</th>
<th>Discretely presented component units</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,197,549</td>
<td>1,529,943</td>
<td></td>
<td>3,726,492</td>
<td></td>
</tr>
<tr>
<td>Accrued salaries and benefits payable</td>
<td>5,387,686</td>
<td>4,197</td>
<td></td>
<td>9,591,883</td>
<td></td>
</tr>
<tr>
<td>Accrued compensated absences – current portion</td>
<td>1,738,615</td>
<td>27,092</td>
<td></td>
<td>1,765,707</td>
<td></td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>1,836,631</td>
<td>197,464</td>
<td></td>
<td>2,034,095</td>
<td></td>
</tr>
<tr>
<td>Capitalized lease obligations – current portion</td>
<td>159,343</td>
<td>—</td>
<td></td>
<td>159,343</td>
<td></td>
</tr>
<tr>
<td>Long-term debt obligations – current portion</td>
<td>55,000</td>
<td>—</td>
<td></td>
<td>55,000</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>996,862</td>
<td>1,431,116</td>
<td></td>
<td>2,427,978</td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>12,371,686</td>
<td>3,188,812</td>
<td></td>
<td>15,560,498</td>
<td></td>
</tr>
<tr>
<td>Noncurrent liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued compensated absences, net of current port</td>
<td>1,606,517</td>
<td>—</td>
<td></td>
<td>1,606,517</td>
<td></td>
</tr>
<tr>
<td>Grants refundable</td>
<td>1,893,222</td>
<td>—</td>
<td></td>
<td>1,893,222</td>
<td></td>
</tr>
<tr>
<td>Capitalized lease obligations, net of current port</td>
<td>628,794</td>
<td>—</td>
<td></td>
<td>628,794</td>
<td></td>
</tr>
<tr>
<td>Long-term debt obligations, net of current port</td>
<td>1,385,000</td>
<td>—</td>
<td></td>
<td>1,385,000</td>
<td></td>
</tr>
<tr>
<td>Depository accounts</td>
<td>1,859,403</td>
<td>—</td>
<td></td>
<td>1,859,403</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>—</td>
<td>2,130,588</td>
<td></td>
<td>2,130,588</td>
<td></td>
</tr>
<tr>
<td>Total noncurrent liabilities</td>
<td>7,372,936</td>
<td>2,130,588</td>
<td></td>
<td>9,503,524</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>19,744,622</td>
<td>5,319,400</td>
<td></td>
<td>25,064,022</td>
<td></td>
</tr>
</tbody>
</table>

**Net assets:**

<table>
<thead>
<tr>
<th>Net assets:</th>
<th>University</th>
<th>Discretely presented component units</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>61,913,032</td>
<td>7,595,323</td>
<td></td>
<td>69,508,355</td>
<td></td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable endowments</td>
<td>—</td>
<td>7,279,730</td>
<td></td>
<td>7,279,730</td>
<td></td>
</tr>
<tr>
<td>Expendable:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>14,590</td>
<td>3,038,262</td>
<td></td>
<td>3,052,852</td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>404,397</td>
<td>—</td>
<td></td>
<td>404,397</td>
<td></td>
</tr>
<tr>
<td>Capital projects</td>
<td>24,858,148</td>
<td>—</td>
<td></td>
<td>24,858,148</td>
<td></td>
</tr>
<tr>
<td>Debt service</td>
<td>123,962</td>
<td>—</td>
<td></td>
<td>123,962</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>3,785,439</td>
<td></td>
<td>3,785,439</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,109,720</td>
<td>4,181,283</td>
<td></td>
<td>7,291,003</td>
<td></td>
</tr>
<tr>
<td>Total net assets</td>
<td>$ 90,423,849</td>
<td>25,880,037</td>
<td></td>
<td>116,303,886</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
###CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

**Statement of Revenues, Expenses, and Changes in Net Assets**

**Year ended June 30, 2006**

---

####Revenues:

<table>
<thead>
<tr>
<th>Source</th>
<th>University</th>
<th>Discretely presented component units</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees (net of scholarship allowances of $8,567,382)</td>
<td>18,801,751</td>
<td>1,968,631</td>
<td>20,770,382</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts, noncapital:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>10,849,787</td>
<td>5,119,733</td>
<td>15,969,520</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and local</td>
<td>5,322,498</td>
<td>673,238</td>
<td>5,995,736</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nongovernmental</td>
<td>157,529</td>
<td>1,035,836</td>
<td>1,193,365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and services of educational activities</td>
<td>980,897</td>
<td>518,647</td>
<td>1,499,544</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises</td>
<td>2,225,803</td>
<td>369,571</td>
<td>2,595,374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>—</td>
<td>5,870,487</td>
<td>5,870,487</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>38,338,265</td>
<td>15,556,143</td>
<td>53,894,408</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>36,597,225</td>
<td>1,931,742</td>
<td>38,528,967</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>3,086,029</td>
<td>876,438</td>
<td>3,962,467</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public service</td>
<td>80,114</td>
<td>1,997,449</td>
<td>2,077,563</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic support</td>
<td>11,155,603</td>
<td>37,277</td>
<td>11,192,880</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td>8,923,837</td>
<td>5,180,723</td>
<td>14,104,560</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional support</td>
<td>10,096,410</td>
<td>3,199,290</td>
<td>13,295,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>7,092,601</td>
<td>322,426</td>
<td>7,415,027</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student grants and scholarships</td>
<td>10,725,522</td>
<td>658,477</td>
<td>11,383,999</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprise expenses</td>
<td>3,661,437</td>
<td>993,868</td>
<td>4,655,305</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,645,321</td>
<td>529,135</td>
<td>5,174,456</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>96,064,099</td>
<td>15,726,825</td>
<td>111,790,924</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(57,725,834)</td>
<td>(170,682)</td>
<td>(57,896,516)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

####Nonoperating revenues (expenses):

<table>
<thead>
<tr>
<th>Source</th>
<th>University</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations, noncapital</td>
<td>55,524,607</td>
<td>—</td>
<td>55,524,607</td>
<td></td>
</tr>
<tr>
<td>Gifts, noncapital</td>
<td>268,094</td>
<td>3,167,633</td>
<td>3,435,727</td>
<td></td>
</tr>
<tr>
<td>Investment income, net</td>
<td>422,943</td>
<td>792,850</td>
<td>1,215,793</td>
<td></td>
</tr>
<tr>
<td>Endowment loss</td>
<td>—</td>
<td>(192,257)</td>
<td>(192,257)</td>
<td></td>
</tr>
<tr>
<td>Interest on capital-related debt</td>
<td>(121,513)</td>
<td>—</td>
<td>(121,513)</td>
<td></td>
</tr>
<tr>
<td>Other nonoperating revenues, net</td>
<td>1,323,951</td>
<td>—</td>
<td>1,323,951</td>
<td></td>
</tr>
<tr>
<td><strong>Net nonoperating revenues</strong></td>
<td>57,418,082</td>
<td>3,768,226</td>
<td>61,186,308</td>
<td></td>
</tr>
</tbody>
</table>

####Income (loss) before other additions:

<table>
<thead>
<tr>
<th>Source</th>
<th>University</th>
<th>Discretely presented component units</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations, capital</td>
<td>1,313,000</td>
<td>—</td>
<td>1,313,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and gifts, capital</td>
<td>104,030</td>
<td>—</td>
<td>104,030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>—</td>
<td>2,642,279</td>
<td>2,642,279</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Increase in net assets</strong></td>
<td>1,109,278</td>
<td>6,239,823</td>
<td>7,349,101</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

####Net assets:

<table>
<thead>
<tr>
<th>Source</th>
<th>University</th>
<th>Discretely presented component units</th>
<th>FASB</th>
<th>Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets at beginning of year</td>
<td>89,314,571</td>
<td>19,640,214</td>
<td>108,954,785</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>$ 90,423,849</td>
<td>25,880,037</td>
<td>116,303,886</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

See accompanying notes to financial statements.
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

