

THE UNIVERSITY CORPORATION
REPORT ON FINANCIAL STATEMENTS
and Supplementary Information

June 30, 2007

(with Independent Auditors' Report Thereon)

THE UNIVERSITY CORPORATION

AUDIT REPORT

June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The University Corporation
California State University Northridge
Northridge, California

We have audited the accompanying statement of financial position of The University Corporation (the Corporation), as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 provides a reasonable basis for our opinion. The prior year summarized comparative information has been derived from the Corporation's financial statements and, in our report dated August 22, 2006, we expressed an unqualified opinion on those financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of The Corporation as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of integral control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Directors
The University Corporation

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 22 - 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

September 10, 2007

THE UNIVERSITY CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2007

(With Comparative Totals for 2006)

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 6,332,174	\$ 7,913,564
Grants and contracts receivable	3,775,189	3,799,423
Account and notes receivable, net of allowance for doubtful accounts of \$32,767 and \$15,022	583,786	573,772
Contributions receivable	-	250,000
Inventory	156,308	120,064
Prepaid expenses and deposits	<u>122,686</u>	<u>115,199</u>
Total current assets	<u>10,970,143</u>	<u>12,772,022</u>
Noncurrent assets:		
Restricted cash - sinking fund	150,111	230,170
Investments	24,857,463	21,719,505
Endowment investments	2,324,621	2,324,621
Investments in real estate held for sale	172,044	243,534
Capital assets, net	17,573,931	13,970,483
Deferred financing cost, net	<u>188,012</u>	<u>453,321</u>
Total noncurrent assets	<u>45,266,182</u>	<u>38,941,634</u>
Total assets	<u>\$ 56,236,325</u>	<u>\$ 51,713,656</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,730,423	\$ 1,322,785
Current portion of accrued compensated absences	185,413	153,910
Other accrued liabilities	1,248,436	731,230
Deposits held in custody for others	4,773,888	3,515,497
Deferred revenue	2,990,063	4,188,295
Current portion of long term debt and capital leases	<u>245,401</u>	<u>338,669</u>
Total current liabilities	<u>11,173,624</u>	<u>10,250,386</u>
Noncurrent liabilities:		
Accrued compensated absences, net of current portion	79,463	65,962
Postretirement benefit payable	1,509,793	517,082
Capital lease obligation and related premium, less current portion	10,466,925	6,440,000
Bonds and mortgages payable, less current portion	<u>3,336,966</u>	<u>7,583,806</u>
Total noncurrent liabilities	<u>15,393,147</u>	<u>14,606,850</u>
Total liabilities	<u>26,566,771</u>	<u>24,857,236</u>
Net assets:		
Unrestricted	21,768,968	19,317,376
Temporarily restricted	5,575,965	5,214,423
Permanently restricted	<u>2,324,621</u>	<u>2,324,621</u>
Total net assets	<u>29,669,554</u>	<u>26,856,420</u>
Total liabilities and net assets	<u>\$ 56,236,325</u>	<u>\$ 51,713,656</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY CORPORATION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

(With Comparative Totals for 2006)

