



SAN JOSE STATE UNIVERSITY

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

SAN JOSE STATE UNIVERSITY

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Financial Statements: | |
| Statement of Net Assets | 14 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 15 |
| Statement of Cash Flows | 16 |
| Notes to Financial Statements | 18 |



KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

Dr. Jon Whitmore
President
San Jose State University:

We have audited the accompanying financial statements of San Jose State University (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2008, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008, the changes in their financial position, or, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

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

Management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

May 29, 2009

SAN JOSE STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2008

This Section of San Jose State University (the University) annual financial report presents our discussion and analysis of the financial performance of the University for fiscal years ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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. They also identify 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 are summarized by operating, noncapital financing, capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for the year's activities.

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

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities. Included is 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.

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

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

Condensed Summary of Net Assets

| | June 30 | |
|--|-----------------------|--------------------|
| | 2008 | 2007 |
| Assets: | | |
| Current assets | \$ 143,313,157 | 108,096,441 |
| Capital assets | 411,763,028 | 427,270,705 |
| Other noncurrent assets | 29,289,621 | 29,262,020 |
| Total assets | <u>584,365,806</u> | <u>564,629,166</u> |
| Liabilities: | | |
| Current liabilities | 60,386,560 | 51,855,031 |
| Long-term debt obligations, net of current portion | 259,274,443 | 261,513,608 |
| Other noncurrent liabilities | 26,561,984 | 15,983,785 |
| Total liabilities | <u>346,222,987</u> | <u>329,352,424</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 150,298,342 | 163,783,668 |
| Restricted, nonexpendable | 2,759,780 | 3,335,453 |
| Restricted, expendable | 14,713,425 | 13,929,367 |
| Unrestricted | 70,371,272 | 54,228,254 |
| Total net assets | <u>\$ 238,142,819</u> | <u>235,276,742</u> |

Assets

Total assets increased by \$19.7 million from prior year due to a \$35.2 million increase in current assets and a \$15.5 million decrease in capital assets. Total current assets increased by \$35.2 million primarily due to an increase in short-term investments of \$40.9 million, offset by a reduction in prepaid expenses and other assets of \$6.2 million. The primary reasons for the increase in short-term investments were a \$9.4 million prepayments received from the leases of excess bandwidth capacity, a \$15.1 million increase in net tuition and fees, a \$4.5 million increase in collections of future-year tuition and housing fees, and a reduction of \$6.2 million in prepaid expenses and other assets. The decrease in prepaid expenses and other assets was primarily due to the reduction of prepaid insurance passed down from the Chancellor's Office from \$6.1 million in the prior year to zero in the current year.

Capital assets, net, decreased by \$15.5 million primarily due to \$24.0 million in current year depreciation expense, which was partially offset by \$8.6 million of current year additions. The current year additions amounting to \$8.6 million are primarily related to \$4.4 million in construction work in progress and building improvements and \$2.7 million in equipment purchases.

SAN JOSE STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2008

Liabilities

Total liabilities increased by \$16.9 million from prior year due to a \$8.5 million increase in current liabilities and a \$10.6 million increase in noncurrent liabilities other than long-term debt, which was partially offset by a \$2.2 million decrease in long-term debt obligations, net of current portion. Total current liabilities increased by \$8.5 million primarily due to a \$3.2 million increase in accounts payable and a \$4.8 million increase in deferred revenue. Accounts payable increased primarily due to a \$1.6 million increase in outstanding checks. Deferred revenue from tuition increased by \$1.4 million primarily because of a 10% increase in the State University Fee for Fall 2008, while the deferred revenue from housing fees increase by \$3.1 million primarily due to a major increase in occupancy. Both accrued salaries and benefits and total accrued compensated absences increased due to a 7.7% increase in employee headcount and salary increases ranging from 3% to 10%. However, current accrued compensated absences decreased by \$1.5 million, which was offset by a \$2.3 million increase in the noncurrent balance (see paragraph below). Accrued salaries and benefits increased by \$1.6 million.

Total long-term debt obligations, net of current portion, decreased \$2.2 million due to current year principal payments. Total other noncurrent liabilities increased \$10.6 million primarily due to a \$8.9 million increase in noncurrent deferred revenue, a \$2.3 million increase in noncurrent accrued compensated absences due to increased headcount and salary increases (see paragraph above), partially offset by a decrease of \$530 thousand in depository liabilities. The noncurrent deferred revenue pertained to the unamortized portion of the one-time upfront prepayments of monthly leasing fees totaling \$9.4 million from two thirty-year leases of excess bandwidth capacities, which have been deferred as of June 30, 2008. The leases commenced in December 2007 and expire in December 2037. The unamortized balance of \$313 thousand and \$8.9 million were classified as current and noncurrent deferred revenue as of June 30, 2008, respectively.

Net Assets

Total net assets increased by \$2.9 million from the prior year. A significant portion of net assets amounting to \$150.3 million at the end of the year is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt, decreased \$13.5 million from prior year primarily due to depreciation expense of \$24.0 million, offset by \$8.6 million of current-year additions. Net assets at the end of the year amounting to \$2.8 million are restricted for nonexpendable endowments. This represented a \$576 thousand decrease from prior year due to transfer of certain endowments to the Tower Foundation. Net assets at the end of the year amounting to \$14.7 million are restricted for scholarships and fellowships, loans, and capital projects, which increased \$784 thousand from prior year as discussed below. The remaining net assets at the end of the year amounting to \$70.4 million are unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations. The \$16.1 million increase over the prior year is primarily related to an increase in net tuition and fees from higher fees and larger enrollment.

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

Restricted Resources

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

Restricted Net Assets

| | June 30 | |
|--|----------------|-------------|
| | 2008 | 2007 |
| Expendable: | | |
| Scholarships and fellowships | \$ 3,104,533 | 3,607,212 |
| Loans | 5,489,546 | 5,269,952 |
| Capital projects | 6,119,346 | 5,052,203 |
| Total restricted net assets – expendable | \$ 14,713,425 | 13,929,367 |

Total restricted net assets – expendable increased \$784 thousand. This is primarily due to a \$1.1 million increase in net assets restricted for capital projects as a result of capital appropriations of \$6.2 million, partially offset by \$5.0 million in expenditures.

