



**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

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## **Independent Auditors' Report**

Dr. Karen Haynes  
President  
California State University, San Marcos:

We have audited the accompanying financial statements of the California State University, San Marcos (the University) and its aggregate discretely presented component units as of and for the years ended June 30, 2007 and 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our 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 aggregate 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, 2007 and 2006, 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, 2007 and 2006, 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 17 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 16, 2008

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

This section of California State University, San Marcos (the University) annual financial report presents our discussion and analysis of the financial performance of the University for fiscal years ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

### **Introduction to the Financial Statements**

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

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

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

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

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

### **Analytical Overview**

#### ***Summary***

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities as of and for the years ended June 30, 2007 and 2006. 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.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

The University's condensed summary of net assets as of June 30, 2007, 2006, and 2005 is as follows:

Condensed Summary of Net Assets

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Assets:</b>			
Current assets	\$ 31,800,643	26,730,357	28,238,591
Capital assets	172,000,458	169,471,459	162,968,819
Other noncurrent assets	27,931,784	36,977,448	49,554,216
<b>Total assets</b>	<b>231,732,885</b>	<b>233,179,264</b>	<b>240,761,626</b>
<b>Liabilities:</b>			
Current liabilities	18,247,622	14,094,304	14,158,858
Long-term debt obligations, net of current portion	33,100,434	32,730,963	32,424,322
Other noncurrent liabilities	2,759,408	2,532,370	2,037,682
<b>Total liabilities</b>	<b>54,107,464</b>	<b>49,357,637</b>	<b>48,620,862</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	164,089,064	162,692,393	156,463,965
Restricted, expendable	1,366,841	8,784,354	20,570,018
Unrestricted	12,169,516	12,344,880	15,106,781
<b>Total net assets</b>	<b>\$ 177,625,421</b>	<b>183,821,627</b>	<b>192,140,764</b>

*As of June 30, 2007*

**Assets**

The \$1.4 million decrease in total assets is primarily due to a \$9.0 million decrease in state appropriations receivable used to complete capital projects combined with a \$1.0 decrease in prepaid assets due to a reduction in the prepaid for the University's portion of the CSU Risk Management Insurance program. These are offset by and an \$7.6 million increase in cash and investments.

The \$2.5 million increase in capital assets is due to \$12.0 million in additions from ongoing capital projects, primarily due to the completion of the Craven Hall renovations and the completion of Parking Lot F. These additions are offset by \$9.4 million in depreciation. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System, which are not reflected in the accompanying financial statements.

**Liabilities**

The \$4.8 million increase in total liabilities from the prior year is primarily due to a \$1.8 million increase in accounts payable, a \$1.2 million increase in capital leases for the development of the PeopleSoft CMS Student Module, a \$1.6 million increase in long-term debt for the University's computer refresh program, a \$0.7 million

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

increase in accrued salaries and benefits, and \$0.6 million increase in deferred revenue. These increases are offset by \$1.7 million decrease in retirement of the University's debt.

#### *Net Assets*

The reduction in net assets of \$6.2 million from the prior year is primarily related to an increase of \$5.2 million in general fund state appropriations, a \$3.3 million increase in tuition revenue due to increased tuition costs combined with increased enrollment. These revenues were offset by \$9.4 million increase in salaries and benefit costs due to increased staff and faculty combined with increased costs for benefits, a \$1.1 million increase in scholarship expense, and \$0.7 million increase in depreciation and amortization expense.

*As of June 30, 2006*

#### *Assets*

The \$7.6 million decrease in assets is primarily due to a \$12.3 million decrease in noncurrent accounts receivable relating to state appropriations for capital projects. The funds were used to complete the University's new Business Building, which was completed in January 2006.

The \$6.5 million increase in capital assets is due to \$15.3 million in additions from ongoing capital projects, primarily due to the completion of the Campus' Business Building. These additions are offset by \$8.7 million in current year depreciation expense. Capital expansion is financed through University funds, issuance of debt, as well as general obligation bonds of the State of California and the California State University System, which is not reflected in the accompanying financial statements.

#### *Liabilities*

The \$0.7 million increase in total liabilities from the prior year is primarily due to a \$2.3 million increase in long-term debt and capital leases to fund the University's computer refresh program and PeopleSoft CMS implementation costs. Accrued compensated absences increased by \$0.4 million. These increases are offset by a decrease in accounts payable by \$0.4 million due to a decrease in accruals for capital construction projects and a \$0.8 million decrease in other liabilities.

#### *Net Assets*

A significant portion of net assets at the end of the year is invested in capital assets. The decrease in net assets of \$8.3 million from the prior year is primarily related to a decrease of \$9.3 million in state appropriations used for capital projects.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

**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:

	<b>Restricted Net Assets</b>		
	<b>2007</b>	<b>June 30 2006</b>	<b>2005</b>
Expendable:			
Scholarships and fellowships	\$ 150,740	157,319	98,764
Loans	54,541	53,559	53,479
Capital projects	1,161,560	8,573,476	20,078,277
Debt service	—	—	339,498
Total restricted net assets	\$ <u>1,366,841</u>	<u>8,784,354</u>	<u>20,570,018</u>

*As of June 30, 2007*

The \$7.4 million decrease in restricted net assets – expendable is primarily due to capital projects that were completed and transferred to capital assets during the fiscal year 2007.

*As of June 30, 2006*

The \$11.8 million decrease in restricted net assets – expendable is primarily due to the decrease in state appropriations for capital projects.

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Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2007, 2006, and 2005 is as follows:

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

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Operating revenues:			
Student tuition and fees, net	\$ 26,194,782	22,867,810	19,944,432
Grants, contracts, and gifts	8,689,886	7,476,237	7,650,686
Sales and services of auxiliary enterprises, net	3,910,557	2,886,925	2,791,347
Other operating revenues	970,934	790,347	177,575
	<u>39,766,159</u>	<u>34,021,319</u>	<u>30,564,040</u>
Operating expenses	<u>110,680,605</u>	<u>100,198,743</u>	<u>87,705,824</u>
Operating loss	<u>(70,914,446)</u>	<u>(66,177,424)</u>	<u>(57,141,784)</u>
Nonoperating revenues (expenses):			
State appropriations	59,921,313	54,723,975	53,307,764
Investment income	2,628,340	1,918,433	354,716
Other nonoperating revenues (expenses)	304,090	(416,754)	1,935,816
Total nonoperating revenues, net	<u>62,853,743</u>	<u>56,225,654</u>	<u>55,598,296</u>
Loss before other additions	<u>(8,060,703)</u>	<u>(9,951,770)</u>	<u>(1,543,488)</u>
State appropriations, capital	1,349,000	767,000	10,002,000
Grants and gifts, capital	515,497	865,633	—
Increase (decrease) in net assets	<u>(6,196,206)</u>	<u>(8,319,137)</u>	<u>8,458,512</u>
Beginning net assets	<u>183,821,627</u>	<u>192,140,764</u>	<u>183,682,252</u>
Ending net assets	\$ <u><u>177,625,421</u></u>	<u><u>183,821,627</u></u>	<u><u>192,140,764</u></u>

**Operating Revenues and Expenses**

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

***Operating Revenues***

*Year Ended June 30, 2007*

The University recognized \$39.8 million in operating revenues during this fiscal year, as compared to \$34.0 million in the prior year. This comprised 38% of total revenues for the year ended June 30, 2007,

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

compared to 37% of total revenues for the year ended June 30, 2006. Federal and state grants and contracts revenue increased \$1.2 million from \$7.5 million to \$8.7 million for the fiscal years ended June 30, 2006 and 2007, respectively. Sales and services of auxiliary enterprises increased primarily due to an increase in student parking fees by \$1.0 million from \$2.9 million to \$3.9 million for the fiscal years ended June 30, 2006 and 2007, respectively. Student fees were increased again by the California State University (CSU) board of trustees in 2007. Student fee revenue increase by \$3.3 million, from \$22.9 million in 2006 to \$26.2 million in 2007.