	2007			2006	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES					
Revenue and support:					
Auxiliary services:					
Food service sales	\$ 8,589,447	\$	\$	\$ 8,589,447	\$ 7,763,318
Bookstore sales and commissions	2,060,585			2,060,585	1,830,664
Real estate rentals	556,592			556,592	553,482
Expenses	<u>(10,605,241)</u>			<u>(10,605,241)</u>	<u>(9,783,816)</u>
Total auxiliary services	601,383			601,383	363,648
Grants and contracts	17,516,766			17,516,766	17,993,256
Investment income	3,721,712	1,106,914		4,828,626	2,744,948
Other revenue	1,085,015			1,085,015	1,563,333
Net assets released from restriction	<u>745,372</u>	<u>(745,372)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>23,670,248</u>	<u>361,542</u>	<u>-</u>	<u>24,031,790</u>	<u>22,665,185</u>
EXPENSES					
Program services:					
Grants and contracts	15,962,215			15,962,215	16,761,597
Student grants and scholarships	277,807			277,807	521,432
University projects	<u>1,872,496</u>			<u>1,872,496</u>	<u>2,484,741</u>
Total program services	18,112,518	-	-	18,112,518	19,767,770
Supporting services:					
General and administrative	<u>1,903,457</u>	<u>-</u>	<u>-</u>	<u>1,903,457</u>	<u>1,984,641</u>
Total operating services	20,015,975	-	-	20,015,975	21,752,411
Other changes:					
Loss on defeasement of bonds	<u>398,442</u>	<u>-</u>	<u>-</u>	<u>398,442</u>	<u>-</u>
Total expenses and other changes	<u>20,414,417</u>	<u>-</u>	<u>-</u>	<u>20,414,417</u>	<u>21,752,411</u>
Change in net assets before effect of adoption of FASB Statement # 158	3,255,831	361,542	-	3,617,373	912,774
Effect of adoption of recognition and measurement date provisions of FASB Statement # 158	<u>(804,239)</u>	<u>-</u>	<u>-</u>	<u>(804,239)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>2,451,592</u>	<u>361,542</u>	<u>-</u>	<u>2,813,134</u>	<u>912,774</u>
NET ASSETS AT BEGINNING OF YEAR	<u>19,317,376</u>	<u>5,214,423</u>	<u>2,324,621</u>	<u>26,856,420</u>	<u>25,943,646</u>
NET ASSETS AT END OF YEAR	<u>\$21,768,968</u>	<u>\$ 5,575,965</u>	<u>\$ 2,324,621</u>	<u>\$29,669,554</u>	<u>\$26,856,420</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY CORPORATION

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007**

(With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,813,134	\$ 912,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,127,083	1,096,392
Amortization expense	15,035	18,042
Write-off of deferred financing costs	250,274	-
Loss on disposal of capital assets	17,009	4,194
Realized and unrealized gains on investments and investments held in real estate, net	(3,715,271)	(2,001,713)
Changes in operating assets and liabilities:		
Grants and contracts receivable	24,234	1,631,197
Accounts and notes receivable	(10,014)	176,560
Contributions receivable	250,000	(250,000)
Inventories	(36,244)	13,068
Prepaid expenses and deposits	(7,487)	88,841
Accounts payable	407,638	250,992
Accrued liabilities	1,554,921	18,239
Deposits held in custody for others	1,258,391	(166,569)
Deferred revenue	<u>(1,198,232)</u>	<u>(88,741)</u>
Net cash provided by operating activities	<u>2,750,471</u>	<u>1,703,276</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
(Increase) decrease in restricted cash	80,059	(8,998)
Payments on long-term debt	(4,478,908)	(826,938)
Issuance of long-term debt and related premium	<u>4,165,725</u>	<u>-</u>
Net cash used by financing activities	<u>(233,124)</u>	<u>(835,936)</u>
CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES:		
Purchases of capital assets	(4,747,540)	(755,899)
Proceeds from sales of investments and investments held in real estate	6,172,793	13,052,968
Purchase of investments and investments held in real estate	<u>(5,523,990)</u>	<u>(10,713,816)</u>
Net cash provided (used) by investing activities	<u>(4,098,737)</u>	<u>1,583,253</u>
Net increase (decrease) in cash and cash equivalents	(1,581,390)	2,450,593
Cash and cash equivalents at beginning of year	<u>7,913,564</u>	<u>5,462,971</u>
Cash and cash equivalents at end of year	<u>\$ 6,332,174</u>	<u>\$ 7,913,564</u>
Supplemental disclosure of cash flow information:		
Interest paid during the year	<u>\$ 761,896</u>	<u>\$ 809,698</u>

The accompanying notes are an integral part of these financial statements.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - ORGANIZATION:

The University Corporation (the Corporation) is a California State University auxiliary organization located on the campus of California State University, Northridge (the University). The Corporation operates the campus bookstore, food services, vending operations, administers various funds and grants, manages certain campus housing projects, and performs other activities related to the University community. The Corporation is also responsible for the licensing of campus facilities, logos, and trademarks via an operating agreement with the campus.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Presentation

The Corporation's financial statements are prepared using the accrual basis of accounting. Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Corporation.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Corporation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support.