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

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

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

| | Year ended June 30 | |
|--|---------------------------|----------------------|
| | 2008 | 2007 |
| Operating revenues: | | |
| Student tuition and fees, net | \$ 118,097,255 | 103,006,410 |
| Sales and services of educational activities | 4,962,375 | 4,303,789 |
| Sales and services of auxiliary enterprises, net | 26,434,939 | 25,125,528 |
| Other operating revenues | 6,396,179 | 7,161,856 |
| Total operating revenues | <u>155,890,748</u> | <u>139,597,583</u> |
| Operating expenses | <u>362,927,046</u> | <u>343,123,487</u> |
| Operating loss | <u>(207,036,298)</u> | <u>(203,525,904)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations, noncapital | 170,265,317 | 163,481,415 |
| Federal financial aid grants, noncapital | 23,426,824 | 19,943,260 |
| State and local financial aid grants, noncapital | 10,703,324 | 7,649,261 |
| Gifts, noncapital | 2,229,747 | 4,148,366 |
| Investment income, net | 6,938,821 | 6,171,671 |
| Endowment income | 103,930 | 153,511 |
| Interest expense | (12,751,075) | (12,845,569) |
| Other nonoperating revenues, net | 2,554,846 | 2,092,570 |
| Total nonoperating revenues | <u>203,471,734</u> | <u>190,794,485</u> |
| Loss before other additions | (3,564,564) | (12,731,419) |
| State appropriations, capital | 6,235,690 | 5,215,969 |
| Grants and gifts, capital | 188,704 | 86,219 |
| Additions to permanent endowments | 6,247 | 90,233 |
| Increase (decrease) in net assets | <u>2,866,077</u> | <u>(7,338,998)</u> |
| Beginning net assets | <u>235,276,742</u> | <u>242,615,740</u> |
| Ending net assets | <u>\$ 238,142,819</u> | <u>235,276,742</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, certain grants and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises. Expenses include categories such as salaries, benefits, supplies and other services, scholarships and fellowships, and depreciation and amortization. In this discussion and analysis, expenses are reported by functional program such as instruction, research, public service, academic support, student services, institutional support, operation and

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

maintenance of plant, student grants and scholarships, auxiliary enterprise expenses, and depreciation and amortization.

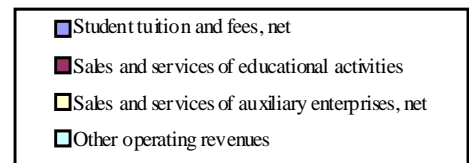
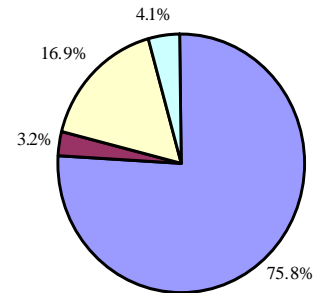
Operating Revenues

Total operating revenues increased by \$16.3 million primarily due to a \$15.1 million increase in student tuition and fees, net, a \$659 thousand increase in sales and services of educational activities, a \$1.3 million increase in sales and services of auxiliary enterprises, net, and a \$766 thousand decrease in other operating revenues. Student tuition and fees, net, increased by \$15.1 million (14.7%) from prior year primarily due to a 10% increase in the state university fee and an increase in full-time equivalent students of 8% in Fall 2007 and 6% in Spring 2008. Sales and services of auxiliary enterprises, net, increased \$1.3 million from the prior year primarily due to higher housing occupancy.

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

Operating Revenues
Year ended June 30, 2008

| | | |
|--|-----------------------|---------------|
| Student tuition and fees, net | \$ 118,097,255 | 75.8% |
| Sales and services of educational activities | 4,962,375 | 3.2 |
| Sales and services of auxiliary enterprises, net | 26,434,939 | 16.9 |
| Other operating revenues | <u>6,396,179</u> | <u>4.1</u> |
| Total operating revenues | <u>\$ 155,890,748</u> | <u>100.0%</u> |

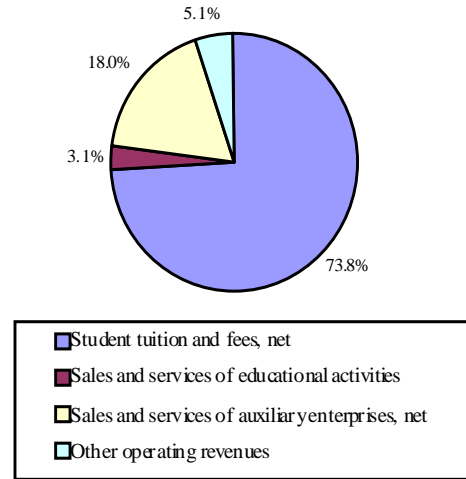


SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

Operating Revenues

Year ended June 30, 2007

| | | |
|--|-----------------------|---------------|
| Student tuition and fees, net | \$ 103,006,410 | 73.8% |
| Sales and services of educational activities | 4,303,789 | 3.1 |
| Sales and services of auxiliary enterprises, net | 25,125,528 | 18.0 |
| Other operating revenues | <u>7,161,856</u> | <u>5.1</u> |
| Total operating revenues | <u>\$ 139,597,583</u> | <u>100.0%</u> |



Operating Expenses

Total operating expenses increased by \$19.8 million, or 5.8%, primarily due to a \$9.1 million increase in instruction, a \$1.3 million increase in academic support, a \$2.7 million increase in student services, a \$4.4 million increase in institutional support, and a \$1.9 million increase in student grants and scholarships. Salaries and benefits costs, within each of these functions, increased by \$21.3 million primarily due to salary rate increases of 3% – 10% and a headcount increase of 7.7%. Supplies and other services expense, within each of these functions, decreased by \$4.7 million due to one-time expenses in fiscal year 06-07 mainly relating to the transfer of federal reimbursements to the SJSU Research Foundation of \$2.1 million, non-capital expenditures for Clark Hall of \$2.1 million, and parking garage maintenance expenses of \$300 thousand. Student grants and scholarships increased by \$1.9 million, primarily due to increased enrollment and tuition. The instruction function increased \$9.1 million primarily due to higher salaries and benefits costs as discussed above and increased enrollment. The academic support, student services, and institutional support functions increased by \$1.3 million, \$2.7 million, and \$4.4 million, respectively, primarily due to higher salaries and benefits costs as discussed above.

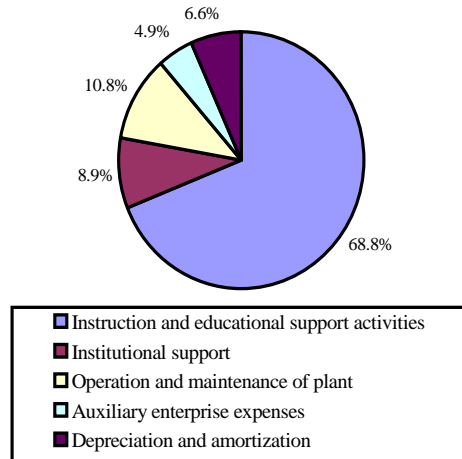
SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