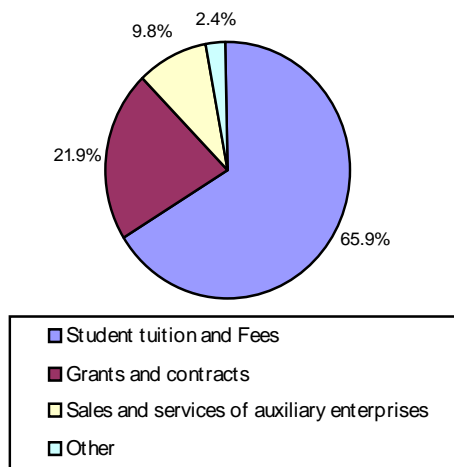
#### *Year Ended June 30, 2006*

The University recognized \$34.0 million in operating revenues during this fiscal year, as compared to \$30.6 million in the prior year. Operating revenues comprised 37% of total revenues for the year ended June 30, 2006, compared to 32% of total revenues for the year ended June 30, 2005. Federal and state grants and contracts revenue decreased \$0.2 million from \$7.7 million to \$7.5 million for the fiscal year ended June 30, 2005 and 2006, respectively. Finally, student fees were increased again by the CSU board of trustees in 2006. Student fee revenue increased by \$3.0 million, from \$19.9 million in 2005 to \$22.9 million in 2006.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2007, 2006, and 2005:

### Operating Revenues

	<b>June 30, 2007</b>	
	(In thousands)	
Student tuition and fees	\$ 26,195	65.9%
Grants and contracts	8,690	21.9
Sales and services of auxiliary enterprises	3,910	9.8
Other	971	2.4
Total operating revenues	\$ 39,766	100.0%



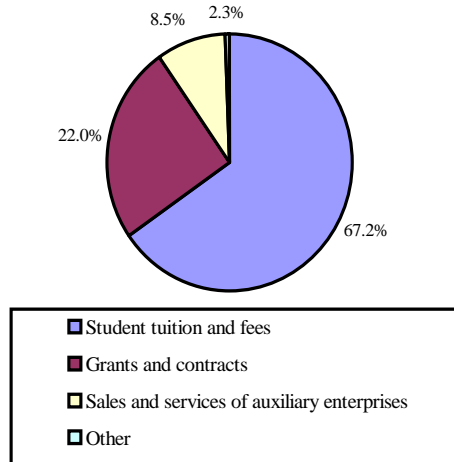
**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

**Operating Revenues**

	<u><b>June 30, 2006</b></u>	
	(In thousands)	
Student tuition and fees	\$ 22,868	67.2%
Grants and contracts	7,476	22.0
Sales and services of auxiliary enterprises	2,887	8.5
Other	790	2.3
	<u>\$ 34,021</u>	<u>100.0%</u>
Total operating revenues	<u><u>\$ 34,021</u></u>	<u><u>100.0%</u></u>



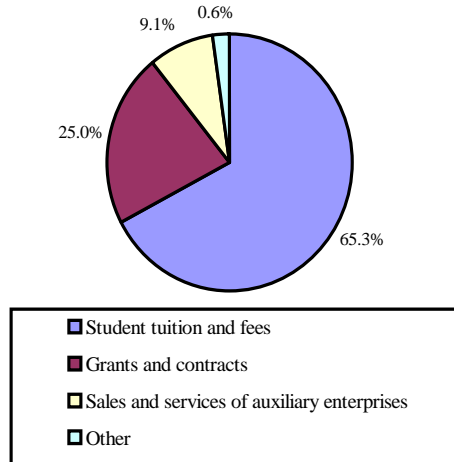
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Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

**Operating Revenues**

	<b>June 30, 2005</b>	
	(In thousands)	
Student tuition and fees	\$ 19,944	65.3%
Grants and contracts	7,651	25.0
Sales and services of auxiliary enterprises	2,791	9.1
Other	178	0.6
Total operating revenues	\$ 30,564	100.0%



**Operating Expenses**

*Year Ended June 30, 2007*

The University's operating expenses consist of salaries and fringe benefits of \$72.3 million, supplies and services of \$18.7 million, scholarships and fellowships of \$10.4 million, and depreciation of \$9.4 million. Total operating expenses, excluding depreciation, increased by \$9.8 million, or 10.7%, primarily due to grants and scholarships, academic support, and student services. Salaries and benefits costs increased by \$9.4 million due to salary rate increases and health and retirement benefit increases for all employees as well as an increase in faculty. The University contribution to the California Employees' Retirement System (CalPERS) alone increased by \$1.3 million, or 20%. Student grants and scholarships increased by \$1.1 million. The percentage of students receiving aid increased from 43% in 2006 to 44% in 2007 while enrollment increased by 11%. The increase in depreciation expense of \$0.7 million relates to current year capital asset additions.

*Year Ended June 30, 2006*

The University's operating expenses consist of salaries and fringe benefits of \$62.9 million, supplies and services of \$19.3 million, scholarships and fellowships of \$9.3 million, and depreciation of \$8.7 million. Total operating expenses, excluding depreciation, increased by \$11.1 million, or 13.9% due to an increase of \$4.4 million of salaries and benefits expense, \$2.8 million in scholarship and fellowship expense and \$3.9 million in supplies

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Management’s Discussion and Analysis (Unaudited)

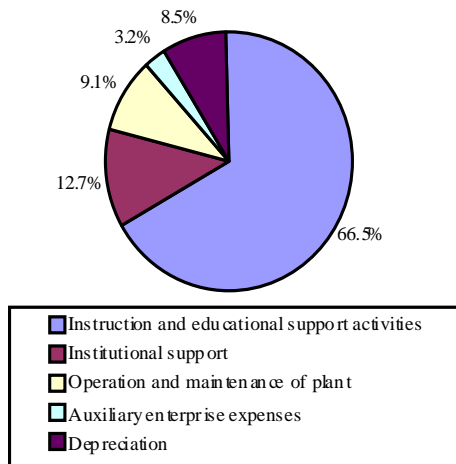
June 30, 2007 and 2006

and services. Enrollment remained stable for the fiscal year 2005 – 2006, increasing by 0.7% and the percentage of students receiving aid decreased from approximately 47.0% in 2005 to 43.0% in 2006. The increase in depreciation expense of \$1.4 million relates to current year capital asset additions.

The following charts present the proportional share that each category of operating expenses contributed to the total for fiscal years 2007, 2006, and 2005:

**Operating Expenses**

	<b>June 30, 2007</b>	
	<u>(In thousands)</u>	
Instruction	\$ 36,879	33.3%
Research	315	0.3
Public service	283	0.3
Academic support	15,678	14.2
Student services	10,087	9.1
Student grants and scholarships	10,364	9.4
	<hr/>	<hr/>
Total instruction and educational support activities	73,606	66.5
Institutional support	14,030	12.7
Operation and maintenance of plant	10,085	9.1
Auxiliary enterprises expenses	3,586	3.2
Depreciation	9,374	8.5
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Total operating expenses	\$ 110,681	100.0%



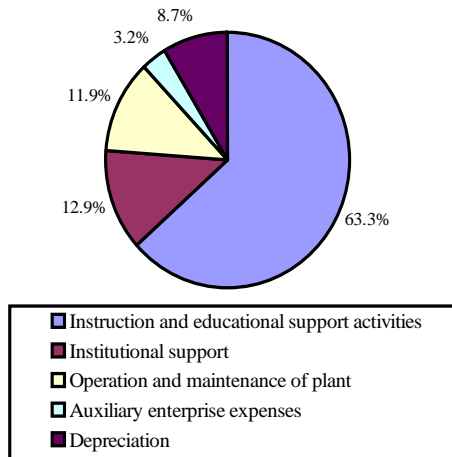
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Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

**Operating Expenses**

	<u><b>June 30, 2006</b></u>	
	(In thousands)	
Instruction	\$ 31,180	31.1%
Research	670	0.7
Public service	299	0.3
Academic support	13,704	13.7
Student services	8,325	8.3
Student grants and scholarships	9,279	9.3
	<hr/>	<hr/>
Total instruction and educational support activities	63,457	63.3
Institutional support	12,878	12.9
Operation and maintenance of plant	11,915	11.9
Auxiliary enterprises expenses	3,253	3.2
Depreciation	8,696	8.7
	<hr/>	<hr/>
Total operating expenses	<u><u>\$ 100,199</u></u>	<u><u>100.0%</u></u>



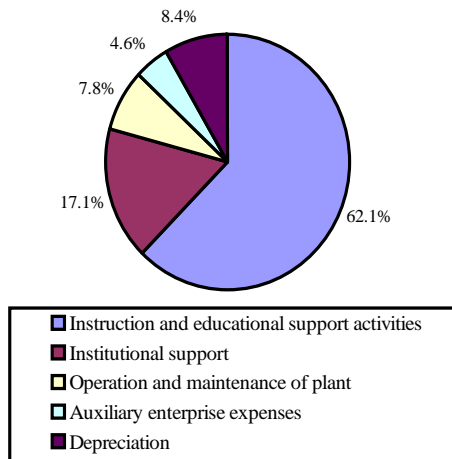
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Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

**Operating Expenses**

	<u>June 30, 2005</u>	
	(In thousands)	
Instruction	\$ 27,464	31.3%
Research	526	0.6
Public service	27	—
Academic support	12,489	14.2
Student services	7,487	8.5
Student grants and scholarships	6,490	7.4
	<hr/>	<hr/>
Total instruction and educational support activities	54,483	62.1
Institutional support	14,979	17.1
Operation and maintenance of plant	6,877	7.8
Auxiliary enterprises expenses	4,027	4.6
Depreciation	7,340	8.4
	<hr/>	<hr/>
Total operating expenses	<u>\$ 87,706</u>	<u>100.0%</u>