Statement of Cash Flows
Year ended June 30, 2006

<table>
<thead>
<tr>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
</tr>
<tr>
<td>Student tuition and fees $ 19,009,336</td>
</tr>
<tr>
<td>Federal grants and contracts 11,100,947</td>
</tr>
<tr>
<td>State and local grants and contracts 5,362,679</td>
</tr>
<tr>
<td>Nongovernmental grants and contracts 262,456</td>
</tr>
<tr>
<td>Payments to suppliers (13,561,696)</td>
</tr>
<tr>
<td>Payments to employees (67,156,008)</td>
</tr>
<tr>
<td>Payments to students (11,161,856)</td>
</tr>
<tr>
<td>Collections of student loans 304,293</td>
</tr>
<tr>
<td>Sales and services of educational activities 980,897</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises 2,225,803</td>
</tr>
<tr>
<td>Other receipts (payments) (1,621,886)</td>
</tr>
<tr>
<td>Net cash used in operating activities (54,255,035)</td>
</tr>
</tbody>
</table>

| Cash flows from noncapital financing activities: |
| State appropriations 57,829,979 |
| Gifts and grants received for other than capital purposes 268,094 |
| Federal loan program receipts 12,925,028 |
| Federal loan program disbursements (13,200,135) |
| Monies received on behalf of others 1,554,993 |
| Monies disbursed on behalf of others (588,877) |
| Other 1,414,266 |
| Net cash provided by noncapital financing activities 60,203,348 |

| Cash flows from capital and related financing activities: |
| State appropriations 2,319,633 |
| Acquisition of capital assets (5,997,533) |
| Transfers to escrow agent — |
| Principal paid on capital debt and leases (268,259) |
| Interest paid on capital debt and leases (121,880) |
| Principal payments received on capital leases — |
| Interest payments received on capital leases — |
| Net cash used in capital and related financing activities (4,068,039) |

| Cash flows from investing activities: |
| Proceeds from sales and maturities of investments 7,954,009 |
| Purchases of investments (9,210,451) |
| Investment income received 7,516 |
| Net cash used in investing activities (1,248,926) |

| Net increase in cash and cash equivalents 631,348 |

| Cash and cash equivalents at beginning of year 3,723,861 |
| Cash and cash equivalents at end of year $ 4,355,209 |

(Continued)
Reconciliation of operating loss to net cash used in operating activities:

Operating loss $ (57,725,834)

Adjustments to reconcile operating loss to net cash used in operating activities:

Depreciation 4,645,321
Change in assets and liabilities:

Accounts receivable, net (1,487,972)
Student loans receivable, net (132,041)
Prepaid expenses and other assets (303,829)
Accounts payable (1,002,924)
Accrued salaries and benefits 652,831
Accrued compensated absences 286,197
Deferred revenue 469,939
Other liabilities 343,277

Net cash used in operating activities $ (54,255,035)

Supplemental schedule of noncash transactions:

Contributed capital assets $ 100,274
Capital asset transferred from the Office of the Chancellor 3,756

See accompanying notes to financial statements.
(1) **Organization**

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

The University provides instruction for baccalaureate and master’s 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, Bakersfield Foundation
- Associated Students Incorporated of California State University, Bakersfield
- University Student Union of California State University, Bakersfield
- California State University, Bakersfield Foundation for Research.
Summary information for the discretely presented auxiliary organizations is as follows:

<table>
<thead>
<tr>
<th>June 30, 2006</th>
<th>California State University, Bakersfield Foundation</th>
<th>Other auxiliary organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$5,937,171</td>
<td>1,952,668</td>
<td>7,889,839</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>7,532,739</td>
<td>62,584</td>
<td>7,595,323</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>15,714,275</td>
<td>—</td>
<td>15,714,275</td>
</tr>
<tr>
<td>Total assets</td>
<td>29,184,185</td>
<td>2,015,252</td>
<td>31,199,437</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2,894,616</td>
<td>294,196</td>
<td>3,188,812</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>2,130,588</td>
<td>—</td>
<td>2,130,588</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>5,025,204</td>
<td>294,196</td>
<td>5,319,400</td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>7,532,739</td>
<td>62,584</td>
<td>7,595,323</td>
</tr>
<tr>
<td>Restricted</td>
<td>14,103,431</td>
<td>—</td>
<td>14,103,431</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>2,522,811</td>
<td>1,658,472</td>
<td>4,181,283</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$24,158,981</td>
<td>1,721,056</td>
<td>25,880,037</td>
</tr>
</tbody>
</table>