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

Operating Expenses

Year ended June 30, 2008

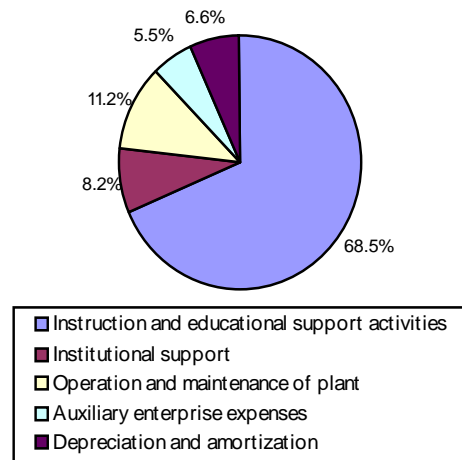
| | | |
|---|-----------------------|---------------|
| Instruction | \$ 151,377,186 | 41.8% |
| Public service | 1,049,633 | 0.3 |
| Academic support | 32,752,740 | 9.0 |
| Student services | 42,878,104 | 11.8 |
| Student grants and scholarships | <u>21,538,827</u> | <u>5.9</u> |
| Total instruction and educational support activities | 249,596,490 | 68.8 |
| Institutional support | 32,415,487 | 8.9 |
| Operation and maintenance of plant | 39,175,520 | 10.8 |
| Auxiliary enterprises expenses | 17,732,331 | 4.9 |
| Depreciation and amortization | <u>24,007,218</u> | <u>6.6</u> |
| Total operating expenses | \$ 362,927,046 | 100.0% |



Operating Expenses

Year ended June 30, 2007

| | | |
|---|-----------------------|---------------|
| Instruction | \$ 142,234,130 | 41.5% |
| Public service | 1,363,768 | 0.4 |
| Academic support | 31,464,047 | 9.2 |
| Student services | 40,214,249 | 11.7 |
| Student grants and scholarships | <u>19,687,118</u> | <u>5.7</u> |
| Total instruction and educational support activities | 234,963,312 | 68.5 |
| Institutional support | 28,064,522 | 8.2 |
| Operation and maintenance of plant | 38,414,200 | 11.2 |
| Auxiliary enterprises expenses | 19,015,434 | 5.5 |
| Depreciation and amortization | <u>22,666,019</u> | <u>6.6</u> |
| Total operating expenses | \$ 343,123,487 | 100.0% |



Nonoperating Revenues (Expenses)

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

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

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 \$6.2 million for the fiscal year ended June 30, 2008, up from \$5.2 million for the fiscal year ended June 30, 2007. General (noncapital) appropriation revenues totaled \$170.3 million, an increase of \$6.8 million from the prior year primarily due to enrollment increases. Investment income was \$6.9 million, an increase of \$767 thousand from prior year primarily due to increased investment balances. Financial aid grants increased \$6.5 million from the prior year primarily due to a 9% increase in Pell Grant recipients, a 23% increase in Cal Grant recipients, and a 10% increase in the state university fee.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

| | June 30 | |
|---|----------------|-------------|
| | 2008 | 2007 |
| Land and land improvements | \$ 14,949,852 | 14,949,852 |
| Works of art and historical treasures | 39,375 | 30,000 |
| Buildings and building improvements | 348,601,392 | 365,749,614 |
| Improvements, other than buildings | 1,020,230 | 1,185,379 |
| Infrastructure | 24,444,540 | 26,184,021 |
| Personal property | 13,595,753 | 13,007,644 |
| Intangible assets | 1,544,775 | 1,392,311 |
| Construction work in progress | 7,567,111 | 4,571,884 |
| Total capital assets, net of accumulated depreciation | \$ 411,763,028 | 427,070,705 |

Capital assets, net, decreased \$15.5 million primarily due to \$24.0 million in current year depreciation expense, which was partially offset by \$8.6 million of current year additions. The \$8.6 million in current year additions is primarily related to \$4.4 million in construction work in progress and building improvements and \$2.7 million in equipment purchases. The \$2.3 million of the construction work in progress was for the renovation of the Morris Dailey Auditorium, funded mainly by capital state appropriations.

Capital assets commitments at June 30, 2008 totaled \$6.3 million.

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

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

Long-Term Debt Obligations

Debt outstanding at June 30, 2008, 2007, and 2006 is summarized below by type of debt instrument:

| | June 30 | |
|--|----------------|-------------|
| | 2008 | 2007 |
| Systemwide Revenue Bonds: | | |
| Housing Series B | \$ — | 104,763 |
| Housing Series U | 860,000 | 1,020,000 |
| Student Union Series 2005B | 14,885,000 | 15,765,000 |
| Series 2003A | 212,855,000 | 212,905,000 |
| Series 2005C | 21,040,000 | 21,040,000 |
| Other: | | |
| Loan Payable-First Municipal | 10,481,854 | 11,260,520 |
| Total | 260,121,854 | 262,095,283 |
| Unamortized bond premium (discount) | 1,573,839 | 1,665,354 |
| Unamortized loss on refunding | (231,007) | (273,600) |
| Total long-term debt | 261,464,686 | 263,487,037 |
| Less current portion | (2,190,243) | (1,973,429) |
| Long-term debt, net of current portion | \$ 259,274,443 | 261,513,608 |

At June 30, 2008 and 2007, the University had \$261.5 million and \$263.5 million, respectively, in debt outstanding. No new debt was issued during 2007-08.

Bond Ratings

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

SAN JOSE STATE UNIVERSITY
Management's Discussion and Analysis
June 30, 2008

Factors Impacting Future Periods

The 2008-09 State General Fund Allocation for San Jose State University is \$167,277,822, a net decrease of \$2,987,495 from 2007-08. To help offset this budget reduction the CSU Board of Trustees approved a 10% State University Fee increase for 2008-09.

The budgeted resident full-time equivalent enrollment target of 23,699 for fiscal year 2008-09 is the same as it was for 2007-08.

Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 92.69% in the California State University's Investment Pool and 4.80% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expects to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets.

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

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

On April 22, 2009, the State of California lifted the suspension of GO bond projects. All GO bond funded projects are going to be restarted; this includes projects that were in the design phase as well as equipment, capital renewal and minor capital outlay projects.