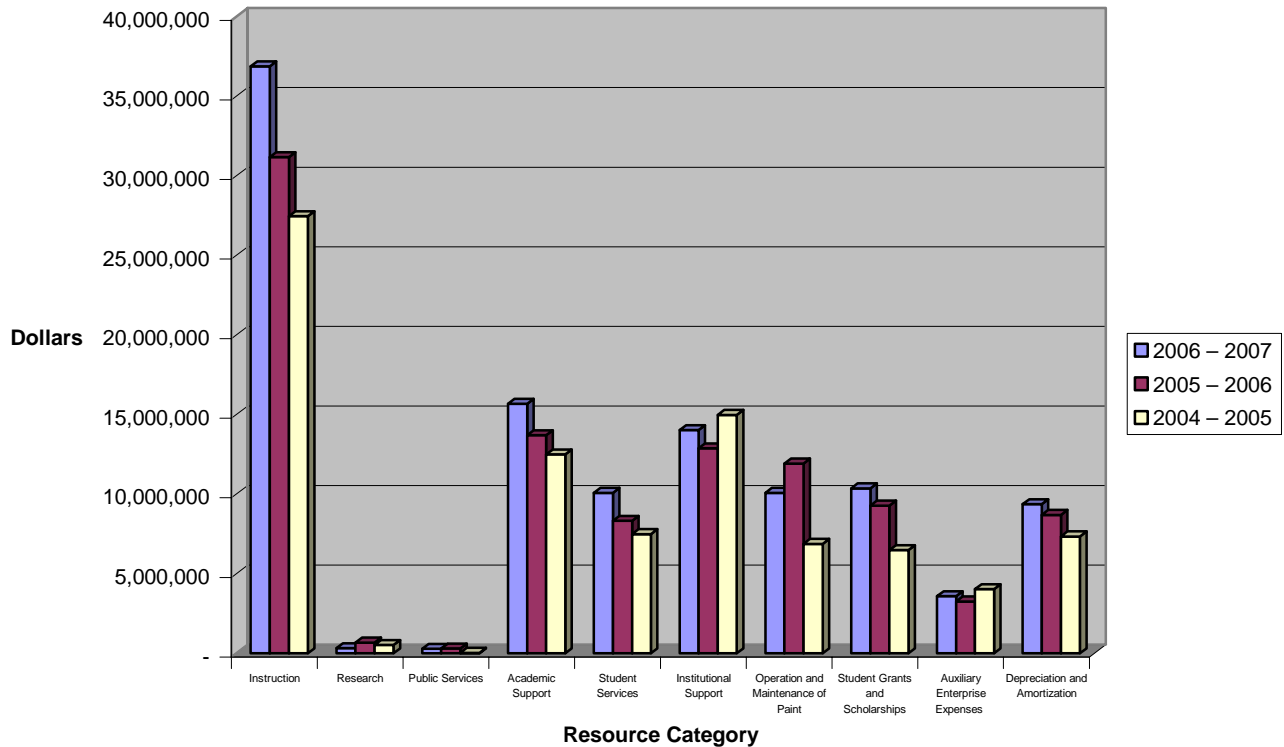
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Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

The following chart presents the distribution of resources in support of the University's mission for fiscal years 2007, 2006, and 2005:

**Comparative Distribution of Resources for fiscal years 2007, 2006, and 2005**



**Nonoperating and Other Revenues (Expenses)**

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

*Year Ended June 30, 2007*

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$1.4 million for the fiscal year ended June 30, 2007, an increase of \$0.6 million from \$0.8 million for the fiscal year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$59.9 million, an increase of \$5.2 million from \$54.7 million for the fiscal year ended June 30, 2006.

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June 30, 2007 and 2006

*Year Ended June 30, 2006*

Appropriations used for purposes of acquisition of capital assets totaled \$0.8 million for the fiscal year ended June 30, 2006, a decrease of \$9.2 million from the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled \$54.7 million, an increase of \$1.4 million from the prior year.

**Capital Assets and Long-Term Debt Obligations**

***Capital Assets***

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

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Land and land improvements	\$ 10,981,328	10,981,328	10,981,328
Works of art and historical treasures	25,000	25,000	25,000
Buildings and building improvements	129,530,456	127,104,513	108,203,900
Improvements, other than buildings	5,649,585	2,846,281	2,925,873
Infrastructure	15,495,738	13,909,444	13,771,983
Personal property	6,352,541	7,256,097	5,862,522
Intangible assets	1,165,625	801,422	102,128
Construction work in progress	2,800,185	6,547,374	21,096,085
	<hr/>	<hr/>	<hr/>
Total capital assets, net of accumulated depreciation	\$ <u>172,000,458</u>	<u>169,471,459</u>	<u>162,968,819</u>

*As of June 30, 2007*

At June 30, 2007 and 2006, the University had \$172.0 million and \$169.5 million, respectively, in capital assets, net of accumulated depreciation of \$76.8 million and \$71.2 million, respectively. Depreciation expense totaled \$9.4 million and \$8.7 million for the years ended June 30, 2007 and 2006, respectively.

The University completed three major capital projects during the year. The projects were the renovation of Craven Hall, which totaled \$6.6 million and was funded through state appropriations for capital projects; the completion of a parking lot that totaled \$3.4 million and was funded through parking revenues; and the completion of the telecom infrastructure project that totaled \$2.1 million and was funded through state appropriations for capital projects.

*As of June 30, 2006*

At June 30, 2006 and 2005, the University had \$169.5 million and \$163.0 million, respectively, in capital assets, net of accumulated depreciation of \$71.2 million and \$63.8 million, respectively. Depreciation expense totaled \$8.7 million and \$7.3 million for the years ended June 30, 2006 and 2005, respectively.

The University's new Business Building was placed into service in January 2006 and was the primary reason for the increase in capital assets and decrease in construction work in progress from \$21.1 million to \$6.5 million for the fiscal years ended June 30, 2005 and 2006, respectively.

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Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

Major capital projects completed during fiscal year 2007 are as follows (in millions):

Craven Hall Renovation	\$ 6.6
Parking Lot F	3.4
Telecom Infrastructure	2.1

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

***Long-Term Debt Obligations***

Debt outstanding at June 30, 2007, 2006, and 2005 is summarized below by type of debt instrument:

		<b>June 30</b>		
		<b>2007</b>	<b>2006</b>	<b>2005</b>
Systemwide Revenue Bonds	\$	30,305,000	30,625,000	30,715,000
Capital leases		1,698,000	506,000	4,516
Other		3,180,352	2,931,801	1,924,062
		<hr/>	<hr/>	<hr/>
Total long-term debt		35,183,352	34,062,801	32,643,578
Less current portion		(2,082,918)	(1,331,838)	(219,256)
		<hr/>	<hr/>	<hr/>
Long-term debt, net of current portion	\$	33,100,434	32,730,963	32,424,322
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The interest rates on outstanding debt range from 2.5% to 6.0%.

*As of June 30, 2007*

At June 30, 2007 and 2006, the University had \$35.2 million and \$34.1 million, respectively, in debt outstanding. The \$1.1 million increase is primarily due to the addition of \$1.2 million increase in capital leases for PeopleSoft CMS and \$1.6 million in financing of noncapital assets. Offsetting these increases is \$1.7 million for the retirement of the University's debt.

*As of June 30, 2006*

At June 30, 2006 and 2005, the University had \$34.1 million and \$32.6 million, respectively, in long-term debt outstanding. The \$1.5 million increase is primarily due to the addition of \$0.5 million increase in capital leases for PeopleSoft CMS and \$1.8 million in financing of noncapital assets. Offsetting these increases is \$0.9 million for the retirement of the University's debt.

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

Management's Discussion and Analysis (Unaudited)

June 30, 2007 and 2006

### ***Bond Ratings***

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

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

### **Factors Impacting Future Periods**

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2007/2008. The allocation provided to the University is \$66.6 million, an increase of \$8.0 million over fiscal year 2006/2007. The increase is budgeted to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and complete deferred maintenance projects.

Budgeted full-time equivalent enrollment targets for fiscal years 2007/2008 and 2008/2009 are 7,283 and 7,446, representing increases of 13.5% and 22%, respectively. This anticipated growth will generate additional revenues of approximately \$6.0 million to the University.

The California State University Board of Trustees recently approved the Social and Behavioral Science Building project for the University. This project will design and construct a 67,438 assignable square feet / 106,335 gross square feet building of lecture rooms, labs, faculty offices, graduate research, and academic support spaces for the Social and Behavioral Sciences. The total cost of the project is projected to be approximately \$57.8 million and will be funded primarily through state appropriations. The project is scheduled to begin construction in May 2008 and be completed in May 2010.

In July 2007, The University began the construction of the Parking/Police Services Building. This project will provide a new 17,502 square foot administration building to house the Parking and Transportation Services Department and University Police. The estimated cost of the project is \$53 million and will be primarily funded by parking revenues and bond proceeds. The project is scheduled to be completed in April 2010.

