CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors’ Report Thereon)
CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

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Independent Auditors’ Report

Warren Baker
President
California Polytechnic State University, San Luis Obispo

We have audited the accompanying financial statements of the California Polytechnic State University, San Luis Obispo (the University) and its aggregate discretely presented component units as of and for the years ended June 30, 2006 and 2005, 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 audits. 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 University’s discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audits 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 audits and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2, the financial statements present only the statements of net assets, statements of revenues, expenses, and changes in net assets, and statements 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 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits 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 2005, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.
Management’s Discussion and Analysis on pages 3 through 14 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.

September 22, 2006
This section of California Polytechnic State University, San Luis Obispo (the University) annual financial report presents our discussion and analysis of the financial performance of the University for fiscal years ended June 30, 2006 and 2005. 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 statements of net assets; the statements of revenues, expenses, and changes in net assets; and the statements 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.

Statements of Net Assets – The statements of net assets include 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.

Statements of Revenues, Expenses, and Changes in Net Assets – The statements of revenues, expenses, and changes in net assets present the revenues earned and expenses incurred during the years on an accrual basis.

Statements of Cash Flows – The statements of cash flows present 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 are prepared using the direct method of cash flows and, therefore, present 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 as of and for the years ended June 30, 2006 and 2005. Included is a comparative analysis of current year and prior-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, 2005, and 2004 is as follows:

### Condensed Summary of Net Assets

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$107,700,441</td>
<td>92,625,908</td>
<td>85,599,220</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>347,024,231</td>
<td>300,591,379</td>
<td>287,854,920</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>346,224,187</td>
<td>74,393,289</td>
<td>55,637,444</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>800,948,859</td>
<td>467,610,576</td>
<td>429,091,584</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>56,570,343</td>
<td>46,129,929</td>
<td>45,853,298</td>
</tr>
<tr>
<td>Long-term debt obligations, net of current portion</td>
<td>366,556,185</td>
<td>53,468,572</td>
<td>54,775,161</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>13,196,852</td>
<td>12,382,917</td>
<td>12,145,631</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>436,323,380</td>
<td>111,981,418</td>
<td>112,774,090</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>300,951,847</td>
<td>283,492,396</td>
<td>269,484,101</td>
</tr>
<tr>
<td>Restricted</td>
<td>10,378,949</td>
<td>28,722,387</td>
<td>9,528,165</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>53,294,683</td>
<td>43,414,375</td>
<td>37,305,228</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$364,625,479</td>
<td>355,629,158</td>
<td>316,317,494</td>
</tr>
</tbody>
</table>

**Assets**

As of June 30, 2006

Total assets increased $333.3 million due to increases in capital assets and short-term and other long-term investments offset by a decrease in net accounts receivable. Net capital assets increased by $46.4 million with capital asset additions of $66.4 million and $17.5 million of depreciation, which effectively reduces net capital assets. Capital asset additions are primarily comprised of construction work in progress for the following projects: $31.9 million for Poly Canyon Village, $16.5 million for Engineering IV Building, and $3.5 million for Alex G. Spanos Stadium. Short-term investments and other long-term investments increased $298.1 million due to unexpended bond proceeds held in the Surplus Money Investment Fund (SMIF). Noncurrent accounts receivable decreased by $13.8 million as a result of continued spending of prior-year capital outlay appropriated funds and reductions in current-year capital outlay appropriated funds.

As of June 30, 2005

Total assets increased by $38.5 million from increases in net capital assets and accounts receivable. Net capital assets increased by $12.7 million, with capital asset additions of $30.7 million and $16.2 million in depreciation, which effectively reduces net capital assets. Capital asset additions of $13.9 million are related to
construction work in progress for Poly Canyon Village, $7.0 million, Grant M. Brown Engineering Building, $3.3 million, and Engineering IV Building, $3.6 million. Noncurrent accounts receivable increased by $20.0 million attributable to unexpended state capital outlay appropriated funds.

Liabilities

As of June 30, 2006

Total liabilities increased $324.3 million primarily due to long-term debt obligations, accounts payable and other liabilities. Long-term debt, net of current portion, increased $313.1 million as a result of the issuance of $273.0 million of Housing revenue bonds that were sold at a net premium of $12.6 million, and the defeasance of $4.1 million of Student Union Series B revenue bonds. These bonds are to be used to finance the development of Poly Canyon Village, a 2,659-bed student apartment complex that includes a village center with recreation and retail facilities, and two parking structures. The University also issued $29.4 million in parking revenue bonds and $3.9 million of student union revenue bonds. Accounts payable increased $5.7 million as a result of increased construction activity and other liabilities increased $2.9 million as a result of interest payable for housing and student union revenue bonds.

As of June 30, 2005

Total liabilities reflect a net 1% decrease, although there were variances within some of the specific line items. For example, accounts payable to vendors decreased by $3.9 million, while deferred revenues increased by $4.7 million from an increase in the number of summer quarter fee prepayments from students as the University returned to a regular summer schedule.

Net Assets

As of June 30, 2006

The University’s net assets totaled $364.6 million at the end of the fiscal year, compared to $355.6 million the previous year. The increase in net assets was primarily the result of increases in invested in capital assets, net of related debt, and unrestricted net assets offset by a decrease in restricted-expendable, capital projects. Current year net additions to capital assets of $46.4 million, offset by $31.9 million of related debt, contributed to the increase in invested capital assets, net of related debt. Unrestricted net assets increased $9.9 million as a result of higher student tuition and fees in combination with a 2.5% enrollment increase, and increases in noncapital related state appropriations for the return to a regular summer session, investment returns, and capital-related grants and gifts. Restricted-expendable net assets decreased by $18.4 million due to a reduction in capital-related state appropriations offset by an increase of investment returns for unexpended bond proceeds held by SMIF.

As of June 30, 2005

The University’s net assets totaled $355.6 million at the end of the fiscal year, compared to $316.3 million the previous year. The increase in net assets was primarily the result of increases in invested in capital assets, net of related debt, unrestricted net assets and restricted-expendable, capital projects. Current-year net additions to capital assets of $14.0 million contributed to the increase in invested in capital assets, net of related debt. Unrestricted net assets increased $6.1 million due to sales and services of auxiliary enterprises and $4.4 million
of other operating revenues offset by a reduction of $4.6 million of noncapital related state appropriations. Restricted-expendable, capital projects net assets increased $18.4 million due to an increase in capital-related state appropriations.

**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

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nonexpendable:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowments</td>
<td>$3,437,853</td>
<td>$3,420,417</td>
<td>$2,863,336</td>
</tr>
<tr>
<td><strong>Expendable:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>3,979,292</td>
<td>2,817,501</td>
<td>2,359,185</td>
</tr>
<tr>
<td>Loans</td>
<td>1,942,223</td>
<td>1,865,876</td>
<td>1,808,530</td>
</tr>
<tr>
<td>Capital projects</td>
<td>1,019,581</td>
<td>19,410,025</td>
<td>1,254,522</td>
</tr>
<tr>
<td>Debt service</td>
<td>—</td>
<td>1,208,568</td>
<td>1,242,592</td>
</tr>
<tr>
<td><strong>Total restricted net assets – expendable</strong></td>
<td>$6,941,096</td>
<td>$25,301,970</td>
<td>$6,664,829</td>
</tr>
<tr>
<td><strong>Total restricted net assets</strong></td>
<td>$10,378,949</td>
<td>$28,722,387</td>
<td>$9,528,165</td>
</tr>
</tbody>
</table>
The University’s net assets increased $9.0 million in the current year and $39.3 million in the previous year as reflected in the condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2006, 2005, and 2004 as follows:

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

<table>
<thead>
<tr>
<th>Year ended June 30</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees</td>
<td>$ 73,179,006</td>
<td>61,565,512</td>
<td>55,063,867</td>
</tr>
<tr>
<td>Grants, contracts, and gifts</td>
<td>14,513,285</td>
<td>14,475,795</td>
<td>14,525,304</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises, net</td>
<td>21,455,049</td>
<td>20,305,920</td>
<td>18,975,536</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>6,119,489</td>
<td>4,552,778</td>
<td>4,937,759</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>115,266,829</td>
<td>100,900,005</td>
<td>93,502,466</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>258,166,855</td>
<td>229,688,277</td>
<td>233,895,011</td>
</tr>
<tr>
<td>Nonoperating revenues (expenses):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>130,962,573</td>
<td>126,197,024</td>
<td>130,816,807</td>
</tr>
<tr>
<td>Investment income</td>
<td>14,453,614</td>
<td>3,517,186</td>
<td>609,592</td>
</tr>
<tr>
<td>Other nonoperating revenues (expenses)</td>
<td>(10,160,780)</td>
<td>4,110,817</td>
<td>3,768,866</td>
</tr>
<tr>
<td>Total nonoperating revenues, net</td>
<td>135,255,407</td>
<td>133,825,027</td>
<td>135,195,265</td>
</tr>
<tr>
<td>Other capital-related revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations, capital</td>
<td>9,176,000</td>
<td>29,182,000</td>
<td>891,000</td>
</tr>
<tr>
<td>Grants and gifts, capital</td>
<td>7,447,504</td>
<td>4,535,828</td>
<td>4,775,359</td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>17,436</td>
<td>557,081</td>
<td>13,850</td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>8,996,321</td>
<td>39,311,664</td>
<td>482,929</td>
</tr>
<tr>
<td>Beginning net assets</td>
<td>355,629,158</td>
<td>316,317,494</td>
<td>315,834,565</td>
</tr>
<tr>
<td>Ending net assets</td>
<td>$ 364,625,479</td>
<td>355,629,158</td>
<td>316,317,494</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

Year Ended June 30, 2006

The University recognized $115.3 million in operating revenues during this fiscal year, as compared to $100.9 million in the prior year. This comprised 42% of total revenues for the year ended June 30, 2006, compared to 38% of total revenues for the year ended June 30, 2005. Student tuition and fee revenue increased to $73.2 million in the current year, from $61.6 million in the prior year, a change of $11.6 million. This is consistent with an increase in student-fee rates and enrollment. Sales and services of auxiliary enterprises increased $1.1 million primarily due to an increase of $0.6 million in dormitory housing revenue and $0.6 million in parking revenues.