SAN JOSE STATE UNIVERSITY

Statement of Net Assets

June 30, 2008

| Assets | University | Discretely presented component units | | Total |
|--|-----------------------|--------------------------------------|------------------------------|--------------------|
| | | GASB auxiliary organizations | FASB auxiliary organizations | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 933,299 | 14,976,055 | 3,822,345 | 19,731,699 |
| Short-term investments | 136,016,633 | 10,533,975 | 4,228,143 | 150,778,751 |
| Accounts receivable, net | 5,649,011 | 448,097 | 13,272,450 | 19,369,558 |
| Pledges receivable, net | 192,677 | 4,263,019 | — | 4,455,696 |
| Prepaid expenses and other assets | 521,537 | 259,914 | 1,850,353 | 2,631,804 |
| Total current assets | 143,313,157 | 30,481,060 | 23,173,291 | 196,967,508 |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents | 753,943 | 209,694 | 21,354 | 984,991 |
| Accounts receivable, net | 6,958,303 | — | 17,715 | 6,976,018 |
| Notes receivable, net of current portion | — | — | 360,000 | 360,000 |
| Student loans receivable, net | 7,100,854 | — | — | 7,100,854 |
| Pledges receivable, net | 140,000 | 17,806,496 | — | 17,946,496 |
| Endowment investments | 2,759,780 | 49,920,496 | 99,374 | 52,779,650 |
| Other long-term investments | 11,576,741 | 2,232,078 | 16,093,475 | 29,902,294 |
| Capital assets, net | 411,763,028 | 4,298,026 | 16,533,514 | 432,594,568 |
| Other assets | — | 10,030,210 | 762,908 | 10,793,118 |
| Total noncurrent assets | 441,052,649 | 84,497,000 | 33,888,340 | 559,437,989 |
| Total assets | \$ 584,365,806 | 114,978,060 | 57,061,631 | 756,405,497 |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 8,705,371 | 1,025,249 | 5,941,306 | 15,671,926 |
| Accrued salaries and benefits payable | 19,210,137 | 517,369 | 2,068,031 | 21,795,537 |
| Accrued compensated absences – current portion | 6,853,882 | 103,704 | 1,329,186 | 8,286,772 |
| Deferred revenue | 19,417,390 | 3,050 | 11,040,514 | 30,460,954 |
| Long-term debt obligations – current portion | 2,190,243 | 211,482 | 622,459 | 3,024,184 |
| Other liabilities | 4,009,537 | 943,159 | 422,927 | 5,375,623 |
| Total current liabilities | 60,386,560 | 2,804,013 | 21,424,423 | 84,614,996 |
| Noncurrent liabilities: | | | | |
| Accrued compensated absences, net of current portion | 4,386,658 | — | 621,365 | 5,008,023 |
| Deferred revenue | 8,930,000 | — | — | 8,930,000 |
| Grants refundable | 11,097,349 | — | — | 11,097,349 |
| Long-term debt obligations, net of current portion | 259,274,443 | 552,647 | 3,379,159 | 263,206,249 |
| Depository accounts | 1,870,464 | — | 2,318,304 | 4,188,768 |
| Other liabilities | 277,513 | 1,111,488 | 14,875,003 | 16,264,004 |
| Total noncurrent liabilities | 285,836,427 | 1,664,135 | 21,193,831 | 308,694,393 |
| Total liabilities | 346,222,987 | 4,468,148 | 42,618,254 | 393,309,389 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 150,298,342 | 3,555,767 | 12,531,896 | 166,386,005 |
| Restricted for: | | | | |
| Nonexpendable – endowments | 2,759,780 | 48,828,770 | 60,181 | 51,648,731 |
| Expendable: | | | | |
| Scholarships and fellowships | 3,104,533 | 2,643,248 | — | 5,747,781 |
| Loans | 5,489,546 | 742,259 | — | 6,231,805 |
| Capital projects | 6,119,346 | — | — | 6,119,346 |
| Other | — | 41,558,465 | 17,276 | 41,575,741 |
| Unrestricted | 70,371,272 | 13,181,403 | 1,834,024 | 85,386,699 |
| Total net assets | \$ 238,142,819 | 110,509,912 | 14,443,377 | 363,096,108 |

See accompanying notes to financial statements.

SAN JOSE STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2008

| | <u>University</u> | <u>Discretely presented component units</u> | | <u>Eliminations</u> | <u>Total</u> |
|--|-----------------------|---|---|---------------------|----------------------|
| | | <u>GASB auxiliary organizations</u> | <u>FASB auxiliary organizations</u> | | |
| Revenues: | | | | | |
| Operating revenues: | | | | | |
| Student tuition and fees (net of scholarship allowances of \$27,145,770) | \$ 118,097,255 | 4,737,584 | 4,496,195 | — | 127,331,034 |
| Grants and contracts, noncapital: | | | | | |
| Federal | — | 32,717 | 16,438,730 | — | 16,471,447 |
| State | — | 336,688 | 17,557,502 | — | 17,894,190 |
| Local | — | 129,847 | 1,823,707 | — | 1,953,554 |
| Nongovernmental | — | 250,330 | 8,736,403 | — | 8,986,733 |
| Sales and services of educational activities | 4,962,375 | — | — | — | 4,962,375 |
| Sales and services of auxiliary enterprises (net of scholarship allowances of \$2,126,272) | 26,434,939 | 7,591,032 | 35,534,771 | — | 69,560,742 |
| Other operating revenues | 6,396,179 | 3,210,289 | 10,696,784 | — | 20,303,252 |
| Total operating revenues | <u>155,890,748</u> | <u>16,288,487</u> | <u>95,284,092</u> | <u>—</u> | <u>267,463,327</u> |
| Expenses: | | | | | |
| Operating expenses: | | | | | |
| Instruction | 151,377,186 | 904,499 | 19,564,261 | — | 171,845,946 |
| Research | — | — | 28,787,223 | — | 28,787,223 |
| Public service | 1,049,633 | — | 229,345 | — | 1,278,978 |
| Academic support | 32,752,740 | 3,040,506 | 713,648 | (268,504) | 36,238,390 |
| Student services | 42,878,104 | 8,242,272 | 1,090,177 | — | 52,210,553 |
| Institutional support | 32,415,487 | 1,093,979 | 7,378,530 | — | 40,887,996 |
| Operation and maintenance of plant | 39,175,520 | — | 786,714 | — | 39,962,234 |
| Student grants and scholarships | 21,538,827 | 896,242 | 1,480,619 | (951,967) | 22,963,721 |
| Auxiliary enterprise expenses | 17,732,331 | 7,201,982 | 35,423,903 | (194,805) | 60,163,411 |
| Depreciation and amortization | 24,007,218 | 488,582 | 1,233,910 | — | 25,729,710 |
| Total operating expenses | <u>362,927,046</u> | <u>21,868,062</u> | <u>96,688,330</u> | <u>(1,415,276)</u> | <u>480,068,162</u> |
| Operating loss | <u>(207,036,298)</u> | <u>(5,579,575)</u> | <u>(1,404,238)</u> | <u>1,415,276</u> | <u>(212,604,835)</u> |
| Nonoperating revenues (expenses): | | | | | |
| State appropriations, noncapital | 170,265,317 | — | — | — | 170,265,317 |
| Federal financial aid grants, noncapital | 23,426,824 | — | — | — | 23,426,824 |
| State and local financial aid grants, noncapital | 10,703,324 | — | — | — | 10,703,324 |
| Gifts, noncapital | 2,229,747 | 9,670,602 | 20,000 | (839,276) | 11,081,073 |
| Investment income, net | 6,938,821 | 828,780 | (438,655) | — | 7,328,946 |
| Endowment income (loss) | 103,930 | (6,248,236) | (3,357) | — | (6,147,663) |
| Interest expense | (12,751,075) | — | (231,417) | — | (12,982,492) |
| Other nonoperating revenues (expenses), net | 2,554,846 | 251,992 | 165,584 | (576,000) | 2,396,422 |
| Net nonoperating revenues (expenses) | <u>203,471,734</u> | <u>4,503,138</u> | <u>(487,845)</u> | <u>(1,415,276)</u> | <u>206,071,751</u> |
| Loss before other additions | <u>(3,564,564)</u> | <u>(1,076,437)</u> | <u>(1,892,083)</u> | <u>—</u> | <u>(6,533,084)</u> |
| State appropriations, capital | 6,235,690 | — | — | — | 6,235,690 |
| Grants and gifts, capital | 188,704 | — | — | — | 188,704 |
| Additions to permanent endowments | 6,247 | 7,293,139 | — | — | 7,299,386 |
| Increase (decrease) in net assets | <u>2,866,077</u> | <u>6,216,702</u> | <u>(1,892,083)</u> | <u>—</u> | <u>7,190,696</u> |
| Net assets: | | | | | |
| Net assets at beginning of year | 235,276,742 | 104,293,210 | 16,335,460 | — | 355,905,412 |
| Net assets at end of year | <u>\$ 238,142,819</u> | <u>110,509,912</u> | <u>14,443,377</u> | <u>—</u> | <u>363,096,108</u> |