Also in fiscal year 2007/2008, the North County Transit District new SPRINTER public rail system will begin operation, and California State University, San Marcos is one of the 13 transit stations located on the 20+ mile highway corridor beginning in Escondido and ending in Oceanside. This new SPRINTER station is located on our CSUSM property at the corner of La Moree and Barham Drive.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statement of Net Assets

June 30, 2007

Assets	University	Discretely presented component units FASB Auxiliary Organizations	Total
<b>Current assets:</b>			
Cash and cash equivalents	\$ 10,087	11,826,807	11,836,894
Short-term investments	28,214,619	—	28,214,619
Accounts receivable, net	1,418,434	2,585,034	4,003,468
Leases receivable, current portion	275,000	—	275,000
Pledges receivable, net	—	889,003	889,003
Prepaid expenses and other assets	1,882,503	1,030,957	2,913,460
Total current assets	<u>31,800,643</u>	<u>16,331,801</u>	<u>48,132,444</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents	—	1,002,857	1,002,857
Accounts receivable, net	2,582,588	—	2,582,588
Leases receivable, net of current portion	24,730,000	—	24,730,000
Student loans receivable, net	278,850	—	278,850
Pledges receivable, net	—	1,058,074	1,058,074
Endowment investments	—	14,122,701	14,122,701
Other long-term investments	340,346	—	340,346
Capital assets, net	172,000,458	29,533,915	201,534,373
Other assets	—	428,458	428,458
Total noncurrent assets	<u>199,932,242</u>	<u>46,146,005</u>	<u>246,078,247</u>
Total assets	<u>231,732,885</u>	<u>62,477,806</u>	<u>294,210,691</u>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable	5,716,603	1,500,618	7,217,221
Accrued salaries and benefits payable	4,688,035	566,236	5,254,271
Accrued compensated absences – current portion	1,808,363	145,336	1,953,699
Deferred revenue	3,528,119	1,277,967	4,806,086
Capitalized lease obligations – current portion	183,000	—	183,000
Long-term debt obligations – current portion	1,899,918	275,000	2,174,918
Other liabilities	423,584	550,254	973,838
Total current liabilities	<u>18,247,622</u>	<u>4,315,411</u>	<u>22,563,033</u>
<b>Noncurrent liabilities:</b>			
Accrued compensated absences, net of current portion	1,939,328	—	1,939,328
Grants refundable	479,631	—	479,631
Capitalized lease obligations, net of current portion	1,515,000	—	1,515,000
Long-term debt obligations, net of current portion	31,585,434	25,489,049	57,074,483
Depository accounts	340,449	—	340,449
Total noncurrent liabilities	<u>35,859,842</u>	<u>25,489,049</u>	<u>61,348,891</u>
Total liabilities	<u>54,107,464</u>	<u>29,804,460</u>	<u>83,911,924</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	164,089,064	3,769,866	167,858,930
Restricted for:			
Nonexpendable – endowments	—	12,700,961	12,700,961
Expendable:			
Scholarships and fellowships	150,740	131,804	282,544
Loans	54,541	—	54,541
Capital projects	1,161,560	3,049,912	4,211,472
Other	—	4,165,749	4,165,749
Unrestricted	12,169,516	8,855,054	21,024,570
Total net assets	<u>\$ 177,625,421</u>	<u>32,673,346</u>	<u>210,298,767</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statement of Net Assets

June 30, 2006

Assets	University	Discretely presented component units FASB Auxiliary Organizations	Total
Current assets:			
Cash and cash equivalents	\$ 3,592,088	11,260,004	14,852,092
Short-term investments	17,117,098	—	17,117,098
Accounts receivable, net	2,874,155	2,225,165	5,099,320
Leases receivable, current portion	225,000	—	225,000
Pledges receivable, net	—	783,896	783,896
Prepaid expenses and other assets	2,922,016	1,344,523	4,266,539
Total current assets	26,730,357	15,613,588	42,343,945
Noncurrent assets:			
Restricted cash and cash equivalents	129,495	—	129,495
Accounts receivable, net	11,426,849	—	11,426,849
Leases receivable, net of current portion	25,005,000	—	25,005,000
Student loans receivable, net	280,848	—	280,848
Pledges receivable, net	—	1,247,409	1,247,409
Other long-term investments	135,256	12,306,214	12,441,470
Capital assets, net	169,471,459	25,265,098	194,736,557
Other assets	—	691,202	691,202
Total assets	206,448,907	39,509,923	245,958,830
Total assets	233,179,264	55,123,511	288,302,775
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	3,929,392	705,790	4,635,182
Accrued salaries and benefits payable	3,982,889	453,251	4,436,140
Accrued compensated absences – current portion	1,607,058	226,692	1,833,750
Deferred revenue	2,936,175	894,697	3,830,872
Capitalized lease obligations, current portion	48,000	—	48,000
Long-term debt obligations, current portion	1,283,838	225,000	1,508,838
Other liabilities	306,952	472,754	779,706
Total current liabilities	14,094,304	2,978,184	17,072,488
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	1,669,248	—	1,669,248
Grants refundable	508,476	—	508,476
Capitalized lease obligations, net of current portion	458,000	—	458,000
Long-term debt obligations, net of current portion	32,272,963	25,793,432	58,066,395
Depository accounts	354,646	—	354,646
Total noncurrent liabilities	35,263,333	25,793,432	61,056,765
Total liabilities	49,357,637	28,771,616	78,129,253
Net assets:			
Invested in capital assets, net of related debt	162,692,393	(753,334)	161,939,059
Restricted for:			
Nonexpendable – endowments	—	12,342,233	12,342,233
Expendable:			
Scholarships and fellowships	157,319	98,481	255,800
Loans	53,559	—	53,559
Capital projects	8,573,476	2,787,181	11,360,657
Other	—	1,832,754	1,832,754
Unrestricted	12,344,880	10,044,580	22,389,460
Total net assets	\$ 183,821,627	26,351,895	210,173,522

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2007

	<u>University</u>	<u>Discretely presented component units FASB Auxiliary Organizations</u>	<u>Eliminations</u>	<u>Total</u>
<b>Revenues:</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$4,297,109)	\$ 26,194,782	1,186,445	—	27,381,227
Grants and contracts, noncapital:				
Federal	5,928,883	5,175,081	—	11,103,964
State and local	2,516,135	6,207,236	—	8,723,371
Nongovernmental	244,868	937,280	—	1,182,148
Sales and services of educational activities	—	1,934,190	—	1,934,190
Sales and services of auxiliary enterprises	3,910,557	9,999,005	—	13,909,562
Other operating revenues	970,934	386,648	—	1,357,582
Total operating revenues	<u>39,766,159</u>	<u>25,825,885</u>	<u>—</u>	<u>65,592,044</u>
<b>Expenses:</b>				
Operating expenses:				
Instruction	36,879,767	1,487,489	—	38,367,256
Research	314,606	4,482,862	—	4,797,468
Public service	282,700	1,295,620	—	1,578,320
Academic support	15,677,611	345,194	—	16,022,805
Student services	10,087,173	5,568,508	—	15,655,681
Institutional support	14,029,746	1,182,423	—	15,212,169
Operation and maintenance of plant	10,084,801	—	—	10,084,801
Student grants and scholarships	10,363,981	448,100	—	10,812,081
Auxiliary enterprise expenses	3,586,385	6,875,675	(497,006)	9,965,054
Depreciation and amortization	9,373,835	1,085,498	—	10,459,333
Total operating expenses	<u>110,680,605</u>	<u>22,771,369</u>	<u>(497,006)</u>	<u>132,954,968</u>
Operating income (loss)	<u>(70,914,446)</u>	<u>3,054,516</u>	<u>497,006</u>	<u>(67,362,924)</u>
<b>Nonoperating revenues (expenses):</b>				
State appropriations, noncapital	59,921,313	—	—	59,921,313
Gifts, noncapital	1,273,863	953,637	(30,368)	2,197,132
Investment income, net	2,628,340	1,456,139	—	4,084,479
Endowment income	—	808,533	—	808,533
Interest on capital-related debt	(1,531,210)	—	—	(1,531,210)
Other nonoperating revenues (expenses), net	561,437	(310,102)	—	251,335
Net nonoperating revenues (expenses)	<u>62,853,743</u>	<u>2,908,207</u>	<u>(30,368)</u>	<u>65,731,582</u>
Income (loss) before other additions	<u>(8,060,703)</u>	<u>5,962,723</u>	<u>466,638</u>	<u>(1,631,342)</u>
State appropriations, capital	1,349,000	—	—	1,349,000
Grants and gifts, capital	515,497	—	(466,638)	48,859
Additions to permanent endowments	—	358,728	—	358,728
Increase (decrease) in net assets	<u>(6,196,206)</u>	<u>6,321,451</u>	<u>—</u>	<u>125,245</u>
<b>Net assets:</b>				
Net assets at beginning of year	<u>183,821,627</u>	<u>26,351,895</u>	<u>—</u>	<u>210,173,522</u>
Net assets at end of year	<u>\$ 177,625,421</u>	<u>32,673,346</u>	<u>—</u>	<u>210,298,767</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2006