Year Ended June 30, 2005

The University recognized $100.9 million in operating revenues during this fiscal year, as compared to $93.5 million in the prior year. This comprised 38% of total revenues for the year ended June 30, 2005, compared to 35% of total revenues for the year ended June 30, 2004. Student tuition and fee revenue increased to $61.6 million in the current year, from $55.1 million in the prior year, a change of $6.5 million. This increase is consistent with an increase in student fee rates. Sales and services of auxiliary enterprises increased $1.3 million primarily due to an increase of $0.9 million in dormitory housing revenue and $0.2 million in parking revenues.
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2006, 2005, and 2004:

**Operating Expenses**

*Year Ended June 30, 2006*

The University’s operating expenses consist of salaries and benefits of $172.3 million, supplies and other services of $51.4 million, scholarships and fellowships of $17.0 million, and depreciation of $17.5 million. Total operating expenses, excluding depreciation, increased by $27.2 million, or 12.7%, primarily due to increases in instruction, academic support, student services, operations, and maintenance of plant and auxiliary enterprise expenses. Within these functional programs, salaries and benefits costs increased $11.6 million, student grants and scholarships increased $1.1 million, and supplies and other services increased $14.5 million. These changes
reflect increases in funding for compensation, employee health and welfare benefits, and enrollment growth, along with higher student fees and utility rates. The increase in depreciation expense of $1.3 million relates to current year depreciable capital asset additions of $8.6 million.

Year Ended June 30, 2005

The University’s operating expenses consist of salaries and benefits of $160.7 million, supplies and other services of $36.9 million, scholarships and fellowships of $15.9 million, and depreciation of $16.2 million. Operating expenses decreased by $4.2 million, or 1.8%, caused primarily by a $3.0 million reduction in instructional costs, the result of a 5.3% enrollment reduction, from 17,170 full-time equivalent students (FTES) to 16,264 FTES. Fluctuations occurred between other line items of expenses that have little overall impact. Expenses associated with auxiliary enterprises increased by $1.1 million and expenditures for academic support decreased by $1.6 due to the reduction in FTES.

The following chart presents the distribution of resources in support of the University’s mission for fiscal years 2006, 2005, and 2004:
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.

Year Ended June 30, 2006

As noted above, the University’s operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled $9.2 million for the fiscal year ended June 30, 2006, down from $29.2 million for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled $131.0 million, an increase of $4.8 million from the prior year. Other nonoperating expenses increased $9.0 million due primarily to interest on capital related debt from revenue bonds.

Year Ended June 30, 2005

As the University is part of the CSU 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 $29.2 million for the fiscal year ended June 30, 2005, an increase of $28.3 million from the fiscal year ended June 30, 2004. General (noncapital) appropriation revenues totaled $126.2 million, a decrease of $4.6 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>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$4,545,634</td>
<td>$4,545,634</td>
<td>$4,545,634</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>180,212,084</td>
<td>182,488,458</td>
<td>189,956,535</td>
</tr>
<tr>
<td>Improvements, other than buildings</td>
<td>1,485,529</td>
<td>1,852,790</td>
<td>2,072,730</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>60,389,086</td>
<td>61,421,281</td>
<td>49,563,391</td>
</tr>
<tr>
<td>Personal property</td>
<td>17,870,029</td>
<td>17,126,470</td>
<td>18,551,990</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2,735,344</td>
<td>6,843,780</td>
<td>5,336,011</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>79,786,525</td>
<td>26,312,966</td>
<td>17,828,629</td>
</tr>
</tbody>
</table>

Total capital assets, net of accumulated depreciation $347,024,231 $300,591,379 $287,854,920
As of June 30, 2006

At June 30, 2006, the University had total capital assets of $556.2 million, less accumulated depreciation of $209.1 million, ending with net capital assets of $347.0 million. This reflects a 15.4% increase over net capital assets at June 30, 2005. Depreciation expense totaled $17.5 million.

Capital asset additions totaled $66.4 million. Buildings and building improvements increased $6.7 million due primarily to completion of the Grant M. Brown Engineering Building. Additions to construction work in progress totaled $57.9 million primarily due to continuing construction of Poly Canyon Village and the Engineering IV Building.

As of June 30, 2005

At June 30, 2005, the University had total capital assets of $498.2 million, less accumulated depreciation of $197.6 million, ending with net capital assets of $300.6 million. This reflects a 4.4% increase over net capital assets at June 30, 2004. Depreciation expense totaled $16.2 million.

Capital asset additions totaled $30.7 million. Infrastructure increased $13.6 million, of which $7.9 million is related to completion of construction work in progress on the telecom infrastructure project. Additions to construction work in progress totaled $17.8 million, for continuing construction of Poly Canyon Village, Grant M. Brown Engineering Building, and Engineering IV.

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

Long-Term Debt Obligations

Debt outstanding at June 30, 2006, 2005, and 2004 is summarized below by type of debt instrument:

<table>
<thead>
<tr>
<th></th>
<th>June 30 2006</th>
<th>June 30 2005</th>
<th>June 30 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing System Revenue Bonds</td>
<td>250,000</td>
<td>430,161</td>
<td>580,606</td>
</tr>
<tr>
<td>Student Union Revenue Bonds</td>
<td>—</td>
<td>4,425,000</td>
<td>4,650,000</td>
</tr>
<tr>
<td>Systemwide Revenue Bonds</td>
<td>355,558,572</td>
<td>49,920,000</td>
<td>50,810,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>355,808,572</td>
<td>54,775,161</td>
<td>56,040,606</td>
</tr>
<tr>
<td>Unamortized bond premium</td>
<td>12,345,036</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Unamortized loss on refunding</td>
<td>(225,262)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total long-term debt</strong></td>
<td>367,928,346</td>
<td>54,775,161</td>
<td>56,040,606</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(1,372,161)</td>
<td>(1,306,589)</td>
<td>(1,265,445)</td>
</tr>
<tr>
<td><strong>Long-term debt, net of current portion</strong></td>
<td>$366,556,185</td>
<td>53,468,572</td>
<td>54,775,161</td>
</tr>
</tbody>
</table>

The interest rates on outstanding debt range from 3.0% to 5.5%.
As of June 30, 2006

At June 30, 2006 and 2005, the University had $367.9 million and $54.8 million, respectively, in debt outstanding. The University issued new bonds during fiscal year 2006 to refinance $4.1 million of existing student union revenue bond debt and $306.3 million for construction of a Poly Canyon Village.

As of June 30, 2005

The University had $54.8 million in debt outstanding, a decrease of $1.3 million from the prior year due to retirement of principal on existing debt.

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 9 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 CSU for fiscal year 2006/2007. Based on this allocation, the CSU has funding in place consistent with the Higher Education Compact, which was entered into by the Governor and the CSU board of trustees. The elements of the Higher Education Compact include a 3% increase in general funding, a 2.5% increase in enrollment for the CSU, and a buy-down of the planned increase to the State University Fee. The University’s targeted enrollment increase is 3.3%. The funding total of $211 million, $13.1 million higher than fiscal year 2005/06, will be used primarily to fund increased costs related to enrollment growth, compensation increases as negotiated by collective bargaining agreements for staff and faculty salaries, along with benefit and other salary-related costs.

Effective July 1, 2006, with the passing of AB 1802, the CSU was authorized to deposit student fee revenue in local trust. With this change, the CSU should gain efficiencies in financial processes and additional investment opportunities. A CSU task force has been formed to determine the banking and accounting system changes needed to accommodate this change.

Enrollment growth continues to be funded based on a marginal cost calculation; however, that calculation has changed to include:

- Growth in graduate enrollment is calculated by assuming a full-time equivalent graduate student takes 12 units rather than 15 as had been used in the past.
- Growth in nonresident students (out-of-state students) that no longer will be funded by the State. In the past, the State funded all FTES regardless of their residency status.
- A new maintenance of plant component is included in the marginal cost calculation for the first time.
A change of rates (generally increased) in each of the components of the marginal costs. This includes faculty compensation, instructional equipment and support, academic support as well as the new maintenance of plant factor.

Full-time equivalent enrollment target for fiscal year 2006/2007 is 17,643 after rebenching to adjust for the 12 unit FTES for graduate students. This is a funded FTES growth of 568, representing a 3.3% increase over the rebenched 17,075 FTES for 2004/05.