See accompanying notes to financial statements.

SAN JOSE STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2008

| | University |
|---|-------------------|
| Cash flows from operating activities: | |
| Student tuition and fees | \$ 121,131,480 |
| Payments to suppliers | (57,441,605) |
| Payments to employees | (248,690,559) |
| Payments to students | (21,543,154) |
| Collections of student loans | 17,648 |
| Sales and services of auxiliary enterprises | 28,470,794 |
| Sales and services of educational activities | 4,962,375 |
| Other receipts | 6,048,594 |
| Net cash used in operating activities | (167,044,427) |
| Cash flows from noncapital financing activities: | |
| State appropriations | 170,266,564 |
| Federal financial aid grants | 23,486,229 |
| State and local financial aid grants | 10,703,324 |
| Gifts and grants received for other than capital purposes | 2,320,362 |
| Federal loan program receipts | 53,092,032 |
| Federal loan program disbursements | (52,295,752) |
| Monies received on behalf of others | 7,864,589 |
| Monies disbursed on behalf of others | (6,423,462) |
| Other | 9,737,771 |
| Net cash provided by noncapital financing activities | 218,751,657 |
| Cash flows from capital and related financing activities: | |
| State appropriations | 5,130,629 |
| Acquisition of capital assets | (7,950,441) |
| Principal paid on capital debt and leases | (1,973,429) |
| Interest paid on capital debt and leases | (12,957,261) |
| Net cash used in capital and related financing activities | (17,750,502) |
| Cash flows from investing activities: | |
| Proceeds from sales and maturities of investments | 175,665,637 |
| Purchases of investments | (216,430,043) |
| Investment income received | 7,320,763 |
| Net cash used in investing activities | (33,443,643) |
| Net increase in cash and cash equivalents | 513,085 |
| Cash and cash equivalents at beginning of year | 1,174,157 |
| Cash and cash equivalents at end of year | \$ 1,687,242 |
| Summary of cash and cash equivalents at end of year: | |
| Cash and cash equivalents | \$ 933,299 |
| Restricted cash and cash equivalents | 753,943 |
| Total cash and cash equivalents at end of year | \$ 1,687,242 |

SAN JOSE STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2008

| | University |
|---|-------------------|
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (207,036,298) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation and amortization | 24,007,218 |
| Change in assets and liabilities: | |
| Accounts receivable, net | (171,349) |
| Student loans receivable, net | 13,321 |
| Prepaid expenses and other assets | 6,161,252 |
| Accounts payable | 2,780,127 |
| Accrued salaries and benefits | 1,562,843 |
| Accrued compensated absences | 728,908 |
| Deferred revenue | 4,451,772 |
| Other liabilities | 457,779 |
| Net cash used in operating activities | \$ (167,044,427) |
| Supplemental schedules of noncash transactions: | |
| Contributed capital assets | \$ 188,704 |
| Construction work in progress acquired from the Office of the Chancellor | 99,246 |
| Change in accrued capital asset costs (purchased but unpaid at year-end) | 382,367 |
| Gifts inkind | 44,750 |
| Amortization of lease prepayment | 156,667 |

See accompanying notes to financial statements.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

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

- San Jose State University Research Foundation
- Tower Foundation of San Jose State University
- Associated Students of San Jose State University
- The Student Union of San Jose State University
- Spartan Shops, Inc.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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

| June 30, 2008 | San Jose State University Research Foundation | Tower Foundation of San Jose State University | Other auxiliary organizations | Total |
|---|--|--|--|--------------------|
| Current assets | \$ 16,621,268 | 17,121,163 | 19,911,920 | 53,654,351 |
| Capital assets, net | 9,343,444 | — | 11,488,096 | 20,831,540 |
| Other noncurrent assets | 16,977,111 | 74,630,689 | 5,946,000 | 97,553,800 |
| Total assets | <u>42,941,823</u> | <u>91,751,852</u> | <u>37,346,016</u> | <u>172,039,691</u> |
| Current liabilities | 17,601,667 | 434,603 | 6,192,166 | 24,228,436 |
| Noncurrent liabilities | 17,360,933 | 894,220 | 4,602,813 | 22,857,966 |
| Total liabilities | <u>34,962,600</u> | <u>1,328,823</u> | <u>10,794,979</u> | <u>47,086,402</u> |
| Invested in capital assets, net of related debt | 8,343,444 | — | 7,744,219 | 16,087,663 |
| Restricted | 77,457 | 88,328,207 | 5,444,535 | 93,850,199 |
| Unrestricted | (441,678) | 2,094,822 | 13,362,283 | 15,015,427 |
| Total net assets | <u>\$ 7,979,223</u> | <u>90,423,029</u> | <u>26,551,037</u> | <u>124,953,289</u> |
| Year ended June 30, 2008 | | | | |
| Operating revenues: | | | | |
| Student tuition and fees, net | \$ 4,496,195 | — | 4,737,584 | 9,233,779 |
| Grants and contracts, noncapital | 44,556,342 | — | 749,582 | 45,305,924 |
| Sales and services of auxiliary enterprises, net | 3,647,819 | — | 39,477,984 | 43,125,803 |
| Other | 10,696,784 | 1,275,449 | 1,934,840 | 13,907,073 |
| Total operating revenues | <u>63,397,140</u> | <u>1,275,449</u> | <u>46,899,990</u> | <u>111,572,579</u> |