	<u>University</u>	<u>Discretely presented component units FASB Auxiliary Organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$3,449,215)	\$ 22,867,810	1,029,902	—	23,897,712
Grants and contracts, noncapital:				
Federal	4,869,843	5,675,301	—	10,545,144
State and local	2,070,439	165,405	—	2,235,844
Nongovernmental	535,955	2,389,928	—	2,925,883
Sales and services of educational activities	—	2,442,918	—	2,442,918
Sales and services of auxiliary enterprises	2,886,925	7,712,602	—	10,599,527
Other operating revenues	790,347	487,173	—	1,277,520
Total operating revenues	<u>34,021,319</u>	<u>19,903,229</u>	<u>—</u>	<u>53,924,548</u>
Expenses:				
Operating expenses:				
Instruction	31,179,944	1,854,236	—	33,034,180
Research	670,326	4,053,463	—	4,723,789
Public service	298,406	1,385,515	—	1,683,921
Academic support	13,704,306	890,861	—	14,595,167
Student services	8,325,253	4,586,957	—	12,912,210
Institutional support	12,877,600	313,000	—	13,190,600
Operation and maintenance of plant	11,914,971	—	—	11,914,971
Student grants and scholarships	9,278,598	266,398	—	9,544,996
Auxiliary enterprise expenses	3,253,421	6,746,499	(48,602)	9,951,318
Depreciation	8,695,918	1,045,703	—	9,741,621
Total operating expenses	<u>100,198,743</u>	<u>21,142,632</u>	<u>(48,602)</u>	<u>121,292,773</u>
Operating loss	<u>(66,177,424)</u>	<u>(1,239,403)</u>	<u>48,602</u>	<u>(67,368,225)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	54,723,975	—	—	54,723,975
Gifts, noncapital	896,369	4,801,602	—	5,697,971
Investment income, net	1,918,433	817,680	—	2,736,113
Endowment income	—	552,123	—	552,123
Interest on capital-related debt	(1,548,154)	—	—	(1,548,154)
Other nonoperating revenues, net	235,031	251,884	—	486,915
Net nonoperating revenues	<u>56,225,654</u>	<u>6,423,289</u>	<u>—</u>	<u>62,648,943</u>
Income (loss) before other additions	<u>(9,951,770)</u>	<u>5,183,886</u>	<u>48,602</u>	<u>(4,719,282)</u>
State appropriations, capital	767,000	—	—	767,000
Grants and gifts, capital	865,633	—	(48,602)	817,031
Increase (decrease) in net assets	<u>(8,319,137)</u>	<u>5,183,886</u>	<u>—</u>	<u>(3,135,251)</u>
Net assets:				
Net assets at beginning of year	192,140,764	21,168,009	—	213,308,773
Net assets at end of year	<u>\$ 183,821,627</u>	<u>26,351,895</u>	<u>—</u>	<u>210,173,522</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>University</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 26,585,786	23,147,796
Federal grants and contracts	5,900,706	5,033,907
State grants and contracts	2,516,135	2,070,439
Nongovernmental grants and contracts	244,868	535,955
Payments to suppliers	(17,776,796)	(22,145,106)
Payments to employees	(71,100,319)	(62,782,139)
Payments to students	(10,531,078)	(9,388,901)
Collections of student loans	169,095	203,387
Sales and services of auxiliary enterprises	3,910,557	2,886,925
Other receipts	1,705,774	399,964
Net cash used in operating activities	<u>(58,375,272)</u>	<u>(60,037,773)</u>
Cash flows from noncapital financing activities:		
State appropriations	61,318,556	55,963,390
Gifts and grants received for other than capital purposes	1,211,723	896,369
Federal loan program receipts	18,794,468	16,408,731
Federal loan program disbursements	(18,789,224)	(16,314,908)
Monies received on behalf of others	74,744	62,575
Monies disbursed on behalf of others	(71,720)	(65,137)
Proceeds from noncapital debt	1,582,000	1,777,885
Principal paid on noncapital debt	(1,333,449)	(632,875)
Interest paid on noncapital debt	(166,028)	(38,187)
Other	571,048	(16,050)
Net cash provided by noncapital financing activities	<u>63,192,118</u>	<u>58,041,793</u>
Cash flows from capital and related financing activities:		
State appropriations	10,221,351	13,038,086
Capital grants and gifts	439,688	429,774
Acquisition of capital assets	(8,478,709)	(12,926,633)
Principal paid on capital debt and leases	(368,000)	(231,787)
Interest paid on capital debt and leases	(1,532,781)	(1,602,118)
Principal payments received on capital leases	225,000	—
Interest payments received on capital leases	1,215,288	—
Net cash provided by (used in) capital and related financing activities	<u>1,721,837</u>	<u>(1,292,678)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	16,905,912	2,722,702
Purchases of investments	(28,540,270)	(9,156,998)
Investment income received	1,384,179	1,715,416
Net cash used in investing activities	<u>(10,250,179)</u>	<u>(4,718,880)</u>
Net decrease in cash and cash equivalents	(3,711,496)	(8,007,538)
Cash and cash equivalents at beginning of year	<u>3,721,583</u>	<u>11,729,121</u>
Cash and cash equivalents at end of year	<u>\$ 10,087</u>	<u>3,721,583</u>
Summary of cash and cash equivalents at end of year:		
Cash and cash equivalents	\$ 10,087	3,592,088
Restricted cash and investments	—	129,495
Total cash and cash equivalents at end of year	<u>\$ 10,087</u>	<u>3,721,583</u>

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<b>University</b>	
	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (70,914,446)	(66,177,424)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	9,373,835	8,695,918
Change in assets and liabilities:		
Accounts receivable, net	382,737	(373,179)
Student loans receivable, net	1,998	93,083
Prepaid expenses and other assets	1,039,512	(606,893)
Accounts payable	(268,573)	(1,476,584)
Accrued salaries and benefits	705,146	(302,586)
Accrued compensated absences	471,386	403,712
Deferred revenue	591,944	299,262
Depository accounts	(14,197)	59,099
Other liabilities	255,386	(652,181)
Net cash used in operating activities	<u>\$ (58,375,272)</u>	<u>(60,037,773)</u>
Supplemental schedule of noncash transactions:		
Contributed capital assets	\$ 75,809	435,859
Construction work in progress acquired from the Office of the Chancellor	54,213	338,454
Accrued capital asset costs (purchased but unpaid at year-end)	2,117,928	1,078,984
Acquisition of capital asset through capital lease	1,240,000	506,000
Operating expenses paid through long-term debt obligation	1,582,000	1,777,885

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2007 and 2006

### (1) Organization

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

The University provides instruction for baccalaureate and master's degrees, and certificate programs, and operates various auxiliary enterprises such as student dormitories, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs that 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:

- California State University, San Marcos Foundation
- Associated Students Incorporated of California State University, San Marcos
- San Marcos University Corporation

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2007 and 2006

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

<u>June 30, 2007</u>	<u>California State University, San Marcos Foundation</u>	<u>Associated Students, Inc. of California State University, San Marcos</u>	<u>San Marcos University Corporation</u>	<u>Total</u>
Current assets	\$ 12,838,296	758,086	2,735,419	16,331,801
Capital assets, net	7,290,816	28,242	22,214,857	29,533,915
Other noncurrent assets	16,609,090	3,000	—	16,612,090
Total assets	<u>36,738,202</u>	<u>789,328</u>	<u>24,950,276</u>	<u>62,477,806</u>
Current liabilities	2,861,555	307,918	1,145,938	4,315,411
Noncurrent liabilities	—	—	25,489,049	25,489,049
Total liabilities	<u>2,861,555</u>	<u>307,918</u>	<u>26,634,987</u>	<u>29,804,460</u>
Invested in capital assets, net of related debt	7,290,816	28,242	(3,549,192)	3,769,866
Restricted	20,048,426	—	—	20,048,426
Unrestricted	6,537,405	453,168	1,864,481	8,855,054
Total net assets (deficit)	\$ <u>33,876,647</u>	<u>481,410</u>	<u>(1,684,711)</u>	<u>32,673,346</u>

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2007 and 2006

<b>June 30, 2007</b>	<b>California State University, San Marcos Foundation</b>	<b>Associated Students, Inc. of California State University, San Marcos</b>	<b>San Marcos University Corporation</b>	<b>Total</b>
Operating revenues:				
Student tuition and fees	\$ —	1,186,445	—	1,186,445
Grants and contracts, noncapital	12,308,620	10,977	—	12,319,597
Sales and services of education activities	1,934,190	—	—	1,934,190
Sales and services of auxiliary enterprises, net	5,958,446	—	4,040,559	9,999,005
Other	—	243,643	143,005	386,648
<b>Total operating revenues</b>	<b>20,201,256</b>	<b>1,441,065</b>	<b>4,183,564</b>	<b>25,825,885</b>
Operating expenses:				
Instruction	1,487,489	—	—	1,487,489
Research	4,482,862	—	—	4,482,862
Public service	1,295,620	—	—	1,295,620
Academic support	345,194	—	—	345,194
Student services	5,373,436	195,072	—	5,568,508
Institutional support	1,182,423	—	—	1,182,423
Student grants and scholarships	448,100	—	—	448,100
Auxiliary enterprise expenses	2,250,799	1,195,732	3,429,144	6,875,675
Depreciation	303,599	14,242	767,657	1,085,498
<b>Total operating expenses</b>	<b>17,169,522</b>	<b>1,405,046</b>	<b>4,196,801</b>	<b>22,771,369</b>
<b>Operating income (loss)</b>	<b>3,031,734</b>	<b>36,019</b>	<b>(13,237)</b>	<b>3,054,516</b>
Net nonoperating revenues, net	3,241,688	25,247	—	3,266,935
<b>Increase (decrease) in net assets</b>	<b>6,273,422</b>	<b>61,266</b>	<b>(13,237)</b>	<b>6,321,451</b>
Net assets (deficit) at beginning of year	27,603,225	420,144	(1,671,474)	26,351,895
Net assets (deficit) at end of year	\$ <u>33,876,647</u>	<u>481,410</u>	<u>(1,684,711)</u>	<u>32,673,346</u>