Major capital projects currently under construction or in process for the 2006/07 fiscal year include the following:

- Engineering IV: Construction is proceeding on schedule with an anticipated delivery date of February 2007.
- Bonderson Projects Center: Complete and ready for occupancy. Completion of the telecom services to the building are expected to be completed by end of December 2006.
- Spanos Stadium Renovation continues on the west stands with anticipated completion in fall of 2006.
- Poly Canyon Village-Student Housing: This project is progressing with construction of the buildings and the parking structures.
- The Bull Test and Feed Mill were moved as part of the Poly Canyon Village construction. The new Beef Center (formerly Bull Test) is now in use by about 250 bulls and the new Animal Nutrition Center, formerly the Feed Mill, is under construction.
- Construction Management Building: Demolition of the old air conditioning building is complete and the contractor has begun work on a new construction management building.
- Housing Administration: Construction has begun on the new facility and is expected to be completed by summer 2007.
- Marine Science Education and Research Center-Seawater Pumping Station: Construction on the new facility began December 2005 and is expected to be completed Spring 2007.
CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Statement of Net Assets
June 30, 2006

<table>
<thead>
<tr>
<th>Assets</th>
<th>University</th>
<th>GASB Auxiliary Organizations</th>
<th>FASB Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,541,539</td>
<td>100</td>
<td>16,756,707</td>
<td>21,298,246</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>83,466,172</td>
<td>69,005,061</td>
<td>152,471,233</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>15,249,922</td>
<td>6,595,870</td>
<td>21,845,792</td>
<td></td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td></td>
<td>4,544,630</td>
<td>4,544,630</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>4,442,808</td>
<td>12,406</td>
<td>4,175,101</td>
<td>8,630,315</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>107,700,441</td>
<td>12,506</td>
<td>101,077,369</td>
<td>208,790,316</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td></td>
<td></td>
<td>1,952,970</td>
<td>1,952,970</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>43,590,456</td>
<td>1,959,776</td>
<td>45,550,232</td>
<td></td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>5,457,652</td>
<td></td>
<td>5,457,652</td>
<td></td>
</tr>
<tr>
<td>Endowment investments</td>
<td>3,620,958</td>
<td>161,119,931</td>
<td>164,740,889</td>
<td></td>
</tr>
<tr>
<td>Other long-term investments</td>
<td>293,555,121</td>
<td></td>
<td>301,499,546</td>
<td></td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>347,024,231</td>
<td>11,819,841</td>
<td>358,844,075</td>
<td></td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>693,248,418</td>
<td>11,819,841</td>
<td>715,108,259</td>
<td>911,557,469</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>800,948,859</td>
<td>11,832,347</td>
<td>307,566,579</td>
<td>1,120,347,785</td>
</tr>
</tbody>
</table>

**Liabilities and Net Assets**

| Current liabilities:               |            |                              |                              |       |
| Accounts payable                   | 21,437,171 | 20,208                       | 5,112,271                    | 26,569,650 |
| Accrued salaries and benefits payable| 11,915,062 |                              | 536,437                      | 12,451,499 |
| Accrued compensated absences – current portion | 4,372,057 | 604,663                      | 4,976,720                    |       |
| Deferred revenue                   | 12,338,071 | 1,444,313                    | 13,782,384                   |       |
| Capitalized lease obligations – current portion | 71,092 |                              | 71,092                       |       |
| **Total current liabilities**      | 56,570,343 | 1,577,790                    | 9,369,728                    | 67,517,861 |

Noncurrent liabilities:

| Accrued compensated absences, net of current portion | 4,920,787 | 243,413 | 5,164,200 |
| Deferred revenue                          | 6,080,374 | 3,792,845 | 9,873,219 |
| Capitalized lease obligations, net of current portion | 38,516 | 38,516 |
| Long-term debt obligations, net of current portion | 366,556,185 | 2,459,346 | 379,095,534 |
| Depository accounts                      | 2,157,175 | 6,784,985 | 8,942,160 |
| **Total noncurrent liabilities**         | 379,753,037 | 10,583,553 | 390,336,590 |

**Total liabilities**

| 436,323,380 | 12,161,343 | 49,896,472 | 498,381,195 |

| Net assets:                                     |            |                              |                              |       |
| Invested in capital assets, net of related debt | 300,951,847 | 7,803 | 23,935,231 | 324,884,881 |
| Restricted for:                                 |            |                              |                              |       |
| Nonexpendable – endowments                     | 3,437,853 | 93,824,387 | 97,262,240 |
| Expendable:                                     |            |                              |                              |       |
| Scholarships and fellowships                   | 3,979,292 | 13,446,492 | 17,425,784 |
| Loans                                          | 1,942,223 | 1,942,223 |
| Capital projects                               | 1,019,581 | 25,924,849 | 26,944,430 |
| Debt service                                   |             | 1,952,970 | 1,952,970 |
| Other                                          |             | 79,979,873 | 79,979,873 |
| Unrestricted                                   | 53,294,683 | (336,799) | 18,606,305 | 71,564,189 |
| **Total net assets**                           | 364,625,479 | (328,996) | 257,670,107 | 621,966,590 |

See accompanying notes to financial statements.
# Statement of Net Assets

## June 30, 2005

### Discretely presented component units

<table>
<thead>
<tr>
<th>Assets</th>
<th>GASB University</th>
<th>Auxiliary Organizations</th>
<th>FASB Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 7,650,966</td>
<td>100</td>
<td>23,452,178</td>
<td>31,103,244</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>71,181,494</td>
<td>—</td>
<td>55,880,847</td>
<td>127,062,341</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>11,407,042</td>
<td>—</td>
<td>7,058,435</td>
<td>18,465,477</td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>—</td>
<td>—</td>
<td>3,864,890</td>
<td>3,864,890</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>2,386,406</td>
<td>12,406</td>
<td>4,752,844</td>
<td>7,151,656</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>92,625,908</td>
<td>12,506</td>
<td>95,009,194</td>
<td>187,647,608</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>—</td>
<td>—</td>
<td>2,284,457</td>
<td>2,284,457</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>57,370,631</td>
<td>—</td>
<td>7,712,542</td>
<td>65,083,173</td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>5,680,780</td>
<td>—</td>
<td>64,032,986</td>
<td>69,713,766</td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>—</td>
<td>—</td>
<td>4,962,250</td>
<td>4,962,250</td>
</tr>
<tr>
<td>Endowment investments</td>
<td>3,603,522</td>
<td>—</td>
<td>138,638,961</td>
<td>142,242,483</td>
</tr>
<tr>
<td>Other long-term investments</td>
<td>7,738,356</td>
<td>—</td>
<td>6,481,403</td>
<td>14,219,759</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>300,591,379</td>
<td>4,285,014</td>
<td>138,638,961</td>
<td>324,931,536</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>374,984,668</td>
<td>4,285,014</td>
<td>180,134,756</td>
<td>559,404,438</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>467,610,576</td>
<td>4,297,520</td>
<td>275,143,950</td>
<td>747,052,046</td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>GASB University</th>
<th>Auxiliary Organizations</th>
<th>FASB Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>15,764,905</td>
<td>388,586</td>
<td>3,160,133</td>
<td>19,313,624</td>
</tr>
<tr>
<td>Accrued salaries and benefits payable</td>
<td>11,565,636</td>
<td>—</td>
<td>1,348,812</td>
<td>12,914,018</td>
</tr>
<tr>
<td>Accrued compensated absences – current portion</td>
<td>4,150,913</td>
<td>—</td>
<td>685,812</td>
<td>4,836,725</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>11,134,678</td>
<td>—</td>
<td>2,100,045</td>
<td>13,234,723</td>
</tr>
<tr>
<td>Capitalized lease obligations – current portion</td>
<td>2,316</td>
<td>—</td>
<td>4,962,250</td>
<td>7,274,566</td>
</tr>
<tr>
<td>Long-term debt obligations – current portion</td>
<td>1,306,589</td>
<td>—</td>
<td>312,705</td>
<td>1,619,294</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,204,892</td>
<td>—</td>
<td>811,200</td>
<td>3,016,092</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>46,129,929</td>
<td>388,586</td>
<td>8,418,277</td>
<td>54,936,792</td>
</tr>
<tr>
<td>Accrued compensated absences, net of current portion</td>
<td>4,329,038</td>
<td>—</td>
<td>1,408,981</td>
<td>5,738,019</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>11,134,678</td>
<td>—</td>
<td>2,100,045</td>
<td>13,234,723</td>
</tr>
<tr>
<td>Grants refundable</td>
<td>6,147,496</td>
<td>—</td>
<td>2,553,880</td>
<td>8,701,376</td>
</tr>
<tr>
<td>Long-term debt obligations, net of current portion</td>
<td>53,468,572</td>
<td>4,186,188</td>
<td>36,660,376</td>
<td>94,215,136</td>
</tr>
<tr>
<td>Depository accounts</td>
<td>1,906,383</td>
<td>—</td>
<td>6,418,503</td>
<td>8,324,886</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,906,383</td>
<td>—</td>
<td>6,418,503</td>
<td>8,324,886</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>65,851,489</td>
<td>4,186,188</td>
<td>36,660,376</td>
<td>106,698,053</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>111,981,418</td>
<td>4,574,774</td>
<td>45,078,653</td>
<td>161,634,845</td>
</tr>
</tbody>
</table>

### Net assets:

- **Invested in capital assets, net of related debt**: 283,492,396
- **Restricted for**: 376,080
- **Nonexpendable – endowments**: 17,081,843
- **Expended**: 300,950,319
- **Scholarships and fellowships**: 376,080
- **Loans**: 17,081,843
- **Capital projects**: 376,080
- **Debt service**: 17,081,843
- **Other**: 376,080
- **Unrestricted**: 376,080

<table>
<thead>
<tr>
<th>Net assets</th>
<th>GASB University</th>
<th>Auxiliary Organizations</th>
<th>FASB Auxiliary Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>283,492,396</td>
<td>376,080</td>
<td>17,081,843</td>
<td>300,950,319</td>
</tr>
<tr>
<td><strong>Nonexpendable – endowments</strong></td>
<td>3,420,417</td>
<td>—</td>
<td>89,610,092</td>
<td>93,030,509</td>
</tr>
<tr>
<td><strong>Expended</strong>:</td>
<td>2,817,501</td>
<td>—</td>
<td>10,568,620</td>
<td>13,386,121</td>
</tr>
<tr>
<td><strong>Scholarships and fellowships</strong></td>
<td>1,865,876</td>
<td>—</td>
<td>89,610,092</td>
<td>93,030,509</td>
</tr>
<tr>
<td><strong>Loans</strong>:</td>
<td>19,410,025</td>
<td>—</td>
<td>13,290,356</td>
<td>32,700,381</td>
</tr>
<tr>
<td><strong>Capital projects</strong>:</td>
<td>1,906,383</td>
<td>—</td>
<td>6,418,503</td>
<td>8,324,886</td>
</tr>
<tr>
<td><strong>Debt service</strong>:</td>
<td>1,906,383</td>
<td>—</td>
<td>6,418,503</td>
<td>8,324,886</td>
</tr>
<tr>
<td><strong>Other</strong>:</td>
<td>43,414,375</td>
<td>(653,334)</td>
<td>18,634,726</td>
<td>61,395,767</td>
</tr>
<tr>
<td><strong>Unrestricted</strong>:</td>
<td>—</td>
<td>—</td>
<td>78,595,203</td>
<td>78,595,203</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$ 355,629,158</td>
<td>(277,254)</td>
<td>230,065,297</td>
<td>585,417,201</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2006