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

| <u>Year ended June 30, 2008</u> | <u>San Jose State University Research Foundation</u> | <u>Tower Foundation of San Jose State University</u> | <u>Other auxiliary organizations</u> | <u>Total</u> |
|---|--|--|--|--------------------|
| Operating expenses: | | | | |
| Instruction | \$ 19,564,261 | 904,499 | — | 20,468,760 |
| Research | 28,787,223 | — | — | 28,787,223 |
| Public service | 229,345 | — | — | 229,345 |
| Academic support | 713,648 | 3,040,506 | — | 3,754,154 |
| Student services | 1,090,177 | 924,062 | 7,318,210 | 9,332,449 |
| Institutional support | 7,378,530 | 1,093,979 | — | 8,472,509 |
| Operation and maintenance of plant | 786,714 | — | — | 786,714 |
| Student grants and scholarships | 1,480,619 | 896,242 | — | 2,376,861 |
| Auxiliary enterprise expenses | 4,774,659 | 786,644 | 37,064,582 | 42,625,885 |
| Depreciation and amortization | 365,569 | — | 1,356,923 | 1,722,492 |
| Total operating expenses | <u>65,170,745</u> | <u>7,645,932</u> | <u>45,739,715</u> | <u>118,556,392</u> |
| Operating income (loss) | (1,773,605) | (6,370,483) | 1,160,275 | (6,983,813) |
| Net nonoperating revenues (expenses) | <u>(386,761)</u> | <u>4,688,905</u> | <u>(286,851)</u> | <u>4,015,293</u> |
| Income (loss) before other additions | (2,160,366) | (1,681,578) | 873,424 | (2,968,520) |
| Additions to permanent endowments | <u>—</u> | <u>7,293,139</u> | <u>—</u> | <u>7,293,139</u> |
| Increase (decrease) in net assets | (2,160,366) | 5,611,561 | 873,424 | 4,324,619 |
| Beginning net assets, July 1, 2007 | <u>10,139,589</u> | <u>84,811,468</u> | <u>25,677,613</u> | <u>120,628,670</u> |
| Ending net assets, June 30, 2008 | <u>\$ 7,979,223</u> | <u>90,423,029</u> | <u>26,551,037</u> | <u>124,953,289</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 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.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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 only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University and the financial statements do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008 and the changes in their financial position, or, where applicable, their 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.

Two of the auxiliary organizations included in these financial statements (Spartan Shops, Inc. and San Jose State University Research Foundation) apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB), while three of the auxiliary organizations (Associated Students of San Jose State University, Tower Foundation of San Jose State University, and The Student Union of San Jose State University) apply the accounting and reporting standards promulgated by the GASB.

(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 (other than Investments) and Liabilities*

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal University business operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent. For classification of current and noncurrent investments, refer to note 2 (g).

(e) *Cash and Cash Equivalents*

The University considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The University considers amounts included in the California State University Investment Pool to be investments. The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

(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.

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

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

Depreciation expense is shown separately in the 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 registration and housing fees collected in advance for summer and fall terms, as well as the unamortized portion of the upfront 30 years lease prepayments from

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

two leases of excess bandwidth capacities, which are amortized on a straight-line basis over the lease term of 30 years.

(i) ***Compensated Absences***

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

(j) ***Grants Refundable***

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

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

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

(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. Moreover, the Office of the Chancellor administers and charges campuses for centralized expenses such as State pro rata and management of capital projects and pooled investments, which are included in operating expenses by function in the accompanying statements of revenues, expenses, and changes in net assets.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

Certain other transactions are reported as nonoperating revenues and expenses or capital contributions in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, certain financial aid grants, noncapital, net investment income, gifts, interest expense, and capital contributions.

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

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

(m) Internal Services Activities

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

(n) Income Taxes

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

(o) New Accounting Pronouncements

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

OPEB liability and expense are not reflected within the University's financial statements. See note 10(b) for a description of the OPEB plan.

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

(p) 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.

(q) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

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

| | |
|--|------------------------------|
| Cash and cash equivalents | \$ 933,299 |
| Restricted cash and cash equivalents | 753,943 |
| Total cash and cash equivalents | <u>1,687,242</u> |
| Short-term investments | 136,016,633 |
| Endowment investments | 2,759,780 |
| Other long-term investments | 11,576,741 |
| Total investments | <u>150,353,154</u> |
| Total cash, cash equivalents and investments | <u><u>\$ 152,040,396</u></u> |

(a) Cash and Cash Equivalents

At June 30, 2008, cash and cash equivalents consisted of demand deposits primarily held at Wells Fargo Bank and petty cash. Total cash and cash equivalents of \$1,687,242 had a corresponding

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

carrying value balance with the bank of \$1,175,811 at June 30, 2008. 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, 2008, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the University's various funds and programs.

Investment Policy

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2008 is presented in the table in the following page.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

Credit Risk

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

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2008:

| Investment type | Fair value | Weighted average maturity (in years) | Rating as of year-end | | | | | |
|---|-----------------------|--------------------------------------|-----------------------|-------------------|-------------------|----------------|------------------|-----------|
| | | | AAA | AA | A | BBB | Not rated | |
| Money market | \$ 3,615,694 | — | \$ 3,615,694 | — | — | — | — | — |
| Commercial paper | 35,397,044 | 0.05 | — | — | 35,397,044 | — | — | — |
| Certificates of deposit | 30,072,232 | 0.13 | — | — | 30,072,232 | — | — | — |
| Repurchase agreements | 3,314,842 | 0.50 | — | — | 3,314,842 | — | — | — |
| U.S. agency securities | 17,308,095 | 1.17 | 14,662,170 | — | 2,645,926 | — | — | — |
| Corporate and fixed income securities | 48,235,112 | 1.68 | 14,874,483 | 15,903,036 | 16,313,226 | 402,443 | 741,923 | — |
| State of California Surplus Money Investment Fund | 7,216,182 | 0.58 | — | — | — | — | — | 7,216,182 |
| Mortgage-backed securities | 4,853,965 | 11.97 | 4,853,965 | — | — | — | — | — |
| Total | 150,013,166 | | \$ 38,006,312 | 15,903,036 | 87,743,270 | 402,443 | 7,958,105 | |
| Not subject to ratings: | | | | | | | | |
| U.S. Treasury securities | 331,215 | 1.68 | | | | | | |
| State of California Local Agency Investment Fund | 8,773 | 0.58 | | | | | | |
| Total investments | \$ 150,353,154 | | | | | | | |

Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2008, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank bonds \$9,766,006, (6%).