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2007 and 2006

<b>June 30, 2006</b>	<b>California State University, San Marcos Foundation</b>	<b>Associated Students, Inc. of California State University, San Marcos</b>	<b>San Marcos University Corporation</b>	<b>Total</b>
Current assets	\$ 12,790,108	641,853	2,181,627	15,613,588
Capital assets, net	2,408,096	30,538	22,826,464	25,265,098
Other noncurrent assets	14,241,825	3,000	—	14,244,825
<b>Total assets</b>	<b>29,440,029</b>	<b>675,391</b>	<b>25,008,091</b>	<b>55,123,511</b>
Current liabilities	1,836,804	255,247	886,133	2,978,184
Noncurrent liabilities	—	—	25,793,432	25,793,432
<b>Total liabilities</b>	<b>1,836,804</b>	<b>255,247</b>	<b>26,679,565</b>	<b>28,771,616</b>
Invested in capital assets, net of related debt	2,408,096	30,538	(3,191,968)	(753,334)
Restricted	17,060,649	—	—	17,060,649
Unrestricted	8,134,480	389,606	1,520,494	10,044,580
<b>Total net assets (deficit)</b>	<b>\$ 27,603,225</b>	<b>420,144</b>	<b>(1,671,474)</b>	<b>26,351,895</b>

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June 30, 2007 and 2006

<b>June 30, 2006</b>	<b>California State University, San Marcos Foundation</b>	<b>Associated Students, Inc. of California State University, San Marcos</b>	<b>San Marcos University Corporation</b>	<b>Total</b>
Operating revenues:				
Student tuition and fees	\$ —	1,029,902	—	1,029,902
Grants and contracts, noncapital	8,219,822	10,812	—	8,230,634
Sales and services of education activities	2,442,918	—	—	2,442,918
Sales and services of auxiliary enterprises, net	4,700,057	—	3,012,545	7,712,602
Other	—	264,032	223,141	487,173
<b>Total operating revenues</b>	<b>15,362,797</b>	<b>1,304,746</b>	<b>3,235,686</b>	<b>19,903,229</b>
Operating expenses:				
Instruction	1,854,236	—	—	1,854,236
Research	4,053,463	—	—	4,053,463
Public service	1,385,515	—	—	1,385,515
Academic support	890,861	—	—	890,861
Student services	4,423,182	163,775	—	4,586,957
Institutional support	313,000	—	—	313,000
Student grants and scholarships	266,398	—	—	266,398
Auxiliary enterprise expenses	2,764,083	1,011,322	2,971,094	6,746,499
Depreciation	327,731	12,666	705,306	1,045,703
<b>Total operating expenses</b>	<b>16,278,469</b>	<b>1,187,763</b>	<b>3,676,400</b>	<b>21,142,632</b>
<b>Operating income (loss)</b>	<b>(915,672)</b>	<b>116,983</b>	<b>(440,714)</b>	<b>(1,239,403)</b>
Net nonoperating revenues	6,418,027	5,262	—	6,423,289
<b>Increase (decrease) in net assets</b>	<b>5,502,355</b>	<b>122,245</b>	<b>(440,714)</b>	<b>5,183,886</b>
Net assets (deficit) at beginning of year	22,100,870	297,899	(1,230,760)	21,168,009
Net assets (deficit) at end of year	\$ <u>27,603,225</u>	<u>420,144</u>	<u>(1,671,474)</u>	<u>26,351,895</u>

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

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Notes to Financial Statements

June 30, 2007 and 2006

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 System as of June 30, 2007 and 2006 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 auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB).

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

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

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

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

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Notes to Financial Statements

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net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

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

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

**(f) *Investments***

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

**(g) *Capital Assets***

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

**(h) *Deferred Revenue***

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

**(i) *Compensated Absences***

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

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### Notes to Financial Statements

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(j) **Grants Refundable**

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

(k) **Net Assets**

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

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

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

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

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

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

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

The University considers operating revenues and expenses in the 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 capital appropriations from the State of California, net investment income, gifts, interest expense, and capital contributions.

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

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

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recognized as revenue when authorization is received, and are reported as either noncapital appropriations when used to support general operations or capital appropriations when used for capital projects.

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

**(m) *Income Taxes***

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

**(n) *Eliminations***

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

**(o) *Use of Estimates***

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

**(p) *Reclassifications***

Certain reclassifications have been made to the 2006 financial statement information to conform to the 2007 financial statement presentation. The reclassifications had no impact on the previously reported changes in net assets of the University.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

June 30, 2007 and 2006

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

The University's cash and cash equivalents and investments as of June 30, 2007 and 2006 are classified in the accompanying statements of net assets as follows:

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 10,087	3,592,088
Restricted cash and cash equivalents	—	129,495
Total cash and cash equivalents	10,087	3,721,583
Short-term investments	28,214,619	17,117,098
Other long-term investments	340,346	135,256
Total investments	28,554,965	17,252,354
Total cash and cash equivalents and investments	\$ 28,565,052	20,973,937

**(a) Cash and Cash Equivalents**

At June 30, 2007 and 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$10,087 and \$3,721,583 had a corresponding carrying value balance with the State Treasury of \$275,699 and \$4,467,176 at June 30, 2007 and 2006, respectively. The differences related primarily to deposits in transit and outstanding checks.

**Custodial Credit Risk for Deposits**

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

**(b) Investments**

At June 30, 2007 and 2006, the University's investment portfolio consists primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

June 30, 2007 and 2006

### **Investment Policy**

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

### **Interest Rate Risk**

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

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

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 9,059	0.01	\$ —	—	—	9,059
Certificates of deposit	7,230,048	0.38	—	5,303,103	1,926,945	—
Commercial paper	7,099,627	0.01	—	—	7,099,627	—
Mortgage-backed securities	29,896	15.56	29,896	—	—	—
Corporate and fixed income securities	<u>10,676,786</u>	1.42	<u>1,099,786</u>	<u>4,513,770</u>	<u>5,063,230</u>	—
Total	25,045,416		\$ <u>1,129,682</u>	<u>9,816,873</u>	<u>14,089,802</u>	<u>9,059</u>
Not subject to ratings:						
State of California Local Agency Investment Fund	<u>3,509,549</u>					
Total investments	\$ <u>28,554,965</u>					

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2006:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 318,565	0.01	\$ —	—	—	318,565
Certificates of deposit	2,719,702	1.41	—	1,019,797	1,699,905	—
Commercial paper	1,109,456	0.01	—	—	—	1,109,456
U.S. agency securities	2,334,554	0.50	2,334,554	—	—	—
Mortgage-backed securities	589,650	10.57	589,650	—	—	—
Corporate and fixed income securities	5,886,657	1.74	316,485	1,649,143	3,921,029	—
State of California Surplus Money Investment Fund	3,531,401	0.42	—	—	—	3,531,401
High rate money market	<u>158,009</u>	0.01	—	—	—	<u>158,009</u>
Total	16,647,994		\$ <u>3,240,689</u>	<u>2,668,940</u>	<u>5,620,934</u>	<u>5,117,431</u>
Not subject to ratings:						
U.S. Treasury securities	<u>604,360</u>	1.85				
Total investments	\$ <u>17,252,354</u>					

**Concentration of Credit Risk**

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2007, there

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

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were no investments representing 5% or more of the University's investment portfolio. As of June 30, 2006, the following investment (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank, \$1,385,632.

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:

	<b>2007</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State appropriations	\$ 203,502	2,554,498	2,758,000
Auxiliary organizations	446,587	28,090	474,677
Student accounts	466,434	—	466,434
Government grants and contracts	19,364	—	19,364
Other	539,786	—	539,786
	<u>1,675,673</u>	<u>2,582,588</u>	<u>4,258,261</u>
Less allowance for doubtful accounts	<u>(257,239)</u>	<u>—</u>	<u>(257,239)</u>
Total	<u>\$ 1,418,434</u>	<u>2,582,588</u>	<u>4,001,022</u>

	<b>2006</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State appropriations	\$ 1,600,746	11,426,849	13,027,595
Auxiliary organizations	628,876	—	628,876
Student accounts	243,278	—	243,278
Government grants and contracts	38,775	—	38,775
Other	599,820	—	599,820
	<u>3,111,495</u>	<u>11,426,849</u>	<u>14,538,344</u>
Less allowance for doubtful accounts	<u>(237,340)</u>	<u>—</u>	<u>(237,340)</u>
Total	<u>\$ 2,874,155</u>	<u>11,426,849</u>	<u>14,301,004</u>

**(5) Lease Receivable**

In fiscal year 2004 – 2005, the University entered into a lease agreement with the San Marcos University Corporation. The lease agreement is the result of a transaction whereby the University refinanced certain San Marcos University Corporation bonds used to build campus housing that was placed into service in August 2003. The San Marcos University Corporation debt was refinanced through the issuance of System-wide revenue bonds Series 2005A that are recorded as a long-term debt obligation in the accompanying financial statements. In return for the University refinancing the University Corporation

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debt, the University entered into a 30-year lease agreement whereby the San Marcos University Corporation agreed to lease the campus housing facilities. Lease payments are due twice a year on May 1 and November 1.