<table>
<thead>
<tr>
<th>Component Units</th>
<th>GASB University</th>
<th>GASB Auxiliary Organizations</th>
<th>FASB Auxiliary Organizations</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees (net of scholarship allowances of $10,673,176)</td>
<td>$ 73,179,006</td>
<td>—</td>
<td>6,839,180</td>
<td>—</td>
<td>80,018,186</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>9,280,886</td>
<td>—</td>
<td>8,345,370</td>
<td>—</td>
<td>17,626,256</td>
</tr>
<tr>
<td>State and local</td>
<td>5,232,399</td>
<td>—</td>
<td>3,882,643</td>
<td>—</td>
<td>9,115,042</td>
</tr>
<tr>
<td>Nongovernmental</td>
<td>—</td>
<td>—</td>
<td>2,980,345</td>
<td>—</td>
<td>2,980,345</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises (net of scholarship allowances of $155,027)</td>
<td>21,455,049</td>
<td>—</td>
<td>36,223,405</td>
<td>—</td>
<td>57,678,454</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>6,119,489</td>
<td>—</td>
<td>16,611,718</td>
<td>(1,214,055)</td>
<td>21,517,152</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>115,266,829</td>
<td>—</td>
<td>74,882,661</td>
<td>(1,214,055)</td>
<td>188,935,435</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>105,176,112</td>
<td>—</td>
<td>13,551,432</td>
<td>13,551,432</td>
<td>105,808,966</td>
</tr>
<tr>
<td>Research</td>
<td>—</td>
<td>4,595,004</td>
<td>—</td>
<td>—</td>
<td>4,672,785</td>
</tr>
<tr>
<td>Public service</td>
<td>77,781</td>
<td>—</td>
<td>5,202,571</td>
<td>(137,575)</td>
<td>29,611,841</td>
</tr>
<tr>
<td>Academic support</td>
<td>26,041,010</td>
<td>—</td>
<td>15,863,144</td>
<td>—</td>
<td>41,904,154</td>
</tr>
<tr>
<td>Student services</td>
<td>24,228,845</td>
<td>—</td>
<td>1,086,683</td>
<td>—</td>
<td>25,315,528</td>
</tr>
<tr>
<td>Institutional support</td>
<td>25,365,735</td>
<td>51,742</td>
<td>10,086,491</td>
<td>(1,131,797)</td>
<td>34,372,363</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>26,754,545</td>
<td>—</td>
<td>2,074,395</td>
<td>—</td>
<td>28,828,940</td>
</tr>
<tr>
<td>Student grants and scholarships</td>
<td>17,032,624</td>
<td>—</td>
<td>1,149,776</td>
<td>(1,503,911)</td>
<td>16,733,806</td>
</tr>
<tr>
<td>Auxiliary enterprise expenses</td>
<td>16,027,837</td>
<td>—</td>
<td>35,185,411</td>
<td>—</td>
<td>51,186,248</td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,462,366</td>
<td>—</td>
<td>1,676,221</td>
<td>—</td>
<td>19,138,587</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>258,166,855</td>
<td>51,742</td>
<td>90,308,491</td>
<td>(2,717,966)</td>
<td>345,809,122</td>
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<tr>
<td>Operating loss</td>
<td>(142,900,026)</td>
<td>(51,742)</td>
<td>(15,425,830)</td>
<td>—</td>
<td>13,839,783</td>
</tr>
<tr>
<td>Nonoperating revenues (expenses):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations, noncapital</td>
<td>130,962,573</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>130,962,573</td>
</tr>
<tr>
<td>Gifts, noncapital</td>
<td>3,998,150</td>
<td>—</td>
<td>12,563,134</td>
<td>(1,503,911)</td>
<td>15,057,373</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>14,314,706</td>
<td>—</td>
<td>7,311,509</td>
<td>—</td>
<td>21,626,215</td>
</tr>
<tr>
<td>Endowment income, net</td>
<td>138,908</td>
<td>—</td>
<td>17,229,320</td>
<td>—</td>
<td>17,368,228</td>
</tr>
<tr>
<td>Interest on capital-related debt</td>
<td>(11,629,559)</td>
<td>—</td>
<td>(141,989)</td>
<td>—</td>
<td>(11,771,548)</td>
</tr>
<tr>
<td>Other nonoperating expenses, net</td>
<td>(2,529,371)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(2,529,371)</td>
</tr>
<tr>
<td><strong>Net nonoperating revenues (expenses)</strong></td>
<td>135,255,407</td>
<td>—</td>
<td>36,961,974</td>
<td>(1,503,911)</td>
<td>170,713,470</td>
</tr>
<tr>
<td>Income (loss) before other additions</td>
<td>(6,444,619)</td>
<td>(51,742)</td>
<td>21,536,144</td>
<td>—</td>
<td>13,839,783</td>
</tr>
<tr>
<td>State appropriations, capital</td>
<td>9,176,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>9,176,000</td>
</tr>
<tr>
<td>Gifts and grants, capital</td>
<td>7,447,504</td>
<td>—</td>
<td>4,249,182</td>
<td>—</td>
<td>11,696,686</td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>17,436</td>
<td>—</td>
<td>1,819,484</td>
<td>—</td>
<td>18,255,920</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net assets</strong></td>
<td>8,996,321</td>
<td>(51,742)</td>
<td>27,604,810</td>
<td>—</td>
<td>36,549,389</td>
</tr>
</tbody>
</table>

**Net assets:**

Net assets at beginning of year | 355,629,158   | (277,254) | 230,065,297 | — | 585,417,201 |
Net assets at end of year | $ 364,625,479 | (328,996) | 257,670,107 | — | 621,966,590 |

See accompanying notes to financial statements.
CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2005

<table>
<thead>
<tr>
<th>GASB University</th>
<th>GASB Auxiliary Organizations</th>
<th>FASB Auxiliary Organizations</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees (net of scholarship allowances of $11,084,637)</td>
<td>$ 61,565,512</td>
<td>6,474,988</td>
<td>68,040,500</td>
<td></td>
</tr>
<tr>
<td>Grants and contracts, noncapital:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>9,569,693</td>
<td>-</td>
<td>8,668,835</td>
<td>18,238,528</td>
</tr>
<tr>
<td>State and local</td>
<td>4,906,102</td>
<td>-</td>
<td>5,664,958</td>
<td>10,571,060</td>
</tr>
<tr>
<td>Nongovernmental</td>
<td>-</td>
<td>-</td>
<td>2,725,165</td>
<td>2,725,165</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises (net of scholarship allowances of $163,420)</td>
<td>20,305,920</td>
<td>34,869,059</td>
<td>55,174,979</td>
<td></td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>4,552,778</td>
<td>-</td>
<td>15,065,718</td>
<td>19,452,949</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>100,900,005</td>
<td>-</td>
<td>73,468,723</td>
<td>174,203,181</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>97,245,506</td>
<td>-</td>
<td>12,247,030</td>
<td>12,247,030</td>
</tr>
<tr>
<td>Public service</td>
<td>93,089</td>
<td>-</td>
<td>7,153,296</td>
<td>7,246,385</td>
</tr>
<tr>
<td>Academic support</td>
<td>22,626,007</td>
<td>-</td>
<td>12,756,665</td>
<td>35,382,672</td>
</tr>
<tr>
<td>Student services</td>
<td>21,880,273</td>
<td>-</td>
<td>12,756,665</td>
<td>35,382,672</td>
</tr>
<tr>
<td>Institutional support</td>
<td>25,707,404</td>
<td>45,844</td>
<td>9,470,355</td>
<td>35,107,056</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>17,974,000</td>
<td>-</td>
<td>1,636,164</td>
<td>19,610,164</td>
</tr>
<tr>
<td>Student grants and scholarships</td>
<td>15,933,125</td>
<td>-</td>
<td>1,002,829</td>
<td>15,917,798</td>
</tr>
<tr>
<td>Auxiliary enterprise expenses</td>
<td>12,025,330</td>
<td>-</td>
<td>33,942,019</td>
<td>45,967,349</td>
</tr>
<tr>
<td>Depreciation</td>
<td>16,203,543</td>
<td>-</td>
<td>1,788,564</td>
<td>17,992,107</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>229,688,277</td>
<td>45,844</td>
<td>86,121,962</td>
<td>314,612,380</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(128,788,272)</td>
<td>(45,844)</td>
<td>(1,078,156)</td>
<td>(140,409,199)</td>
</tr>
<tr>
<td>Nonoperating revenues (expenses):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations, noncapital</td>
<td>126,197,024</td>
<td>-</td>
<td>-</td>
<td>126,197,024</td>
</tr>
<tr>
<td>Gifts, noncapital</td>
<td>3,446,778</td>
<td>-</td>
<td>11,642,202</td>
<td>14,088,280</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>3,432,549</td>
<td>-</td>
<td>6,526,957</td>
<td>9,959,506</td>
</tr>
<tr>
<td>Endowment income, net</td>
<td>84,637</td>
<td>-</td>
<td>18,579,489</td>
<td>19,464,126</td>
</tr>
<tr>
<td>Interest on capital-related debt</td>
<td>(2,652,972)</td>
<td>-</td>
<td>(109,634)</td>
<td>(2,762,606)</td>
</tr>
<tr>
<td>Other nonoperating revenues, net</td>
<td>3,317,011</td>
<td>-</td>
<td>-</td>
<td>3,317,011</td>
</tr>
<tr>
<td>Net nonoperating revenues (expenses)</td>
<td>133,825,027</td>
<td>-</td>
<td>36,639,014</td>
<td>169,464,041</td>
</tr>
<tr>
<td>Income (loss) before other additions</td>
<td>5,036,755</td>
<td>(45,844)</td>
<td>23,985,775</td>
<td>31,976,866</td>
</tr>
<tr>
<td>State appropriations, capital</td>
<td>29,182,000</td>
<td>-</td>
<td>-</td>
<td>29,182,000</td>
</tr>
<tr>
<td>Grants and gifts, capital</td>
<td>4,335,828</td>
<td>-</td>
<td>7,114,289</td>
<td>11,450,117</td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>557,081</td>
<td>-</td>
<td>384,767</td>
<td>941,848</td>
</tr>
<tr>
<td>Increase (decrease) in net assets</td>
<td>39,311,664</td>
<td>(45,844)</td>
<td>39,447,531</td>
<td>78,713,351</td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets at beginning of year, as restated</td>
<td>316,317,494</td>
<td>(231,410)</td>
<td>190,617,766</td>
<td>506,730,850</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>$ 355,629,158</td>
<td>(277,254)</td>
<td>230,065,297</td>
<td>585,417,201</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Statements of Cash Flows