Permanently restricted net assets - Net assets that are permanently restricted by donors for investment in perpetuity. Permanently restricted net assets at June 30, 2007, include endowment gifts which are required by donor restrictions to be maintained in perpetuity and only the income from these investments is expendable to support program operations in accordance with donor restrictions.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. Cash and Cash Equivalents

Cash and cash equivalents consist of operating cash, money market funds, certificates of deposit, money market funds held in the Common Fund, and commercial paper. The Corporation considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

C. Restricted Cash

Amounts in restricted cash represent cash held by a trustee for payments of debt service.

D. Grants and Contracts

Amounts received for federal and state grants are recorded as revenue when expended by the Corporation. Expenditures incurred by the Corporation which have not yet been reimbursed under the terms of the grant agreements are recorded as grants and contracts receivable. Amounts received by the Corporation in advance of expenditures have been reported as a net reduction to grants and contracts accounts receivable in prior years. Amounts received by the Corporation in advance of expenditures are treated as deferred revenue.

E. Inventories

Inventories, consisting of food service supplies, are stated at the lower of cost (first-in, first-out) or market.

F. Investments

Investments consist primarily of corporate equity securities, various pooled investment funds, and alternative investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the accompanying statement of activities as investment income. Fair values of investments are based on quoted market prices.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

G. Investments in Real Estate

Investments in real estate consist of certain properties located in Memphis, Tennessee. These properties are classified as held-for-sale assets and are carried at the lower of cost or estimated net realizable value.

Profit on sales of real estate is recognized when title has passed, minimum down payment criteria are met, the terms of any note received are such as to satisfy continuing investment requirements and collectibility of the note is reasonably assured, the risks and rewards of ownership have been transferred to the buyer, and there is no substantial continuing involvement with the property. If any of the aforementioned criteria is not met, profit is deferred and recognized under the installment, cost-recovery, deposit, or percentage-of-completion method.

H. Capital Assets

Capital assets are recorded at cost at the date of acquisition if purchased or, if contributed, at fair value on the date of contribution. All assets purchased with a value greater than \$5,000 are capitalized and depreciated. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings	30 years
Building improvements	10 years
Furniture, fixtures and equipment	3 to 7 years
Computers and software	3 years

I. Deposits Held in Custody for Others

Funds administered by the Corporation on behalf of University academic and administrative units and other campus organizations are recorded as deposits held in custody for others. It is management's belief that the Corporation is acting as an agent for the transactions of these units. Accordingly, the financial activities of such units have not been recorded in the accompanying statement of activities.

Total revenue and expenses related to agency funds were \$1,442,600 and \$2,633,785 for the years ended June 30, 2007 and 2006. Workshop related revenue and expenses totaled \$801,534 and \$842,475 for the years ended June 30, 2007 and 2006. Agency and workshops are charged a handling fee of approximately 8%. Income for 2007 was \$128,771 and income for 2006 was \$95,611.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

J. Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California taxes under corresponding California provisions. As such, the Corporation is not subject to federal or state income taxes. Accordingly, no income tax provision has been recorded.

K. Concentration of Credit Risk

The Corporation maintains its cash accounts with numerous major commercial banks and financial institutions. Furthermore, the majority of the Corporation's investment portfolio at June 30, 2007 was held by the Common Fund in various pooled investment funds. From time to time, balances in the Corporation's operating cash accounts exceeded amounts insured by the Federal Deposit Insurance Corporation.

L. Functional Allocation of Expenses

Expenses that can be specifically identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management. Program expenses, consisting of program services expenses and expenses related to auxiliary services, less the general and administrative allocation to auxiliary services, totaled \$26,972,212 and \$27,913,777 for the years ended June 30, 2007 and 2006.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues, expenses, or other changes in net assets during the reporting period. Actual results could differ from these estimates.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

N. Licensing

The University Corporation manages licensing activity on behalf of the University and receives a 10% management fee. Income was \$56,396 in 2007 and \$42,283 in 2006. Licensing activity is included in University financial reports.

O. Recent Accounting Pronouncement

In September 2006, the FASB issued SFAS No. 158, which requires the Corporation to recognize the under funded status of its defined benefit postretirement plan as a liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. SFAS No. 158 is effective for fiscal years ending after June 15, 2007. The Corporation adopted the provisions of SFAS No. 158.