Lease payments are due to the University as follows:

Year ending June 30:		
2008	\$	1,483,694
2009		1,530,306
2010		1,574,925
2011		1,622,900
2012		1,673,200
Thereafter		<u>37,240,375</u>
Total lease receivable		45,125,400
Less amount representing interest		<u>(20,120,400)</u>
Present value of lease receivable		25,005,000
Less current portion		<u>(275,000)</u>
Long-term lease receivable, net of current portion	\$	<u><u>24,730,000</u></u>

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June 30, 2007 and 2006

**(6) Capital Assets**

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

	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 10,981,328	—	—	—	10,981,328
Works of art and historical treasures	25,000	—	—	—	25,000
Construction work in progress	<u>6,547,374</u>	<u>10,255,052</u>	<u>—</u>	<u>(14,002,241)</u>	<u>2,800,185</u>
Total nondepreciable capital assets	<u>17,553,702</u>	<u>10,255,052</u>	<u>—</u>	<u>(14,002,241)</u>	<u>13,806,513</u>
Depreciable capital assets:					
Buildings and building improvements	163,089,364	14,806	—	7,845,981	170,950,151
Improvements, other than buildings	13,925,987	25,995	—	3,540,555	17,492,537
Infrastructure	21,212,923	—	—	2,615,705	23,828,628
Personal property:					
Equipment	13,123,241	884,339	(3,821,859)	—	10,185,721
Library books and materials	9,969,036	174,639	(34,999)	—	10,108,676
Intangible assets	<u>1,786,077</u>	<u>611,828</u>	<u>—</u>	<u>—</u>	<u>2,397,905</u>
Total depreciable capital assets	<u>223,106,628</u>	<u>1,711,607</u>	<u>(3,856,858)</u>	<u>14,002,241</u>	<u>234,963,618</u>
Total cost	<u>240,660,330</u>	<u>11,966,659</u>	<u>(3,856,858)</u>	<u>—</u>	<u>248,770,131</u>
Less accumulated depreciation:					
Buildings and building improvements	(35,984,851)	(5,434,844)	—	—	(41,419,695)
Improvements, other than buildings	(11,079,706)	(763,246)	—	—	(11,842,952)
Infrastructure	(7,303,479)	(1,029,411)	—	—	(8,332,890)
Personal property:					
Equipment	(8,669,105)	(1,350,900)	3,758,034	—	(6,261,971)
Library books and materials	(7,167,075)	(547,809)	34,999	—	(7,679,885)
Intangible assets	<u>(984,655)</u>	<u>(247,625)</u>	<u>—</u>	<u>—</u>	<u>(1,232,280)</u>
Total accumulated depreciation	<u>(71,188,871)</u>	<u>(9,373,835)</u>	<u>3,793,033</u>	<u>—</u>	<u>(76,769,673)</u>
Net capital assets	\$ <u><u>169,471,459</u></u>	<u><u>2,592,824</u></u>	<u><u>(63,825)</u></u>	<u><u>—</u></u>	<u><u>172,000,458</u></u>

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June 30, 2007 and 2006

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

	<u>Balance, June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2006</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 10,981,328	—	—	—	10,981,328
Works of art and historical treasures	25,000	—	—	—	25,000
Construction work in progress	21,096,085	10,756,000	—	(25,304,711)	6,547,374
Total nondepreciable capital assets	<u>32,102,413</u>	<u>10,756,000</u>	<u>—</u>	<u>(25,304,711)</u>	<u>17,553,702</u>
Depreciable capital assets:					
Buildings and building improvements	139,050,766	191,222	—	23,847,376	163,089,364
Improvements, other than buildings	13,448,359	—	—	477,628	13,925,987
Infrastructure	20,233,216	—	—	979,707	21,212,923
Personal property:					
Equipment	11,572,218	2,839,676	(1,351,255)	62,602	13,123,241
Library books and materials	9,389,232	674,932	(95,128)	—	9,969,036
Intangible assets	961,977	824,100	—	—	1,786,077
Total depreciable capital assets	<u>194,655,768</u>	<u>4,529,930</u>	<u>(1,446,383)</u>	<u>25,367,313</u>	<u>223,106,628</u>
Total cost	<u>226,758,181</u>	<u>15,285,930</u>	<u>(1,446,383)</u>	<u>62,602</u>	<u>240,660,330</u>
Less accumulated depreciation:					
Buildings and building improvements	(30,846,866)	(5,137,985)	—	—	(35,984,851)
Improvements, other than buildings	(10,522,486)	(557,220)	—	—	(11,079,706)
Infrastructure	(6,461,233)	(842,246)	—	—	(7,303,479)
Personal property:					
Equipment	(8,328,556)	(1,541,830)	1,263,883	(62,602)	(8,669,105)
Library books and materials	(6,770,372)	(491,831)	95,128	—	(7,167,075)
Intangible assets	(859,849)	(124,806)	—	—	(984,655)
Total accumulated depreciation	<u>(63,789,362)</u>	<u>(8,695,918)</u>	<u>1,359,011</u>	<u>(62,602)</u>	<u>(71,188,871)</u>
Net capital assets	\$ <u>162,968,819</u>	<u>6,590,012</u>	<u>(87,372)</u>	<u>—</u>	<u>169,471,459</u>

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

**(7) Lease Obligations**

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

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Notes to Financial Statements

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Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$1,318,357 and \$715,529 at June 30, 2007 and 2006, respectively. Substantially all of these assets are pledged as security for the related leases. The leases bear interest rates ranging at 4.5% and have terms expiring in various years through 2014.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2012. The leases can be canceled if the state does not provide adequate funding.

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2008	\$ 243,149	379,681
2009	291,365	391,341
2010	291,003	398,414
2011	292,136	403,913
2012	291,834	382,280
2013 – 2017	<u>570,622</u>	<u>—</u>
Total minimum lease payments	1,980,109	\$ <u><u>1,955,629</u></u>
Less amount representing interest	<u>(282,109)</u>	
Present value of future minimum lease payments	1,698,000	
Less current portion	<u>(183,000)</u>	
Capital lease obligations, net of current portion	\$ <u><u>1,515,000</u></u>	

Rent expense under operating leases for the years ended June 30, 2007 and 2006 totaled \$643,329 and \$639,510, 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, 2007 and 2006 totaled \$570,858,000 and \$554,748,000, respectively.

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### Notes to Financial Statements

June 30, 2007 and 2006

#### (8) 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 \$1,393,141,000 and \$1,277,682,000 as of June 30, 2007 and 2006, 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, improvements to facilities, and interest and principal payments on outstanding bonds. After payment of all authorized charges, the balances of these funds are available for transfer to the campus auxiliary organization that has contracted with the University to operate the facility. The operating entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income.

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

## CALIFORNIA STATE UNIVERSITY, SAN MARCOS

### Notes to Financial Statements

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The health facilities program provides facilities on campus which provides 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 \$2,302,428,000 and \$1,982,433,000 at June 30, 2007 and 2006, respectively. The University's portion of the total outstanding balance under this program was \$30,305,000 and \$30,625,000 at June 30, 2007 and 2006, respectively.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2007 and 2006, the System's outstanding balance for these senior bonds totaled \$68,550,000 and \$70,820,000, respectively. The University had no outstanding balances for these senior bonds.

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Notes to Financial Statements

June 30, 2007 and 2006

**Revenue Bond Anticipation Notes**

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, 2007 and 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, 2007 and 2006, respectively.

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

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding at June 30	
				2007	2006
Systemwide Revenue Bonds:					
2002A – Student Union	4.0% – 5.5%	2033	\$ 5,655,000	5,300,000	5,395,000
2005A – Auxiliary Org	2.75% – 5.0%	2033	25,230,000	25,005,000	25,230,000
Other:					
Koch Financial Corporation	5.0%	2012	2,000,000	878,067	878,067
Koch Financial Corporation	4.0%	2010	495,936	311,178	395,762
Koch Financial Corporation	4.0%	2006	1,018,281	—	338,060
Koch Financial Corporation	4.0%	2007	1,427,885	477,142	936,905
GE Capital	4.0%	2008	129,646	13,665	33,007
CSUSM Foundation/SBRI					
Loan	6.0%	2011	350,000	295,300	350,000
CSU Commercial Paper	4.5%	2010	1,582,000	1,205,000	—
				<u>33,485,352</u>	<u>33,556,801</u>
Total long-term debt					
Less current portion				<u>(1,899,918)</u>	<u>(1,283,838)</u>
Long-term debt, net of current portion				<u>\$ 31,585,434</u>	<u>32,272,963</u>

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

	Principal	Interest	Total
Year ending June 30:			
2008	\$ 1,899,918	1,599,771	3,499,689
2009	1,227,139	1,526,771	2,753,910
2010	891,144	1,480,144	2,371,288
2011	720,867	1,445,864	2,166,731
2012	803,907	1,412,539	2,216,446
2013 – 2017	4,377,377	6,461,823	10,839,200
2018 – 2022	5,465,000	5,242,317	10,707,317
2023 – 2027	7,020,000	3,684,543	10,704,543
2028 – 2032	9,000,000	1,690,250	10,690,250
2033 – 2037	2,080,000	52,000	2,132,000
	<u>\$ 33,485,352</u>	<u>24,596,022</u>	<u>58,081,374</u>

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## Notes to Financial Statements

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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.