Years ended June 30, 2006 and 2005

<table>
<thead>
<tr>
<th>University</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees</td>
<td>$72,123,829</td>
<td>64,074,817</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>9,303,930</td>
<td>9,758,783</td>
</tr>
<tr>
<td>State and local grants and contracts</td>
<td>5,194,910</td>
<td>4,906,102</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(54,569,202)</td>
<td>(41,013,376)</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(171,129,556)</td>
<td>(162,743,801)</td>
</tr>
<tr>
<td>Payments to students</td>
<td>(17,131,304)</td>
<td>(15,940,114)</td>
</tr>
<tr>
<td>Collections of student loans</td>
<td>111,707</td>
<td>51,702</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises</td>
<td>23,558,000</td>
<td>20,781,981</td>
</tr>
<tr>
<td>Other receipts</td>
<td>17,901,451</td>
<td>4,651,090</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td>(114,636,235)</td>
<td>(115,472,816)</td>
</tr>
<tr>
<td>Cash flows from noncapital financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>125,530,841</td>
<td>131,052,491</td>
</tr>
<tr>
<td>Gifts and grants received for other than capital purposes</td>
<td>3,977,236</td>
<td>3,424,906</td>
</tr>
<tr>
<td>Federal loan program receipts</td>
<td>1,233,686</td>
<td>1,074,371</td>
</tr>
<tr>
<td>Federal loan program disbursements</td>
<td>(1,023,586)</td>
<td>(878,049)</td>
</tr>
<tr>
<td>Monies received on behalf of others</td>
<td>56,245,616</td>
<td>51,743,325</td>
</tr>
<tr>
<td>Monies disbursed on behalf of others</td>
<td>(60,945,953)</td>
<td>(50,919,529)</td>
</tr>
<tr>
<td>Other</td>
<td>422,647</td>
<td>4,396,416</td>
</tr>
<tr>
<td><strong>Net cash provided by noncapital financing activities</strong></td>
<td>125,440,487</td>
<td>139,893,931</td>
</tr>
<tr>
<td>Cash flows from capital and related financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from capital debt</td>
<td>286,981,666</td>
<td>—</td>
</tr>
<tr>
<td>State appropriations</td>
<td>22,959,427</td>
<td>7,925,466</td>
</tr>
<tr>
<td>Capital grants and gifts</td>
<td>809,062</td>
<td>1,679,092</td>
</tr>
<tr>
<td>Proceeds from sale of capital assets</td>
<td>31,015</td>
<td>—</td>
</tr>
<tr>
<td>Acquisition of capital assets</td>
<td>(15,234,666)</td>
<td>(23,918,339)</td>
</tr>
<tr>
<td>Transfers to escrow agent</td>
<td>(4,288,533)</td>
<td>—</td>
</tr>
<tr>
<td>Principal paid on capital debt and leases</td>
<td>(1,193,905)</td>
<td>(1,271,837)</td>
</tr>
<tr>
<td>Interest paid on capital debt and leases</td>
<td>(9,429,570)</td>
<td>(2,213,313)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) capital and related financing activities</strong></td>
<td>280,634,496</td>
<td>(17,798,931)</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales and maturities of investments</td>
<td>51,237,759</td>
<td>121,070,415</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(358,134,392)</td>
<td>(125,678,124)</td>
</tr>
<tr>
<td>Investment income received</td>
<td>12,348,458</td>
<td>2,107,381</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(294,548,175)</td>
<td>(2,500,328)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>(3,109,427)</td>
<td>4,121,856</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>7,650,966</td>
<td>3,529,110</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$4,541,539</td>
<td>7,650,966</td>
</tr>
</tbody>
</table>
CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Statements of Cash Flows

Years ended June 30, 2006 and 2005

Reconciliation of operating loss to net cash used in operating activities:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(142,900,026)</td>
<td>(128,788,272)</td>
</tr>
<tr>
<td>Adjustments to reconcile operating loss to net cash used in operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,462,366</td>
<td>16,203,543</td>
</tr>
<tr>
<td>Change in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>12,400,047</td>
<td>189,595</td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>13,027</td>
<td>44,713</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(2,056,402)</td>
<td>(42,068)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(1,384,005)</td>
<td>(4,655,616)</td>
</tr>
<tr>
<td>Accrued salaries and benefits</td>
<td>349,426</td>
<td>(1,960,918)</td>
</tr>
<tr>
<td>Accrued compensated absences</td>
<td>812,893</td>
<td>(110,911)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>415,244</td>
<td>3,083,173</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>251,195</td>
<td>563,945</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>$(114,636,235)</td>
<td>(115,472,816)</td>
</tr>
</tbody>
</table>

Supplemental schedule of noncash transactions:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed capital assets</td>
<td>$7,035,718</td>
<td>4,535,828</td>
</tr>
<tr>
<td>Acquisition of capital asset through capital lease</td>
<td>109,609</td>
<td>—</td>
</tr>
<tr>
<td>Acquisition of capital asset through long-term debt obligation</td>
<td>31,944,280</td>
<td>—</td>
</tr>
<tr>
<td>Construction work in progress acquired from the Office of the Chancellor</td>
<td>—</td>
<td>1,074,679</td>
</tr>
<tr>
<td>Accrued capital asset costs (purchased but unpaid at year end)</td>
<td>11,718,956</td>
<td>736,633</td>
</tr>
<tr>
<td>Capital asset transferred from the Office of the Chancellor</td>
<td>11,837</td>
<td>—</td>
</tr>
<tr>
<td>Gifts-in-kind</td>
<td>—</td>
<td>3,655,584</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
(1) Organization

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

The University provides instruction for baccalaureate and masters’ degrees, and certificate programs and operates various auxiliary enterprises such as student dormitories, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs, which are funded primarily through state and federal programs.

(2) Summary of Significant Accounting Policies
(a) Financial Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and No. 35, Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities, the accompanying financial statements include the accounts of the University and the University’s three 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:

- Cal Poly Corporation (formerly, California Polytechnic State University Foundation)
- Associated Students Incorporated of California Polytechnic State University at San Luis Obispo (ASI) (including the accounts of the University Student Union)
- Cal Poly Housing Corporation
Summary information for the discretely presented auxiliary organizations is as follows:

<table>
<thead>
<tr>
<th>June 30, 2006</th>
<th>Cal Poly Corporation</th>
<th>Other auxiliary organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$94,286,524</td>
<td>6,803,351</td>
<td>101,089,875</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>24,383,884</td>
<td>13,956,097</td>
<td>38,339,981</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>179,969,070</td>
<td>—</td>
<td>179,969,070</td>
</tr>
<tr>
<td>Total assets</td>
<td>298,639,478</td>
<td>20,759,448</td>
<td>319,398,926</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>7,140,034</td>
<td>3,807,484</td>
<td>10,947,518</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>38,562,453</td>
<td>12,547,844</td>
<td>51,110,297</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>45,702,487</td>
<td>16,355,328</td>
<td>62,057,815</td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>22,430,914</td>
<td>1,512,120</td>
<td>23,943,034</td>
</tr>
<tr>
<td>Restricted</td>
<td>215,004,680</td>
<td>123,891</td>
<td>215,128,571</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>15,501,397</td>
<td>2,768,109</td>
<td>18,269,506</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$252,936,991</td>
<td>4,404,120</td>
<td>257,341,111</td>
</tr>
</tbody>
</table>

Operating revenues:
- Student tuition and fees: $6,839,180
- Grants and contracts, noncapital: 15,208,358
- Sales and services of auxiliary enterprises, net: 36,223,405
- Other: 16,611,718

Total operating revenues: 74,882,661

Operating expenses:
- Instruction: 632,854
- Research: 13,551,432
- Public service: 4,595,004
- Academic support: 15,863,144
- Student services: 5,520,571
- Institutional support: 10,138,425
- Operation and maintenance of plant: 2,074,395
- Student grants and scholarships: 1,149,776
- Auxiliary enterprise expenses: 35,158,411
- Depreciation: 1,676,221

Total operating expenses: 90,360,233

Operating income (loss): (15,477,572)

Net nonoperating revenues: 36,961,974

Income before other additions: 21,484,042

Grants and gifts, capital: 4,249,182
Additions to permanent endowments: 1,819,484