P. Reclassifications

Certain June 30, 2006 amounts have been reclassified to conform with the June 30, 2007 presentation.

NOTE 3 - INVENTORIES:

Inventories consist of food service supplies of \$156,308 and \$120,064 at June 30, 2007 and 2006.

NOTE 4 - INVESTMENTS:

Investments and endowment investments consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Common Fund:		
Bond funds	\$ 76,247	\$ 120,978
Equity funds	10,145,291	12,720,146
International equity funds	1,770,223	1,976,441
Emerging markets funds	1,013,683	873,496
Northern Trust Company:		
Equities and equity funds	5,905,248	4,962,056
Morgan Stanley:		
Corporate equity securities	1,803,504	1,534,337
Alternative Investment in Public		
Safety building	6,461,888	1,850,672
Other investments	6,000	6,000
Total	<u>\$27,182,084</u>	<u>\$24,044,126</u>

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 - INVESTMENTS: (continued)

Net investment income for the year ended June 30, 2007 and 2006 is as follows:

	2007	2006
Net realized and unrealized gains and losses on investments and investments held in real estate	\$ 3,715,271	\$ 2,001,479
Interest and dividend income	<u>1,113,355</u>	<u>743,469</u>
Investment income	4,828,626	2,744,948
Investment fees (included in general and administrative expenses)	<u>(275,713)</u>	<u>(271,130)</u>
Net investment income	<u>\$ 4,552,913</u>	<u>\$ 2,473,818</u>

The Corporation assesses endowment investments a 2% fee for management of these investments. This fee is shown as a reduction to investment income.

NOTE 5 - INVESTMENTS IN REAL ESTATE:

The Corporation owns three single-family homes located in Memphis, Tennessee. The properties were originally repossessed by the U.S. Department of Housing and Urban Development (HUD) and subsequently sold to the Corporation. The Corporation was able to purchase the properties at less than fair market value, and thus, the excess loan proceeds over the price paid for the property have been placed in escrow and are used to pay for repair and renovation costs. In 2007 and 2006, the Corporation sold one home and nine homes, respectively, and each year recorded gains of \$11,171 and \$79,560.

NOTE 6 - CAPITAL ASSETS:

In January 1976, the Corporation received from Aerospace Corporation a gift of a solar observatory situated on the Van Norman Reservoir in the San Fernando Valley. The Corporation recorded this gift as a capital asset at a nominal value of \$1 because of the unique nature of, and limited market for, the facility at the date of gift.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 6 - CAPITAL ASSETS: (continued)

Capital assets consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Capital leases	\$ 12,914,389	\$ 6,795,000
Buildings	3,449,694	9,823,853
Building improvements	1,485,979	1,281,024
Real estate properties	712,716	712,716
Furniture, fixtures, and equipment	2,587,706	3,187,642
Computers and software	1,105,485	1,084,097
Construction in progress	4,753,617	670,825
Solar observatory	<u>1</u>	<u>1</u>
Total	27,009,587	23,555,158
Less accumulated depreciation	<u>(9,435,656)</u>	<u>(9,584,675)</u>
Net fixed assets	<u>\$ 17,573,931</u>	<u>\$ 13,970,483</u>

Depreciation expense totaled \$1,127,083 and \$1,096,392 for the year ended June 30, 2007 and 2006. Real estate properties included in capital assets above consist of a vacant lot near the campus and ten acres of farmland located in Ventura County.

NOTE 7 - BONDS AND MORTGAGES PAYABLE:

Certificates of Participation – July 1, 1996

On July 1, 1996, the Corporation entered into an arrangement with the California Statewide Communities Development Authority (the Authority), under which the Authority issued \$9,000,000 of Auxiliary Organization Revenue Certificates of Participation (Certificates) on behalf of the Corporation. A portion of the proceeds was used to refund \$6,450,000 of 1990 bonds payable by depositing a sufficient amount of cash into a trust. In addition, the proceeds were used to finance the acquisition of faculty housing units. The premium arising from the retirement of the bonds was capitalized as deferred financing cost and is being amortized over the life of the Certificates. Amortization expense totaled \$15,035 and \$18,042 for the years ended June 30, 2007 and 2006. On September 1, 1997, the remaining 1990 bonds payable were extinguished.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 - BONDS AND MORTGAGES PAYABLE: (continued)

Under the terms of the various agreements and the official statement, the Trustees of the California State University (the Trustees) sold the bookstore facility at the University to the Authority and the Corporation sold the Faculty Housing Project located near the University to the Authority in exchange for the proceeds of the Certificates. The Authority simultaneously leased back the bookstore facility and sold back the Faculty Housing Project to the Corporation in exchange for a stream of payments equal to the outstanding principal and interest to accrue on the outstanding principal of the Certificates.