Year ended June 30, 2006

Operating revenues:
Student tuition and fees | $ — | 1,968,631 | 1,968,631 |
Grants and contracts, noncapital | 6,828,807 | — | 6,828,807 |
Sales and services of auxiliary enterprises, net | 839,092 | 49,126 | 888,218 |
Other | 5,573,617 | 296,870 | 5,870,487 |
Total operating revenues | 13,241,516 | 2,314,627 | 15,556,143 |

Operating expenses:
Instruction | 1,925,265 | 6,477 | 1,931,742 |
Research | 876,438 | — | 876,438 |
Public service | 1,997,449 | — | 1,997,449 |
Academic support | 37,277 | — | 37,277 |
Student services | 4,898,320 | 282,403 | 5,180,723 |
Institutional support | 2,615,839 | 583,451 | 3,199,290 |
Operation and maintenance of plant | 322,426 | — | 322,426 |
Student grants and scholarships | 658,477 | — | 658,477 |
Auxiliary enterprise expenses | 744,056 | 249,812 | 993,868 |
Depreciation | 502,198 | 26,937 | 529,135 |
Total operating expenses | 14,577,745 | 1,149,080 | 15,726,825 |
Operating income (loss) | (1,336,229) | 1,165,547 | (170,682) |
Net nonoperating revenues | 3,755,589 | 12,637 | 3,768,226 |
Income before other additions | 2,419,360 | 1,178,184 | 3,597,544 |
Additions to permanent endowments | 2,642,279 | — | 2,642,279 |
Increase in net assets | 5,061,639 | 1,178,184 | 6,239,823 |
Beginning net assets, July 1, 2005 | 19,097,342 | 542,870 | 19,640,214 |
Ending net assets, June 30, 2006 | $24,158,981 | 1,721,056 | 25,880,037 |
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, 2006 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

(b) Basis of Presentation

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

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

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

(c) Election of Applicable FASB Statements

The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.
(d) **Classification of Current and Noncurrent Assets and Liabilities**

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

(e) **Cash 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.

(f) **Investments**

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

(g) **Capital Assets**

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

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

(h) **Deferred Revenue**

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

(i) **Compensated Absences**

University employees accrue annual leave at rates based on length of service and job classification.
(j) **Grants Refundable**

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

(k) **Net Assets**

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

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

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

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

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

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

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

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

(m) Income Taxes

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

(n) Eliminations

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

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents and Short-term Investments

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,355,209</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>$12,184,446</td>
</tr>
</tbody>
</table>

Total cash and cash equivalents and short-term investments $16,539,655
(a) Cash and Cash Equivalents

At June 30, 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of $4.4 million had a corresponding carrying value balance with the State Treasury of $5.5 million at June 30, 2006. The differences related primarily to deposits in transit and outstanding checks.

(b) Short-term Investments

At June 30, 2006, 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 midterm investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University’s investment portfolio for each investment type as of June 30, 2006 is presented in the table 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, 2006:

<table>
<thead>
<tr>
<th>Investment type</th>
<th>Fair value</th>
<th>Weighted average maturity (in years)</th>
<th>AAA</th>
<th>Aa</th>
<th>A</th>
<th>Not rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market mutual funds</td>
<td>$215,469</td>
<td>0.01</td>
<td>$</td>
<td>—</td>
<td>—</td>
<td>215,469</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>1,841,996</td>
<td>1.41</td>
<td>—</td>
<td>690,686</td>
<td>1,151,310</td>
<td>—</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>751,411</td>
<td>0.01</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>751,411</td>
</tr>
<tr>
<td>U.S. agency securities</td>
<td>1,567,937</td>
<td>1.46</td>
<td>1,567,937</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>394,697</td>
<td>10.57</td>
<td>394,697</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Corporate and fixed income securities</td>
<td>3,983,224</td>
<td>1.74</td>
<td>213,772</td>
<td>1,115,819</td>
<td>2,653,633</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>8,754,734</td>
<td>1.74</td>
<td>$2,176,406</td>
<td>1,806,505</td>
<td>3,804,943</td>
<td>966,880</td>
</tr>
</tbody>
</table>

Not subject to ratings:
- U.S. Treasury securities: $404,100
- State of California Surplus Money Investment Fund: $3,025,612

Total investment: $12,184,446

**Concentration of Credit Risk**

The University’s investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2006, 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 $929,787 (7.6%).