Increase in net assets: 27,553,068

Net assets at beginning of year: 229,788,043

Net assets at end of year: 257,341,111
<table>
<thead>
<tr>
<th>June 30, 2005</th>
<th>Cal Poly Corporation</th>
<th>Other auxiliary organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$ 89,738,190</td>
<td>5,283,510</td>
<td>95,021,700</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>17,725,267</td>
<td>6,614,890</td>
<td>24,340,157</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>160,079,613</td>
<td>—</td>
<td>160,079,613</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>267,543,070</strong></td>
<td><strong>11,898,400</strong></td>
<td><strong>279,441,470</strong></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>6,982,560</td>
<td>1,824,303</td>
<td>8,806,863</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>34,619,456</td>
<td>6,227,108</td>
<td>40,846,564</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>41,602,016</strong></td>
<td><strong>8,051,411</strong></td>
<td><strong>49,653,427</strong></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>15,440,810</td>
<td>2,017,113</td>
<td>17,457,923</td>
</tr>
<tr>
<td>Restricted</td>
<td>194,199,246</td>
<td>149,482</td>
<td>194,348,728</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>16,300,998</td>
<td>1,680,394</td>
<td>17,981,392</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$ 225,941,054</strong></td>
<td><strong>3,846,989</strong></td>
<td><strong>229,788,043</strong></td>
</tr>
</tbody>
</table>

**Operating expenses:**
- Student tuition and fees: $ — | 6,474,988 | 6,474,988 |
- Grants and contracts, noncapital: 15,582,233 | 1,476,725 | 17,058,958 |
- Sales and services of auxiliary enterprises, net: 34,584,736 | 284,323 | 34,869,059 |
- Other: 13,126,240 | 1,939,478 | 15,065,718 |
- **Total operating expenses**: 63,293,209 | 10,175,514 | 73,468,723 |

**Operating income (loss)**: (12,743,131) | 44,048 | (12,699,083) |

**Net nonoperating revenues**: 36,393,993 | 245,021 | 36,639,014 |

**Income before other additions**: 23,650,862 | 289,069 | 23,939,931 |

**Grants and gifts, capital**: 7,114,289 | — | 7,114,289 |

**Increase in net assets**: 39,112,618 | 289,069 | 39,401,687 |

**Net assets at beginning of year, as restated**: 186,828,436 | 3,557,920 | 190,386,356 |

**Net assets at end of year**: $ 225,941,054 | 3,846,989 | 229,788,043 |
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 statements of net assets, statements of revenues, expenses, and changes in net assets, and statements 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 2005 and the changes in its financial position and its cash flows for the years 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 statements of cash flows using the direct method.

The Cal Poly Corporation and Associated Students, Inc (including the accounts of the University Union) auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB), while the Cal Poly Housing Corporation auxiliary organization 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 an error reported in the separately audited financial statements of the auxiliary organizations. A summary of the restatements to net assets at the beginning of the year related to the auxiliary organizations is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets as of June 30, 2004, as previously reported</td>
<td>$192,091,918</td>
</tr>
<tr>
<td>Adjustments to net assets to properly reflect deposits held in</td>
<td>(1,474,152)</td>
</tr>
<tr>
<td>custody for others</td>
<td></td>
</tr>
<tr>
<td><strong>Net assets at beginning of year, as restated</strong></td>
<td><strong>$190,617,766</strong></td>
</tr>
</tbody>
</table>

(d) **Election of Applicable FASB Statements**

The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

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

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

(f) **Cash and Cash Equivalents**

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

(g) **Investments**

Investments are reflected at fair value using quoted market prices, except for Local Agency Investment Fund (LAIF) and Surplus Money Investment Pool (SMIF), which are reflected at cost. Realized and unrealized gains and losses are included in the accompanying statements of revenues, expenses, and changes in net assets as investment income, net.

(h) **Capital Assets**

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

Depreciation expense is shown separately in the statements 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 statements of net assets.

(l) **Net Assets**

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

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

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

**Restricted – expendable** – Net assets subject to externally imposed conditions that can be fulfilled by the actions of the University and/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 statements 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.

(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 statements of revenues, expenses, and changes in net assets.

(p) **Use of Estimates**

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

(3) **Cash and Cash Equivalents and Investments**

The University’s cash and cash equivalents and investments as of June 30, 2006 and 2005 are classified in the accompanying financial statements as follows:

<table>
<thead>
<tr>
<th>June 30</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 4,541,539</td>
<td>7,650,966</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>83,466,172</td>
<td>71,181,494</td>
</tr>
<tr>
<td>Endowment investments</td>
<td>3,620,958</td>
<td>3,603,522</td>
</tr>
<tr>
<td>Other long-term investments</td>
<td>293,555,121</td>
<td>7,738,356</td>
</tr>
<tr>
<td>Total investments</td>
<td>380,642,251</td>
<td>82,523,372</td>
</tr>
<tr>
<td>Total cash and cash equivalents and investments</td>
<td>$ 385,183,790</td>
<td>90,174,338</td>
</tr>
</tbody>
</table>

(a) **Cash and Cash Equivalents**

At June 30, 2006 and 2005, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of $4,541,539 and $7,650,966 had a corresponding carrying value balance with the State Treasury of $2,750,770 and $4,647,541 at June 30, 2006 and 2005, respectively. The differences related primarily to deposits in transit and outstanding checks.

(b) **Investments**

At June 30, 2006 and 2005, 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 moneys of the University must be invested. The primary objective of the University’s investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University’s investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University’s investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest-rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest-rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University’s investment portfolio for each investment type as of June 30, 2006 is presented in the table 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 tables present the fair value, weighted average maturity, and actual rating by investment type of the University’s investment portfolio as of June 30, 2006 and June 30, 2005 respectively:

<table>
<thead>
<tr>
<th>Investment type</th>
<th>Fair value</th>
<th>Weighted average maturity (in years)</th>
<th>Rating as of June 30, 2006</th>
<th>Not rated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>AAA</td>
<td>Aa</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$626,007</td>
<td>0.01</td>
<td>$—</td>
<td>—</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>$5,967,488</td>
<td>1.41</td>
<td>—</td>
<td>2,237,607</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>$2,434,335</td>
<td>0.01</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>U.S. agency securities</td>
<td>$1,767,303</td>
<td>0.50</td>
<td>1,767,303</td>
<td>—</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>$109,629</td>
<td>20.87</td>
<td>109,629</td>
<td>—</td>
</tr>
<tr>
<td>Corporate and fixed income securities</td>
<td>$11,980,348</td>
<td>1.72</td>
<td>547,786</td>
<td>3,336,432</td>
</tr>
<tr>
<td>Total</td>
<td>$22,885,110</td>
<td></td>
<td>$2,424,718</td>
<td>5,574,039</td>
</tr>
</tbody>
</table>

Not subject to ratings:
- State of California Surplus Money Investment Fund $327,397,141
- State of California Local Agency Investment Fund $30,360,000

Total investment $380,642,251

<table>
<thead>
<tr>
<th>Investment type</th>
<th>Fair value</th>
<th>Weighted average maturity (in years)</th>
<th>Rating as of June 30, 2005</th>
<th>Not rated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>AAA</td>
<td>Aa</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$856,208</td>
<td>—</td>
<td>254,268</td>
<td>—</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>$450,636</td>
<td>0.80</td>
<td>—</td>
<td>120,126</td>
</tr>
<tr>
<td>U.S. agency securities</td>
<td>$6,864,684</td>
<td>1.66</td>
<td>6,864,684</td>
<td>—</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>$931,314</td>
<td>12.13</td>
<td>931,314</td>
<td>—</td>
</tr>
<tr>
<td>Corporate and fixed income securities</td>
<td>$4,851,844</td>
<td>2.09</td>
<td>417,938</td>
<td>605,073</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>$1,066,504</td>
<td>0.01</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$15,021,190</td>
<td></td>
<td>$8,468,204</td>
<td>725,199</td>
</tr>
</tbody>
</table>

Not subject to ratings:
- State of California Surplus Money Investment Fund $28,494,362
- State of California Local Agency Investment Fund $39,007,820

Total investment $82,523,372
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 and June 30, 2005, 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, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Noncurrent</td>
</tr>
<tr>
<td>State appropriations</td>
<td>5,739,252</td>
<td>43,590,456</td>
</tr>
<tr>
<td>Auxiliary organizations</td>
<td>2,143,644</td>
<td>—</td>
</tr>
<tr>
<td>Student accounts</td>
<td>1,141,944</td>
<td>—</td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>199,798</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>6,104,524</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>15,329,162</td>
<td>43,590,456</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts</td>
<td>(79,240)</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$15,249,922</td>
<td>43,590,456</td>
</tr>
</tbody>
</table>

|                      | 2005          |               |               |
| State appropriations | $310,772      | 57,370,631    | 57,681,403    |
| Auxiliary organizations | 1,141,421   | —             | 1,141,421     |
| Student accounts     | 940,119       | —             | 940,119       |
| Government grants and contracts | 217,558   | —             | 217,558       |
| Other                | 9,049,091     | —             | 9,049,091     |
|                      | 11,658,961    | 57,370,631    | 69,029,592    |
| Less allowance for doubtful accounts | (251,919) | — | (251,919) |
| Total                | $11,407,042   | 57,370,631    | 68,777,673    |
(5) **Capital Assets**