Certificates of Participation – March 14, 2007

On March 14, 2007, the Authority refunded \$4,145,000 which represents the portion of the Certificates related to the bookstore facility. The proceeds were deposited in an escrow account which was used to redeem the outstanding Certificates on April 1, 2007. The Certificates are considered fully defeased.

The University issued a \$3,945,000 capital lease to replace the refunded Certificates (see note 8). The Corporation is obligated to make monthly purchase installment payments and lease payments in an amount necessary for the trustee, under the indenture, to retire the remaining Certificates. At June 30, 2007, the Corporation has recorded the Certificates as bonds payable and the Faculty Housing Project as a capital asset. Annual principal payments are required as indicated in the table that follows. Interest rates range from 5.75% to 6%. The Certificates mature in 2026.

The Certificates are collateralized by all revenue derived from the bookstore and the Faculty Housing Project.

Condominium Mortgage

In February 2005, the Corporation refinanced mortgage payables worth \$282,000 in order to reduce interest costs. The refinanced mortgage bears interest at 5.125% and is due in 2020.

Future minimum principal payments on bonds and mortgages payable are as follows:

<u>Year</u>	<u>Certificates of participation</u>	<u>Condominium mortgage</u>	<u>Total</u>
2008	\$ 95,000	\$ 14,361	\$ 109,361
2009	100,000	15,160	115,160
2010	110,000	15,967	125,967
2011	115,000	16,817	131,817
2012	120,000	17,686	137,686
Thereafter	<u>2,655,000</u>	<u>171,336</u>	<u>2,826,336</u>
Total	<u>\$ 3,195,000</u>	<u>\$ 251,327</u>	3,446,327
Less current portion			<u>(109,361)</u>
Bonds and Mortgages Payable, less current portion			<u>\$3,336,966</u>

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 - BONDS AND MORTGAGES PAYABLE: (continued)

Interest expense for all long term debt totaled \$761,896 and \$809,698 for the years ended June 30, 2007 and 2006.

The Corporation has the following sinking fund requirements on the Certificates of Participation, including interest:

<u>Year</u>	<u>Certificates of Participation</u>	<u>2005 Condominium Mortgage</u>	<u>Total</u>
2008	\$ 286,463	\$ 27,117	\$ 313,580
2009	286,000	27,117	313,117
2010	290,000	27,117	317,117
2011	288,400	27,117	315,517
2012	286,500	27,117	313,617
Thereafter	<u>3,999,900</u>	<u>208,164</u>	<u>4,208,064</u>
	<u>\$ 5,437,263</u>	<u>\$343,749</u>	<u>\$5,781,012</u>

NOTE 8 - CAPITAL LEASE:

The University Corporation and the Trustees of the California State University signed a thirty-year capital lease for the Sierra Center Building effective in October 2003. The three-story building incorporates food service units, indoor and outdoor seating, and office spaces. Lease payments are due twice a year, on May 1 and November 1.

The University Corporation and the Trustees of the California State University signed an 18 year lease for the Matador Bookstore Complex addition effective March 2007. Lease payments are due twice a year, on May 1 and November 1.

There is a net capital lease premium associated with the Matador Bookstore Complex lease. The premium of \$220,725 is being amortized over the life of the lease. The amortization amount for the year ended June 30, 2007 was \$2,760.