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

(4) **Accounts Receivable**

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

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations</td>
<td>$1,375,022</td>
<td>20,337,315</td>
<td>21,712,337</td>
</tr>
<tr>
<td>Auxiliary organizations</td>
<td>1,234,206</td>
<td>—</td>
<td>1,234,206</td>
</tr>
<tr>
<td>Student accounts</td>
<td>885,863</td>
<td>—</td>
<td>885,863</td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>6,233</td>
<td>—</td>
<td>6,233</td>
</tr>
<tr>
<td>Other</td>
<td>2,778,595</td>
<td>61,561</td>
<td>2,840,156</td>
</tr>
<tr>
<td></td>
<td>6,279,919</td>
<td>20,398,876</td>
<td>26,678,795</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>(97,811)</td>
<td>—</td>
<td>(97,811)</td>
</tr>
<tr>
<td>Total</td>
<td>$6,182,108</td>
<td>20,398,876</td>
<td>26,580,984</td>
</tr>
</tbody>
</table>

(Continued)
### Capital Assets

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

<table>
<thead>
<tr>
<th></th>
<th>Balance, June 30, 2005</th>
<th>Additions</th>
<th>Retirements</th>
<th>Transfers</th>
<th>Balance, June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nondepreciable capital assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>$1,000,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>7,190,114</td>
<td>2,442,729</td>
<td>—</td>
<td>(720,466)</td>
<td>8,912,377</td>
</tr>
<tr>
<td><strong>Total nondepreciable capital assets</strong></td>
<td>8,190,114</td>
<td>2,442,729</td>
<td>—</td>
<td>(720,466)</td>
<td>9,912,377</td>
</tr>
<tr>
<td><strong>Depreciable capital assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>94,579,057</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>94,579,057</td>
</tr>
<tr>
<td>Improvements, other than buildings</td>
<td>21,863,357</td>
<td>2,290,609</td>
<td>—</td>
<td>717,604</td>
<td>24,871,570</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>8,806,375</td>
<td>915,094</td>
<td>—</td>
<td>2,862</td>
<td>9,724,331</td>
</tr>
<tr>
<td><strong>Total depreciable capital assets</strong></td>
<td>145,859,489</td>
<td>3,805,860</td>
<td>(250,865)</td>
<td>720,466</td>
<td>150,134,950</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td>154,049,603</td>
<td>6,248,589</td>
<td>(250,865)</td>
<td>—</td>
<td>160,047,327</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>(52,609,582)</td>
<td>(2,551,244)</td>
<td>—</td>
<td>—</td>
<td>(55,160,826)</td>
</tr>
<tr>
<td>Improvements, other than buildings</td>
<td>(18,111,546)</td>
<td>(639,366)</td>
<td>—</td>
<td>—</td>
<td>(18,750,912)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(4,407,991)</td>
<td>(231,634)</td>
<td>—</td>
<td>—</td>
<td>(4,639,625)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td>(91,480,482)</td>
<td>(4,645,321)</td>
<td>(219,869)</td>
<td>—</td>
<td>(95,905,934)</td>
</tr>
<tr>
<td><strong>Net capital assets</strong></td>
<td>$62,569,121</td>
<td>1,603,268</td>
<td>(30,996)</td>
<td>—</td>
<td>64,141,393</td>
</tr>
</tbody>
</table>

For information regarding the capital assets of the individual 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 $427,792 at June 30, 2006. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 4.5% to 8.5% and have terms expiring in various years through 2011.

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

<table>
<thead>
<tr>
<th>Year ending June 30:</th>
<th>Capital leases</th>
<th>Operating leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 199,103</td>
<td>38,542</td>
</tr>
<tr>
<td>2008</td>
<td>146,482</td>
<td>—</td>
</tr>
<tr>
<td>2009</td>
<td>146,483</td>
<td>—</td>
</tr>
<tr>
<td>2010</td>
<td>146,483</td>
<td>—</td>
</tr>
<tr>
<td>2011</td>
<td>146,483</td>
<td>—</td>
</tr>
<tr>
<td>2012 – 2016</td>
<td>146,483</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total minimum lease payments</strong></td>
<td><strong>931,517</strong></td>
<td><strong>38,542</strong></td>
</tr>
<tr>
<td>Less amount representing interest</td>
<td>(143,380)</td>
<td></td>
</tr>
<tr>
<td><strong>Present value of future minimum lease payments</strong></td>
<td>$ 788,137</td>
<td></td>
</tr>
</tbody>
</table>

Rent expense under operating leases for the year ended June 30, 2006 totaled $38,542.