Capital assets 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>$4,545,634</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$4,545,634</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>26,312,966</td>
<td>57,870,655</td>
<td>0</td>
<td>(4,397,096)</td>
<td>79,786,525</td>
</tr>
<tr>
<td><strong>Total nondepreciable capital assets</strong></td>
<td>$30,858,600</td>
<td>57,870,655</td>
<td>0</td>
<td>(4,397,096)</td>
<td>84,332,159</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>308,633,751</td>
<td>2,332,924</td>
<td>0</td>
<td>4,397,096</td>
<td>315,363,771</td>
</tr>
<tr>
<td>Improvements, other than buildings</td>
<td>7,629,020</td>
<td>26,122</td>
<td>0</td>
<td>0</td>
<td>7,655,142</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>72,653,297</td>
<td>787,891</td>
<td>0</td>
<td>0</td>
<td>73,441,188</td>
</tr>
<tr>
<td><strong>Total depreciable capital assets</strong></td>
<td>$467,367,479</td>
<td>8,572,523</td>
<td>(8,511,343)</td>
<td>4,397,096</td>
<td>471,825,755</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>(126,145,293)</td>
<td>(9,006,394)</td>
<td>0</td>
<td>0</td>
<td>(135,151,687)</td>
</tr>
<tr>
<td>Improvements, other than buildings</td>
<td>(5,776,230)</td>
<td>(393,838)</td>
<td>0</td>
<td>0</td>
<td>(6,169,613)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(11,232,016)</td>
<td>(1,820,086)</td>
<td>0</td>
<td>0</td>
<td>(13,052,092)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td>(36,881,529)</td>
<td>(3,258,218)</td>
<td>4,166,377</td>
<td>0</td>
<td>(35,973,370)</td>
</tr>
<tr>
<td>Library books and materials</td>
<td>(12,621,846)</td>
<td>(687,806)</td>
<td>215,633</td>
<td>0</td>
<td>(13,094,019)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(4,977,786)</td>
<td>(2,296,479)</td>
<td>1,581,373</td>
<td>0</td>
<td>(5,692,892)</td>
</tr>
<tr>
<td><strong>Net capital assets</strong></td>
<td>$300,591,379</td>
<td>48,980,812</td>
<td>(2,547,960)</td>
<td>0</td>
<td>347,024,231</td>
</tr>
</tbody>
</table>
Capital assets activity for the year ended June 30, 2005 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Additions</th>
<th>Retirements</th>
<th>Transfers</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2004</td>
<td></td>
<td></td>
<td></td>
<td>June 30, 2005</td>
</tr>
<tr>
<td>Nondepreciable capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>$4,545,634</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>$4,545,634</td>
</tr>
<tr>
<td>Construction work in progress</td>
<td>17,828,629</td>
<td>17,846,747</td>
<td>(504,439)</td>
<td>(8,857,971)</td>
<td>26,312,966</td>
</tr>
<tr>
<td>Total nondepreciable</td>
<td>22,374,263</td>
<td>17,846,747</td>
<td>(504,439)</td>
<td>(8,857,971)</td>
<td>30,858,600</td>
</tr>
<tr>
<td>capital assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciable capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building</td>
<td>307,645,693</td>
<td>1,176,310</td>
<td>(978,212)</td>
<td>789,960</td>
<td>308,633,751</td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvements, other than</td>
<td>7,506,615</td>
<td>—</td>
<td>(25,171)</td>
<td>147,576</td>
<td>7,629,020</td>
</tr>
<tr>
<td>buildings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>59,018,868</td>
<td>5,821,760</td>
<td>(107,766)</td>
<td>7,920,435</td>
<td>72,653,297</td>
</tr>
<tr>
<td>Personal property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>51,041,448</td>
<td>2,406,592</td>
<td>(2,530,110)</td>
<td>—</td>
<td>50,917,930</td>
</tr>
<tr>
<td>Library books and materials</td>
<td>15,085,722</td>
<td>684,317</td>
<td>(58,124)</td>
<td>—</td>
<td>15,711,915</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>9,503,145</td>
<td>2,722,015</td>
<td>(403,594)</td>
<td>—</td>
<td>11,821,566</td>
</tr>
<tr>
<td>Total depreciable</td>
<td>449,801,491</td>
<td>12,810,994</td>
<td>(4,102,977)</td>
<td>8,857,971</td>
<td>467,367,479</td>
</tr>
<tr>
<td>capital assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>472,175,754</td>
<td>30,657,741</td>
<td>(4,607,416)</td>
<td>—</td>
<td>498,226,079</td>
</tr>
<tr>
<td>Less accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building</td>
<td>(117,689,158)</td>
<td>(8,938,640)</td>
<td>440,195</td>
<td>42,310</td>
<td>(126,145,293)</td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvements, other than</td>
<td>(5,433,885)</td>
<td>(321,259)</td>
<td>25,171</td>
<td>(46,257)</td>
<td>(5,776,230)</td>
</tr>
<tr>
<td>buildings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(9,455,477)</td>
<td>(1,853,975)</td>
<td>73,489</td>
<td>3,947</td>
<td>(11,232,016)</td>
</tr>
<tr>
<td>Personal property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>(35,608,414)</td>
<td>(3,220,244)</td>
<td>1,947,129</td>
<td>—</td>
<td>(36,881,529)</td>
</tr>
<tr>
<td>Library books and materials</td>
<td>(11,966,766)</td>
<td>(713,204)</td>
<td>58,124</td>
<td>—</td>
<td>(12,621,846)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(4,167,134)</td>
<td>(1,156,221)</td>
<td>345,569</td>
<td>—</td>
<td>(4,977,786)</td>
</tr>
<tr>
<td>Total accumulated</td>
<td>(184,320,834)</td>
<td>(16,203,543)</td>
<td>2,889,677</td>
<td>—</td>
<td>(197,634,700)</td>
</tr>
<tr>
<td>depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net capital assets</td>
<td>$287,854,920</td>
<td>14,454,198</td>
<td>(1,717,739)</td>
<td>—</td>
<td>$300,591,379</td>
</tr>
</tbody>
</table>
(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 $268,440 and $18,255 at June 30, 2006 and 2005, respectively. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 4.2% to 5.4% and have terms expiring in various years through June 30, 2009.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2008-09. 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:

<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>$ 75,477</td>
<td>174,672</td>
</tr>
<tr>
<td>2008</td>
<td>34,833</td>
<td>115,370</td>
</tr>
<tr>
<td>2009</td>
<td>5,072</td>
<td>77,537</td>
</tr>
<tr>
<td>2010</td>
<td>—</td>
<td>58,085</td>
</tr>
<tr>
<td>Total</td>
<td>115,382</td>
<td>425,664</td>
</tr>
</tbody>
</table>

Rent expense under operating leases for the years ended June 30, 2006 and 2005 totaled $218,093 and $59,657, respectively.

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 and 2005 totaled $554,748,000 and $546,127,000, respectively.
(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 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 and $1,204,292,000 as of June 30, 2006 and 2005, respectively.

(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, and 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 tuition 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 and $1,510,223,000 at June 30, 2006 and 2005, respectively. The University’s portion of the total outstanding balance under this program was $355,559,000 and $50,350,000 at June 30, 2006 and 2005, respectively.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2006 and 2005, the System’s outstanding balance for these senior bonds totaled $70,820,000 and $145,545,000, respectively. The University’s total outstanding balance for these senior bonds was $250,000 and $4,425,000 at June 30, 2006 and 2005, respectively.

(c) Revenue Bond Anticipation Notes

The University issued Revenue Bond Anticipation Notes during 2006 to finance the development and construction of housing facilities. The Revenue Bond Anticipation Notes are issued for a one-to three-year period in anticipation of issuing permanent revenue bonds at a future date. As of June 30, 2006, these Revenue Bond Anticipation Notes were converted to Systemwide Revenue Bonds; therefore, the University has no Revenue Bond Anticipation Notes outstanding at June 30, 2006.
Long-term debt obligations of the University as of June 30 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 at June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Student union revenue bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series A</td>
<td>3.0%</td>
<td>2007/08</td>
<td>$ 3,000,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Series B</td>
<td>4.0% – 9.875%</td>
<td>2025/26</td>
<td>4,650,000</td>
<td>—</td>
</tr>
<tr>
<td>Systemwide revenue bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Series B</td>
<td>3.0%</td>
<td>2007/08</td>
<td>3,803,265</td>
<td>268,572</td>
</tr>
<tr>
<td>Housing Series 2005C</td>
<td>4.5% – 5.0%</td>
<td>2038/39</td>
<td>273,010,000</td>
<td>273,010,000</td>
</tr>
<tr>
<td>Series 2002A</td>
<td>3.0% – 5.5%</td>
<td>2007/08</td>
<td>51,665,000</td>
<td>49,010,000</td>
</tr>
<tr>
<td>Student Union Series C</td>
<td>3.0% – 5.0%</td>
<td>2025/26</td>
<td>3,875,000</td>
<td>3,875,000</td>
</tr>
<tr>
<td>Parking Series 2005C</td>
<td>5.0%</td>
<td>2035/36</td>
<td>29,395,000</td>
<td>29,395,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>355,808,572</td>
<td>54,775,161</td>
</tr>
<tr>
<td>Unamortized bond premium</td>
<td></td>
<td></td>
<td>12,345,036</td>
<td>—</td>
</tr>
<tr>
<td>Unamortized loss on refunding</td>
<td>(225,262)</td>
<td></td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Total long-term debt</td>
<td></td>
<td></td>
<td>367,928,346</td>
<td>54,775,161</td>
</tr>
<tr>
<td>Less current portion</td>
<td></td>
<td></td>
<td>(1,372,161)</td>
<td>(1,306,589)</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td></td>
<td></td>
<td>$ 366,556,185</td>
<td>53,468,572</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ending June 30:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>$1,372,161</td>
<td>17,567,744</td>
</tr>
<tr>
<td>2008</td>
<td>1,341,411</td>
<td>17,516,715</td>
</tr>
<tr>
<td>2009</td>
<td>1,150,000</td>
<td>17,468,969</td>
</tr>
<tr>
<td>2010</td>
<td>1,195,000</td>
<td>17,421,594</td>
</tr>
<tr>
<td>2011</td>
<td>1,215,000</td>
<td>17,372,347</td>
</tr>
<tr>
<td>2012 – 2016</td>
<td>10,645,000</td>
<td>85,655,216</td>
</tr>
<tr>
<td>2017 – 2021</td>
<td>49,290,000</td>
<td>78,453,939</td>
</tr>
<tr>
<td>2022 – 2026</td>
<td>63,685,000</td>
<td>64,337,799</td>
</tr>
<tr>
<td>2027 – 2031</td>
<td>79,690,000</td>
<td>46,476,103</td>
</tr>
<tr>
<td>2032 – 2036</td>
<td>90,755,000</td>
<td>24,639,000</td>
</tr>
<tr>
<td>2037 – 2041</td>
<td>55,470,000</td>
<td>4,206,237</td>
</tr>
<tr>
<td></td>
<td>$355,808,572</td>
<td>391,115,663</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) Advance Refundings

(a) Current-Year Refundings

In October 2005, the University defeased Student Union Revenue Bonds Series B (refunded bonds) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005C refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2005C refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. This transaction will reduce the University’s total debt service payments by $380,093 over the life of the bonds. The economic gain from this transaction was $114,024. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the University’s current-year defeased bonds outstanding as of June 30, 2006 totaled $3,904,000.