Risk and Uncertainties

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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

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

(4) Accounts Receivable

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

| | Current | Noncurrent | Total |
|--------------------------------------|----------------|-------------------|--------------|
| State appropriations | \$ 10,599 | 6,958,303 | 6,968,902 |
| Auxiliary organizations | 2,167,241 | — | 2,167,241 |
| Student accounts | 1,747,281 | — | 1,747,281 |
| Government grants and contracts | 432,963 | — | 432,963 |
| Other | 2,012,115 | — | 2,012,115 |
| | 6,370,199 | 6,958,303 | 13,328,502 |
| Less allowance for doubtful accounts | (721,188) | — | (721,188) |
| Total | \$ 5,649,011 | 6,958,303 | 12,607,314 |

(5) Student Loans Receivable

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

| | |
|---------------------------------------|--------------|
| Perkins loans | \$ 8,453,467 |
| Other loans | 150,281 |
| Total student loans receivable, gross | 8,603,748 |
| Less allowance for doubtful accounts | (1,502,894) |
| Total student loans receivable, net | \$ 7,100,854 |

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

(6) Capital Assets

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

| | <u>Balance, June 30, 2007</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance, June 30, 2008</u> |
|---------------------------------------|-----------------------------------|---------------------|--------------------|--------------------|-----------------------------------|
| Nondepreciable capital assets: | | | | | |
| Land and land improvements | \$ 14,949,852 | — | — | — | 14,949,852 |
| Works of art and historical treasures | 30,000 | 9,375 | — | — | 39,375 |
| Construction work in progress | 4,571,884 | 4,415,868 | — | (1,420,641) | 7,567,111 |
| Total nondepreciable capital assets | <u>19,551,736</u> | <u>4,425,243</u> | <u>—</u> | <u>(1,420,641)</u> | <u>22,556,338</u> |
| Depreciable capital assets: | | | | | |
| Buildings and building improvements | 573,268,951 | 40,426 | — | 1,274,602 | 574,583,979 |
| Improvements, other than buildings | 5,197,321 | — | — | — | 5,197,321 |
| Infrastructure | 37,221,271 | — | — | 146,039 | 37,367,310 |
| Personal property: | | | | | |
| Equipment | 28,939,063 | 2,729,016 | (1,024,103) | — | 30,643,976 |
| Library books and materials | 22,182,338 | 737,165 | (1,447) | — | 22,908,056 |
| Intangible assets | 4,109,723 | 688,908 | (189,265) | — | 4,609,366 |
| Total depreciable capital assets | <u>670,918,667</u> | <u>4,195,515</u> | <u>(1,224,815)</u> | <u>1,420,641</u> | <u>675,310,008</u> |
| Total cost | <u>690,470,403</u> | <u>8,620,758</u> | <u>(1,224,815)</u> | <u>—</u> | <u>697,866,346</u> |
| Less accumulated depreciation: | | | | | |
| Buildings and building improvements | (207,519,337) | (18,463,250) | — | — | (225,982,587) |
| Improvements, other than buildings | (4,011,942) | (165,149) | — | — | (4,177,091) |
| Infrastructure | (11,037,250) | (1,885,520) | — | — | (12,922,770) |
| Personal property: | | | | | |
| Equipment | (19,087,847) | (2,092,519) | 913,855 | — | (20,266,511) |
| Library books and materials | (19,025,910) | (680,214) | 16,356 | — | (19,689,768) |
| Intangible assets | (2,517,412) | (720,566) | 173,387 | — | (3,064,591) |
| Total accumulated depreciation | <u>(263,199,698)</u> | <u>(24,007,218)</u> | <u>1,103,598</u> | <u>—</u> | <u>(286,103,318)</u> |
| Net capital assets | <u>\$ 427,270,705</u> | <u>(15,386,460)</u> | <u>(121,217)</u> | <u>—</u> | <u>411,763,028</u> |

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

(7) Lease Obligations

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

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2033. The leases can be canceled if the State does not provide adequate funding.

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

| | <u>Operating leases</u> |
|------------------------------|-----------------------------|
| Year ending June 30: | |
| 2009 | \$ 646,848 |
| 2010 | 687,179 |
| 2011 | 412,927 |
| 2012 | 429,620 |
| 2013 | 78,441 |
| 2014 – 2018 | 446,777 |
| 2019 – 2023 | 338,006 |
| 2024 – 2028 | 411,235 |
| 2029 – 2033 | 140,412 |
| Total minimum lease payments | <u>\$ 3,591,445</u> |

Rent expense under operating leases for the years ended June 30, 2008 totaled \$649,044.

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the State in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2008 totaled \$536,727,000.

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

General Obligation Bond debt carried by the State related to System projects is approximately \$1,494,093,000 as of June 30, 2008.

(b) Revenue Bond Programs

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

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

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

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

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

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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

The Systemwide Revenue Bond (SRB) program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the revenue producing projects.

The University participates in the SRB program and its allocated share of outstanding SRB debt as of June 30, 2008 is \$249,640,000, which has been used to finance certain projects.

The System has pledged future continuing education, health care facilities, housing, parking and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$2,804,033,000 in Systemwide Revenue Bonds issued through fiscal year 2008. The bonds are payable solely from continuing education, health care facilities, housing, parking, student union and designated auxiliary net income available for debt service and are payable through fiscal year 2044-45. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$4,939,829,000. In fiscal year 2008, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$148,395,000 and \$213,695,000, respectively.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

Long-term debt obligations of the University as of June 30, 2008 consist of the following:

| Description | Interest rate | Fiscal year maturity date | Original issue amount | Amount outstanding at June 30 |
|--|---------------|---------------------------|-----------------------|-------------------------------|
| Systemwide Revenue Bonds: | | | | |
| Housing Series U | 3% | 2012/13 | 2,780,000 | 860,000 |
| Student Union Series 2005B | 5% | 2019/20 | 17,625,000 | 14,885,000 |
| Housing Series 2003 A | 2.5% – 5.375% | 2035/36 | 212,930,000 | 212,855,000 |
| Housing Series 2005 C | 3% – 5.25% | 2035/36 | 21,040,000 | 21,040,000 |
| Other: | | | | |
| Loan Payable-First Municipal | | | | 10,481,854 |
| Total | | | | 260,121,854 |
| Unamortized bond premium (discount) | | | | 1,573,839 |
| Unamortized loss on refunding | | | | (231,007) |
| Total long-term debt | | | | 261,464,686 |
| Less current portion | | | | (2,190,243) |
| Long-term debt, net of current portion | | | | <u>\$ 259,274,443</u> |

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

| | Principal | Interest | Total |
|----------------------|-----------------------|--------------------|--------------------|
| Year ending June 30: | | | |
| 2009 | \$ 2,190,243 | 12,721,716 | 14,911,959 |
| 2010 | 2,769,039 | 12,610,443 | 15,379,482 |
| 2011 | 3,395,174 | 12,477,815 | 15,872,989 |
| 2012 | 4,193,772 | 12,318,758 | 16,512,530 |
| 2013 | 5,169,965 | 12,111,928 | 17,281,893 |
| 2014 – 2018 | 41,108,661 | 55,566,720 | 96,675,381 |
| 2019 – 2023 | 41,715,000 | 45,015,314 | 86,730,314 |
| 2024 – 2028 | 49,565,000 | 33,870,525 | 83,435,525 |
| 2029 – 2033 | 63,535,000 | 19,879,375 | 83,414,375 |
| 2034 – 2038 | 46,480,000 | 3,563,500 | 50,043,500 |
| | <u>\$ 260,121,854</u> | <u>220,136,094</u> | <u>480,257,948</u> |