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

(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 that is allocated on a project-by-project basis among the University of California, the California State University System, and the Community Colleges. Financing provided to the University through state of California General
Obligation Bonds is not allocated to the System by the state of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately $1,277,682,000 as of June 30, 2006.

(b) Revenue Bond Programs

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

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 $1,982,433,000 at June 30, 2006. The University’s portion of the total outstanding balance under this program was $0 at June 30, 2006.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2006, the System’s outstanding balance for these senior bonds totaled $70,820,000. The University’s total outstanding balance for these senior bonds was $1,440,000 at June 30, 2006.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Interest rate</th>
<th>Fiscal year maturity date</th>
<th>Original issue amount</th>
<th>Amount outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Union Revenue Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2002A</td>
<td>3.0% – 5.5%</td>
<td>2022/2023</td>
<td>$1,615,000</td>
<td>$1,440,000</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td></td>
<td></td>
<td></td>
<td>1,440,000</td>
</tr>
<tr>
<td>Less current portion</td>
<td></td>
<td></td>
<td></td>
<td>(55,000)</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td></td>
<td></td>
<td></td>
<td>$1,385,000</td>
</tr>
</tbody>
</table>
Long-term debt principal obligations and related interest are payable in the following fiscal years:

<table>
<thead>
<tr>
<th>Year ending June 30:</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$55,000</td>
<td>69,444</td>
</tr>
<tr>
<td>2008</td>
<td>55,000</td>
<td>67,244</td>
</tr>
<tr>
<td>2009</td>
<td>65,000</td>
<td>64,843</td>
</tr>
<tr>
<td>2010</td>
<td>65,000</td>
<td>61,920</td>
</tr>
<tr>
<td>2011</td>
<td>65,000</td>
<td>58,961</td>
</tr>
<tr>
<td>2012 – 2016</td>
<td>385,000</td>
<td>243,681</td>
</tr>
<tr>
<td>2017 – 2021</td>
<td>505,000</td>
<td>127,799</td>
</tr>
<tr>
<td>2022 – 2026</td>
<td>245,000</td>
<td>12,375</td>
</tr>
<tr>
<td></td>
<td><strong>$1,440,000</strong></td>
<td><strong>706,267</strong></td>
</tr>
</tbody>
</table>

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, 2006 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Beginning balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending balance</th>
<th>Current portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued compensated absences</td>
<td>$3,058,935</td>
<td>2,403,500</td>
<td>(2,117,303)</td>
<td>3,345,132</td>
<td>1,738,615</td>
</tr>
<tr>
<td>Capitalized lease obligations</td>
<td>1,001,396</td>
<td>—</td>
<td>(213,259)</td>
<td>788,137</td>
<td>159,343</td>
</tr>
<tr>
<td></td>
<td><strong>1,001,396</strong></td>
<td>—</td>
<td>(213,259)</td>
<td><strong>788,137</strong></td>
<td><strong>159,343</strong></td>
</tr>
<tr>
<td>Long-term debt obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(note 8):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Union Revenue Bonds</td>
<td>1,495,000</td>
<td>—</td>
<td>(55,000)</td>
<td>1,440,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Total long-term debt obligations</td>
<td><strong>1,495,000</strong></td>
<td>—</td>
<td>(55,000)</td>
<td><strong>1,440,000</strong></td>
<td><strong>55,000</strong></td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$5,555,331</td>
<td>2,403,500</td>
<td>(2,385,562)</td>
<td>5,573,269</td>
<td>1,952,958</td>
</tr>
</tbody>
</table>
(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 pension plan. For the University, the plan acts as a cost-sharing multiple-employer defined-benefit pension plan which provides a defined-benefit pension and postretirement benefit program for substantially all eligible University employees. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death, and disability benefits. Eligible employees are covered by the Public Employees’ Medical and Hospital Care Act (PEMHCRA) for medical benefits.