**(c) Koch Financial Corporation**

The Koch Financial Corporation debt obligation was established to fund the building of a Thermal Energy Storage Tank in a cooperative effort with San Diego Gas & Electric in an effort to promote energy conservation and provide the University with energy savings costs. Additionally, the University has entered into several debt agreements with Koch Financial Corporation to finance the University's computer refresh program.

**(d) CSUSM Foundation SBRI Loan**

During the current year, the University entered into an agreement with the California State University San Marcos Foundation to guarantee a loan for the Social and Behavioral Research Institute (SBRI). Since it has been determined that SBRI's financial viability will continue to be negatively affected by a changing survey industry environment, the University decided to close SBRI and it will cease operations as of July 1, 2007. The University repaid the balance of the loan in October 2007.

**(9) Advance Refundings**

***Prior Years' Refundings***

In prior years, the University defeased certain bonds of the discretely presented auxiliary organizations (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A 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 refunding bonds were used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matures. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The amount of prior years' defeased bonds outstanding as of June 30, 2007 totaled \$25,005,000.

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**(10) Long-term Liabilities Activity**

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 3,276,306	2,078,443	(1,607,058)	3,747,691	1,808,363
Capitalized lease obligations (note 7)	506,000	1,240,000	(48,000)	1,698,000	183,000
Long-term debt obligations (note 8):					
2002A System-wide revenue bonds (Student Union)	5,395,000	—	(95,000)	5,300,000	100,000
2005A System-wide revenue bonds (Auxiliary Org)	25,230,000	—	(225,000)	25,005,000	275,000
Koch Financial Corporation	878,067	—	—	878,067	121,698
Koch Financial Corporation	395,762	—	(84,584)	311,178	99,596
Koch Financial Corporation	338,060	—	(338,060)	—	—
Koch Financial Corporation	936,905	—	(459,763)	477,142	477,142
GE Capital	33,007	—	(19,342)	13,665	10,182
CSUSM Foundation/SBRI Loan	350,000	—	(54,700)	295,300	295,300
CSU Commercial Paper	—	1,582,000	(377,000)	1,205,000	521,000
Total long-term debt obligations	<u>33,556,801</u>	<u>1,582,000</u>	<u>(1,653,449)</u>	<u>33,485,352</u>	<u>1,899,918</u>
Total long-term liabilities	\$ <u>37,339,107</u>	<u>4,900,443</u>	<u>(3,308,507)</u>	<u>38,931,043</u>	<u>3,891,281</u>

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Long-term liabilities activity for the year ended June 30, 2006 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 2,872,595	2,012,351	(1,608,640)	3,276,306	1,607,058
Capitalized lease obligations (note 7)	4,516	506,000	(4,516)	506,000	48,000
Long-term debt obligations (note 8):					
2002A System-wide revenue bonds (Student Union)	5,485,000	—	(90,000)	5,395,000	95,000
2005A System-wide revenue bonds (Auxiliary Org)	25,230,000	—	—	25,230,000	225,000
Koch Financial Corporation	1,015,338	—	(137,271)	878,067	—
Koch Financial Corporation	495,936	—	(100,174)	395,762	84,584
Koch Financial Corporation	342,401	—	(4,341)	338,060	338,060
Koch Financial Corporation	—	1,427,885	(490,980)	936,905	459,763
GE Capital	70,387	—	(37,380)	33,007	19,342
CSUSM Foundation SBRI Loan	—	350,000	—	350,000	62,089
Total long-term debt obligations	<u>32,639,062</u>	<u>1,777,885</u>	<u>(860,146)</u>	<u>33,556,801</u>	<u>1,283,838</u>
Total long-term liabilities	\$ <u>35,516,173</u>	<u>4,296,236</u>	<u>(2,473,302)</u>	<u>37,339,107</u>	<u>2,938,896</u>

**(11) Pension Plan and Postretirement Benefits**

**(a) Plan Description**

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

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

All University retirees who retire within 120 days of their separation from employment, have been eligible for enrollment in a CalPERS medical plan on their date of separation, and receive a retirement allowance from CalPERS are eligible for retirement health benefits through CalPERS, which include medical and dental coverage. The retiree's family members can also be covered by the plan and eligible dependents include his or her spouse, domestic partner, children under age 23 and

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never married, and disabled children over age 23. The monthly out-of-pocket enrollment cost to the retiree for medical coverage will depend on which plan and the level of coverage the retiree chooses. The University currently pays the full cost of the basic level dental coverage for eligible retirees and their eligible dependents.

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

**(b) Funding Policy**

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

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

2005	\$	6,522,662
2006		6,615,415
2007		7,924,685

**(12) Self-Insurance Program**

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2007 and 2006.

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### Notes to Financial Statements

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

Liability at June 30, 2005	\$ 117,639,000
Incurred claims and changes in estimates	23,938,000
Claim payments	<u>(29,201,000)</u>
Liability at June 30, 2006	112,376,000
Incurred claims and changes in estimates	35,794,000
Claim payments	<u>(39,978,000)</u>
Liability at June 30, 2007	108,192,000
Less current portion	<u>(27,250,000)</u>
Long-term liability at June 30, 2007, net of current portion	<u>\$ 80,942,000</u>

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

The University's allocation of the System's total self-insurance claims liability as of June 30, 2007 and 2006 was approximately 2% or \$1,987,000 and \$2,055,000, 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, 2007 and 2006.

The University's receivable due from CSURMA totaled \$1,564,224 and \$2,616,774 at June 30, 2007 and 2006, 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.

### (13) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2007 and 2006 totaled \$2,454,741 and \$8,281,186, respectively. These expenditures will be funded primarily from state appropriations.

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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.

#### (14) 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, 2007 and 2006, operating expenses by natural classification consisted of the following:

<u>2007</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 24,494,814	8,306,266	—	4,078,687	—	36,879,767
Research	215,218	75,733	—	23,655	—	314,606
Public service	200,810	45,199	—	36,691	—	282,700
Academic support	9,574,073	3,496,688	—	2,606,850	—	15,677,611
Student services	5,854,008	2,053,382	—	2,179,783	—	10,087,173
Institutional support	7,952,894	2,779,458	—	3,297,394	—	14,029,746
Operation and maintenance of plant	3,453,382	1,406,843	—	5,224,576	—	10,084,801
Student grants and scholarships	—	—	10,363,981	—	—	10,363,981
Auxiliary enterprise expenses	1,658,854	709,229	—	1,218,302	—	3,586,385
Depreciation	—	—	—	—	9,373,835	9,373,835
Total	<u>\$ 53,404,053</u>	<u>18,872,798</u>	<u>10,363,981</u>	<u>18,665,938</u>	<u>9,373,835</u>	<u>110,680,605</u>
<u>2006</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 20,493,005	6,542,406	—	4,144,533	—	31,179,944
Research	222,106	75,526	—	372,694	—	670,326
Public service	253,776	39,751	—	4,879	—	298,406
Academic support	8,252,184	2,784,236	—	2,667,886	—	13,704,306
Student services	5,033,244	1,693,994	—	1,598,015	—	8,325,253
Institutional support	7,651,862	2,815,888	—	2,409,850	—	12,877,600
Operation and maintenance of plant	3,493,846	1,384,101	—	7,037,024	—	11,914,971
Student grants and scholarships	—	—	9,278,598	—	—	9,278,598
Auxiliary enterprise expenses	1,547,062	600,276	—	1,106,083	—	3,253,421
Depreciation	—	—	—	—	8,695,918	8,695,918
Total	<u>\$ 46,947,085</u>	<u>15,936,178</u>	<u>9,278,598</u>	<u>19,340,964</u>	<u>8,695,918</u>	<u>100,198,743</u>

#### (15) 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 \$61,270,313 and \$55,490,975 for the years ended June 30, 2007 and 2006, respectively. State appropriations receivable aggregated \$2,758,000 and \$13,027,595 at June 30, 2007 and 2006, respectively.

# CALIFORNIA STATE UNIVERSITY, SAN MARCOS

## Notes to Financial Statements

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The University also received lottery fund distributions from the State of California in the amount of \$642,636 and \$398,000 for the years ended June 30, 2007 and 2006, respectively, which is included in nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net assets.

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

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the years ended June 30, 2007 and 2006, no such additions of capital assets are included in the accompanying financial statements.

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

	<u>2007</u>	<u>2006</u>
Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 505,562	1,912,363
Reimbursements from recognized auxiliary organizations for other than salaries of University employees	4,503,680	1,805,942
Payments to recognized auxiliary organizations for services, office space rental, and programs	1,554,678	1,733,783
Amounts receivable from the Office of the Chancellor	2,623	332,483
Amounts payable to the Office of the Chancellor	43,606	—
Amounts receivable from recognized auxiliary organizations	474,677	628,876
Amounts payable to recognized auxiliary organizations	98,585	12,854

### (16) Subsequent Event

On September 4, 2007, the University entered into a \$1.6 million long-term debt agreement to participate in the financing program of the California State University Institute, an auxiliary organization of the System. The program is funded by commercial paper. The amounts will be used to fund the University's Commercial Refresh Program. The annual rate is 4.5% and payable in quarterly installments through August 2010.