(9) 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>$8,479,951</td>
<td>5,184,950</td>
<td>(4,372,057)</td>
<td>9,292,844</td>
<td>4,372,057</td>
</tr>
<tr>
<td>Capitalized lease obligations</td>
<td>2,316</td>
<td>109,608</td>
<td>(2,316)</td>
<td>109,608</td>
<td>71,092</td>
</tr>
<tr>
<td>Long-term debt obligations (note 8):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Union Revenue Bonds</td>
<td>4,425,000</td>
<td>—</td>
<td>(4,175,000)</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Systemwide Revenue Bonds</td>
<td>50,350,161</td>
<td>306,280,000</td>
<td>(1,071,589)</td>
<td>355,558,572</td>
<td>1,122,161</td>
</tr>
<tr>
<td>Total</td>
<td>54,775,161</td>
<td>306,280,000</td>
<td>(5,246,589)</td>
<td>355,808,572</td>
<td>1,372,161</td>
</tr>
<tr>
<td>Unamortized bond premium</td>
<td>—</td>
<td>12,645,946</td>
<td>(300,910)</td>
<td>12,345,036</td>
<td>—</td>
</tr>
<tr>
<td>Unamortized loss on refunding</td>
<td>—</td>
<td>—</td>
<td>(225,262)</td>
<td>(225,262)</td>
<td>—</td>
</tr>
<tr>
<td>Total long-term debt obligations</td>
<td>54,775,161</td>
<td>318,925,946</td>
<td>(5,772,761)</td>
<td>367,928,346</td>
<td>1,372,161</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$63,257,428</td>
<td>324,220,504</td>
<td>(10,147,134)</td>
<td>377,330,798</td>
<td>5,815,310</td>
</tr>
</tbody>
</table>
Long-term liabilities activity for the year ended June 30, 2005 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>$8,590,862</td>
<td>—</td>
<td>(110,911)</td>
<td>8,479,951</td>
<td>4,150,913</td>
</tr>
<tr>
<td>Capitalized lease obligations</td>
<td>8,708</td>
<td>—</td>
<td>(6,392)</td>
<td>2,316</td>
<td>2,316</td>
</tr>
<tr>
<td>Long-term debt obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Union Revenue Bonds</td>
<td>4,650,000</td>
<td>—</td>
<td>(225,000)</td>
<td>4,425,000</td>
<td>235,000</td>
</tr>
<tr>
<td>Systemwide Revenue Bonds</td>
<td>51,390,606</td>
<td>—</td>
<td>(1,040,445)</td>
<td>50,350,161</td>
<td>1,071,589</td>
</tr>
<tr>
<td>Total long-term debt obligations</td>
<td>56,040,606</td>
<td>—</td>
<td>(1,265,445)</td>
<td>54,775,161</td>
<td>1,306,589</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$64,640,176</td>
<td>—</td>
<td>(1,382,748)</td>
<td>63,257,428</td>
<td>5,459,818</td>
</tr>
</tbody>
</table>

(10) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

- 2004: $16,549,592
- 2005: 18,200,809
- 2006: 17,983,237
(c) **Faculty Early Retirement Program**

During fiscal year 2004, the System implemented the Faculty Early Retirement Program, which was authorized by Executive Order S-8-04 issued by the Governor on May 6, 2004. In order to enroll in the program, participants must meet the CalPERS retirement eligibility requirements of age 50 or more on the date of retirement and have five years or more of service credit. Eligible employees who elect to participate in this program will receive two additional years of service credit in their retirement income calculation if their (1) separation date is no earlier than May 5, 2004, and no later than July 27, 2004, and (2) CalPERS retirement date is no earlier than May 6, 2004, and no later than July 28, 2004. In return, the System must contribute to CalPERS an amount representing the actuarial equivalent of the value of this benefit. The early retirement benefit is not dependent upon future services and, therefore, is already earned as of June 30, 2004 by those who have elected to participate in the program. The University’s total estimated liability under the program is $1,859,490, of which all had been paid prior to fiscal year 2006.

(11) **Self-Insurance Program**

The System and certain auxiliary organizations have established a public-entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers’ compensation, industrial and nonindustrial disability, and general organizational risks. The System’s self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2006 and 2005.

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>Total</strong></td>
<td><strong>$117,639,000</strong></td>
</tr>
<tr>
<td>Liability at June 30, 2005</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>Total</strong></td>
<td><strong>$112,376,000</strong></td>
</tr>
<tr>
<td>Less current portion</td>
<td>$(27,441,000)</td>
</tr>
<tr>
<td><strong>Long-term liability at June 30, 2006, net of current portion</strong></td>
<td><strong>$84,935,000</strong></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 and 2005 was approximately 5% and 6%, or $5,779,000 and $6,608,000, respectively. 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 and 2005.

The University’s receivable due from CSURMA totaled $3,744,120 and $1,312,135 at June 30, 2006 and 2005, respectively, 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.

(12) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2006 and 2005 totaled $285,201,210 and $62,338,364, respectively. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University’s financial position, changes in net assets, or liquidity.
### 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 years ended June 30, 2006 and 2005, operating expenses by natural classification consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salaries</td>
<td>Benefits</td>
</tr>
<tr>
<td>Instruction</td>
<td>$73,432,953</td>
<td>21,821,547</td>
</tr>
<tr>
<td>Public service</td>
<td>77,781</td>
<td>—</td>
</tr>
<tr>
<td>Academic support</td>
<td>14,744,566</td>
<td>5,063,726</td>
</tr>
<tr>
<td>Student services</td>
<td>13,893,667</td>
<td>4,989,805</td>
</tr>
<tr>
<td>Institutional support</td>
<td>13,492,677</td>
<td>5,295,924</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>8,398,696</td>
<td>3,803,802</td>
</tr>
<tr>
<td>Student grants and scholarships</td>
<td>93,089</td>
<td>—</td>
</tr>
<tr>
<td>Auxiliary enterprise expenses</td>
<td>4,877,431</td>
<td>2,399,300</td>
</tr>
<tr>
<td>Depreciation</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$128,917,771</td>
<td>43,374,104</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salaries</td>
<td>Benefits</td>
</tr>
<tr>
<td>Instruction</td>
<td>$68,079,292</td>
<td>21,547,694</td>
</tr>
<tr>
<td>Public service</td>
<td>93,089</td>
<td>—</td>
</tr>
<tr>
<td>Academic support</td>
<td>13,748,664</td>
<td>4,653,063</td>
</tr>
<tr>
<td>Student services</td>
<td>12,413,719</td>
<td>4,469,689</td>
</tr>
<tr>
<td>Institutional support</td>
<td>12,651,709</td>
<td>4,771,135</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>7,809,380</td>
<td>3,334,101</td>
</tr>
<tr>
<td>Student grants and scholarships</td>
<td>—</td>
<td>15,933,125</td>
</tr>
<tr>
<td>Auxiliary enterprise expenses</td>
<td>5,030,114</td>
<td>2,070,322</td>
</tr>
<tr>
<td>Depreciation</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$119,825,967</td>
<td>40,846,004</td>
</tr>
</tbody>
</table>
(14) **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 $140,138,573 and $155,379,024 for the years ended June 30, 2006 and 2005, respectively. State appropriations receivable aggregated $49,329,708 and $57,681,403 at June 30, 2006 and 2005, respectively. The University also received lottery fund distributions from the State of California in the amount of $1,571,000 and $1,568,000 for the years ended June 30, 2006 and 2005, respectively, 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 System obligated debt, for which the related liability is not reflected in the accompanying financial statements. For the years ended June 30, 2006 and 2005, $11,837 and $1,074,679, respectively, of 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 years ended June 30:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursements from recognized auxiliary organizations for salaries of</td>
<td>$3,330,024</td>
<td>2,774,224</td>
</tr>
<tr>
<td>University employees working on contracts, grants, and other programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to recognized auxiliary organizations for services, office</td>
<td>4,558,081</td>
<td>4,161,954</td>
</tr>
<tr>
<td>space rental, and programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts-in-kind to the University from recognized auxiliary organizations</td>
<td>—</td>
<td>435,069</td>
</tr>
<tr>
<td>Amounts receivable from the Office of the Chancellor</td>
<td>297,314,073</td>
<td>10,290,558</td>
</tr>
<tr>
<td>Amounts receivable from recognized auxiliary organizations</td>
<td>2,143,644</td>
<td>1,141,421</td>
</tr>
<tr>
<td>Amounts payable to recognized auxiliary organizations</td>
<td>(3,701,103)</td>
<td>—</td>
</tr>
</tbody>
</table>