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

(9) Long-Term Liabilities Activity

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

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> | <u>Current portion</u> |
|--|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| Accrued compensated absences | \$ 10,511,633 | 7,582,789 | (6,853,882) | 11,240,540 | 6,853,882 |
| Long-term debt obligations (note 10): | | | | | |
| Systemwide Revenue Bonds | 250,834,763 | — | (1,194,763) | 249,640,000 | 1,370,000 |
| Loan Payable-First Municipal | 11,260,520 | — | (778,666) | 10,481,854 | 820,243 |
| Total | 262,095,283 | — | (1,973,429) | 260,121,854 | 2,190,243 |
| Unamortized bond premium (discount) | 1,665,354 | — | (91,515) | 1,573,839 | — |
| Unamortized loss on refunding | (273,600) | — | 42,593 | (231,007) | — |
| Total long-term debt obligations | 263,487,037 | — | (2,022,351) | 261,464,686 | 2,190,243 |
| Total long-term liabilities | \$ 273,998,670 | 7,582,789 | (8,876,233) | 272,705,226 | 9,044,125 |

(10) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

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

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

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

never married, and disabled children over age 23. The monthly out-of-pocket enrollment cost to the retiree for medical coverage will depend on which plan and the level of coverage the retiree chooses.

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

Funding Policy

The benefit structure for state employees (including the University) is defined by statute. CalPERS uses contributions of the employer and the employee as well as income from investments to pay for employee retirement benefits. Employee and employer contributions are a percentage of applicable employee compensation. The employee contribution is 5% of salary for Miscellaneous Tier 1 members as defined by the Plan and 8% for Peace Officer/Firefighter members (Public Safety Management and Firefighters only) less an exclusion allowance for coordination with Social Security. For eligible University Public Safety employees, the University pays for both the employer and employee contributions. The University is required to contribute at an actuarially determined rate; the current rate is approximately 16.67% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

| | | |
|------|----|------------|
| 2006 | \$ | 20,860,969 |
| 2007 | | 23,876,915 |
| 2008 | | 26,035,921 |

(b) Postretirement Healthcare Plan

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

Plan Description

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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

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

Funding Policy, Funded Status, and Funding Progress

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

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

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

Annual OPEB Cost and Net OPEB Obligation

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

Actuarial Methods and Assumptions and Plan Funding Information

As an agency of the State, the University was included in the State's OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the SCO and allocated to the System. The dental portion of the ARC for the nonbillable accounts was estimated based on the percentage of dental contributions compared to the total contributions. Funding progress information specifically

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended 2008.

(11) Self-Insurance Program

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

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

| | |
|--|-----------------------------|
| Liability at June 30, 2006 | \$ 112,376,000 |
| Incurred claims and changes in estimates | 35,794,000 |
| Claim payments | <u>(39,978,000)</u> |
| Liability at June 30, 2007 | 108,192,000 |
| Incurred claims and changes in estimates | 28,487,000 |
| Claim payments | <u>(32,682,000)</u> |
| Liability at June 30, 2008 | 103,997,000 |
| Less current portion | <u>(25,480,000)</u> |
| Long-term liability at June 30, 2008, net of current portion | <u><u>\$ 78,517,000</u></u> |

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

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

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2008 and 2007 was approximately 5% and 6%, or \$5,537,000 and \$6,832,000, 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, 2008 and 2007. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

(12) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2008 totaled \$6,279,644. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

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

(13) Classification of Operating Expenses

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

| <u>2008</u> | <u>Salaries</u> | <u>Benefits</u> | <u>Scholarships and fellowships</u> | <u>Supplies and other services</u> | <u>Depreciation and amortization</u> | <u>Total</u> |
|---------------------------------------|-----------------------|-------------------|---|--|--|--------------------|
| Functional classification: | | | | | | |
| Instruction | \$ 108,239,218 | 32,756,589 | — | 10,381,379 | — | 151,377,186 |
| Research | — | — | — | — | — | — |
| Public service | 772,228 | 114,000 | — | 163,405 | — | 1,049,633 |
| Academic support | 19,410,877 | 6,402,755 | — | 6,939,108 | — | 32,752,740 |
| Student services | 21,254,966 | 7,598,562 | — | 14,024,576 | — | 42,878,104 |
| Institutional support | 17,373,058 | 6,228,043 | — | 8,814,386 | — | 32,415,487 |
| Operation and maintenance of plant | 16,116,130 | 7,175,632 | — | 15,883,758 | — | 39,175,520 |
| Student grants and scholarships | — | — | 21,538,827 | — | — | 21,538,827 |
| Auxiliary enterprise expenses | 5,656,000 | 1,884,251 | — | 10,192,080 | — | 17,732,331 |
| Depreciation and amortization | — | — | — | — | 24,007,218 | 24,007,218 |
| Total | <u>\$ 188,822,477</u> | <u>62,159,832</u> | <u>21,538,827</u> | <u>66,398,692</u> | <u>24,007,218</u> | <u>362,927,046</u> |

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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

(14) Transactions with Related Entities

The System is an agency of the State and receives more than half of its total revenues through state appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$176,501,007 for the year ended June 30, 2008. State appropriations receivable aggregated \$6,968,902 at June 30, 2008. The University also received lottery fund distributions from the State in the amount of \$2,388,000 for the year ended June 30, 2008, which is included in other nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net assets. Included in other operating revenues (expenses), net, are cost recoveries from auxiliary organizations of \$4,614,241 in the year ended June 30, 2008.

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

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

As discussed in note 6, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2008, \$99,246 of such additions of capital assets is included in the accompanying financial statements.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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

| | |
|--|--------------|
| Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs | \$ 4,314,241 |
| Reimbursements from recognized auxiliary organizations for other than salaries of University employees | 5,641,504 |
| Payments to recognized auxiliary organizations for services, office space rental, and programs | 7,572,245 |
| Gifts-in-kind to the University from recognized auxiliary organizations | 188,704 |
| Amounts receivable from the Office of the Chancellor | 1,171,599 |
| Amounts payable to the Office of the Chancellor | 342,972 |
| Accounts receivable from campuses | 14,286 |
| Amounts receivable from recognized auxiliary organizations | 2,167,241 |
| Amounts payable to recognized auxiliary organizations | 338,655 |
| State lottery appropriations received | 2,388,000 |

(15) Subsequent Events

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

On April 22, 2009, the State of California lifted the suspension of GO bond projects. All GO bond funded projects are going to be restarted; this includes projects that were in the design phase as well as equipment, capital renewal and minor capital outlay projects.

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 92.69% in the California State University's Investment Pool and 4.80% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expects to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets.

SAN JOSE STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008

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