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

(b) Funding Policy

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$6,093,906</td>
</tr>
<tr>
<td>2005</td>
<td>6,930,497</td>
</tr>
<tr>
<td>2006</td>
<td>7,064,349</td>
</tr>
</tbody>
</table>

(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 centrally manage workers’ compensation, industrial and nonindustrial disability, and general organizational risks. The System’s self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2006.
Changes in the System’s self-insurance claims liability for the two years ended June 30, 2006 are as follows:

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

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

The University’s allocation of the System’s total self-insurance claims liability as of June 30, 2006 was approximately 2%, or $2,196,000. This allocation reflects the University’s estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2006.

The University’s receivable due from CSURMA totaled $1,288,748 at June 30, 2006, which is recorded as a component of prepaid expenses and other assets in the accompanying financial statements. The receivable balance is a result of amounts paid by the University to CSURMA prior to year end related to the University’s share of the estimated future funding liability.

(11) **Commitments and Contingencies**

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

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

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2006, operating expenses by natural classification consisted of the following:

<table>
<thead>
<tr>
<th>Functional classification</th>
<th>2006</th>
<th>Salaries</th>
<th>Benefits</th>
<th>Scholarships and fellowships</th>
<th>Supplies and other services</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td></td>
<td>26,500,182</td>
<td>8,408,567</td>
<td>—</td>
<td>1,688,476</td>
<td>—</td>
<td>36,597,225</td>
</tr>
<tr>
<td>Research</td>
<td>2,576,245</td>
<td>578,429</td>
<td>—</td>
<td></td>
<td>(68,645)</td>
<td>—</td>
<td>3,086,029</td>
</tr>
<tr>
<td>Public service</td>
<td>50,404</td>
<td>16,616</td>
<td>—</td>
<td></td>
<td>13,094</td>
<td>—</td>
<td>80,114</td>
</tr>
<tr>
<td>Academic support</td>
<td>6,437,397</td>
<td>2,430,827</td>
<td>—</td>
<td></td>
<td>2,267,379</td>
<td>—</td>
<td>11,155,603</td>
</tr>
<tr>
<td>Student services</td>
<td>5,286,251</td>
<td>1,783,324</td>
<td>—</td>
<td></td>
<td>1,854,262</td>
<td>—</td>
<td>8,923,837</td>
</tr>
<tr>
<td>Institutional support</td>
<td>5,190,953</td>
<td>1,917,204</td>
<td>—</td>
<td></td>
<td>2,988,253</td>
<td>—</td>
<td>10,096,410</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>3,469,783</td>
<td>1,514,396</td>
<td>—</td>
<td></td>
<td>2,108,422</td>
<td>—</td>
<td>7,092,601</td>
</tr>
<tr>
<td>Student grants and scholarships</td>
<td>—</td>
<td>—</td>
<td>10,725,522</td>
<td></td>
<td>—</td>
<td>—</td>
<td>10,725,522</td>
</tr>
<tr>
<td>Auxiliary enterprise expenses</td>
<td>1,419,659</td>
<td>514,799</td>
<td>—</td>
<td></td>
<td>1,726,979</td>
<td>—</td>
<td>3,661,437</td>
</tr>
<tr>
<td>Depreciation</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>—</td>
<td>4,645,321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$50,930,874</td>
<td>17,164,162</td>
<td>10,725,522</td>
<td>12,598,220</td>
<td>4,645,321</td>
<td>—</td>
<td>96,064,099</td>
</tr>
</tbody>
</table>

(13) **Transactions with Related Entities**

The System is an agency of the state of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated $56,831,607 for the year ended June 30, 2006. State appropriations receivable aggregated $21,712,337 at June 30, 2006. The University also received lottery fund distributions from the state of California in the amount of $642,000 for the year ended June 30, 2006, which is included in other nonoperating revenues and expenses.

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

The University has recorded capital assets that have been financed by the System and any other related parties that are not reflected in the accompanying financial statements. For the year ended June 30, 2006, no such additions of capital assets are included in other nonoperating income in the accompanying financial statements.
The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2006:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs $ 707,453
Reimbursements from recognized auxiliary organizations for other than salaries of University personnel 3,738,768
Amounts receivable from the Office of the Chancellor 59,542
Amounts payable to the Office of the Chancellor 19,871
Amounts receivable from recognized auxiliary organizations 1,234,206