At June 30, 2007 and 2006, the gross amount of plant and equipment and related accumulated amortization recorded under capital leases were as follows:

	<u>2007</u>	<u>2006</u>
Buildings	\$12,914,389	\$6,795,000
Less accumulated amortization	(4,712,042)	(622,875)
	<u>\$ 8,202,347</u>	<u>\$6,172,125</u>

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 8 - CAPITAL LEASE: (continued)

The following is a summary by year of future minimum rental payments for the capital leases at the Sierra Center Building and Matador Bookstore Complex:

	<u>Capital lease payments</u>		
	<u>Sierra Center Building</u>	<u>Matador Bookstore Complex</u>	<u>Total</u>
2008	\$ 433,643	\$ 209,888	\$ 643,531
2009	435,143	327,750	762,893
2010	436,493	326,850	763,343
2011	432,375	330,650	765,025
2012	432,972	329,150	762,122
Thereafter	<u>9,536,817</u>	<u>4,610,425</u>	<u>14,147,242</u>
Total minimum lease payments	11,707,443	6,134,713	17,842,156
Less amount representing interest (at rates ranging from 2.5% to 5.375% for Sierra Center and 4% to 5% for Matador Bookstore Complex)	<u>(5,267,443)</u>	<u>(2,189,713)</u>	<u>(7,457,156)</u>
Present value of net minimum capital lease payments	6,440,000	3,945,000	10,385,000
Less current installments of obligations under capital leases	<u>(125,000)</u>	-	<u>(125,000)</u>
Obligations under capital leases, excluding current installments	6,315,000	3,945,000	10,260,000
Non current portion of capital lease premium	<u>-</u>	<u>206,925</u>	<u>206,925</u>
	<u>\$6,315,000</u>	<u>\$4,151,925</u>	<u>\$10,466,925</u>

NOTE 9 - LINE OF CREDIT:

In 2007, the Corporation entered into a one year secured non-revolving line of credit up to \$18,000,000, with a single draw down to finance the acquisition of an apartment complex that will be used to house the University's faculty and staff. Upon drawdown, the line of credit will convert to a two-year term loan. The outstanding principal balance bears interest at the prime rate minus 0.75% or 1.5% above the LIBOR rate. There was no balance outstanding as of June 30, 2007.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 10 - POSTRETIREMENT BENEFITS:

A. Benefits

The Corporation has a retiree health plan that offers retired employees the option of enrolling in certain health plans available through the California Public Employees' Retirement System. The Corporation currently pays 90% of the cost up to a maximum level. The current maximum is \$439 per month for retiree coverage and up to an additional \$384 per month for dependent coverage.

Retirees over age 65 may opt for the Medicare Risk Program. Under this option, the Corporation pays only the Medicare Part B premium. Any cost associated in the future with the Medicare Risk Program will be paid by the retiree. Retiree contributions fund the cost of coverage exceeding these amounts.

B. Eligibility

Eligible employees must meet one of the following requirements:

- Age 60 and 20 years of service
- Age 62 and 15 years of service
- Age 65 and 10 years of service

The following table summarizes the Corporation's accrued postretirement benefit cost recorded in accrued liabilities in the accompanying statement of financial position at June 30, 2007 and 2006:

	2007	2006
Benefit obligation, end of year	\$ 1,509,793	\$ 1,375,537
Employer contributions	54,151	50,707
Participant contributions	-	-
Benefits paid	(54,151)	(50,707)
Fair value of plan assets, end of year	-	-
Net funded (unfunded) status	<u>\$ (1,509,793)</u>	<u>\$ (1,375,537)</u>

The accrued benefit liability recognized in the statement of financial position for the year ended June 30, 2007 and 2006 is \$1,509,793 and \$517,082.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 10 - POSTRETIREMENT BENEFITS: (continued)

Amounts recognized in the statement of activities consist of:

	2007	2006
Service Cost	\$ 107,396	\$ 65,699
Interest Cost	81,011	57,279
Amortization of Transition Obligation/ (Asset)	9,153	9,153
Amortization of Net (Gain) or Loss	<u>45,063</u>	<u>23,734</u>
Total	<u>\$ 242,623</u>	<u>\$ 155,865</u>

Benefit Obligations Recognized in Changes in Unrestricted Net Assets:

	2007	2006
Unrecognized Transition Obligation/ (Asset)	\$ 102,152	N/A
Unrecognized Net (Gain) or Loss	<u>702,087</u>	N/A
Total	<u>\$ 804,239</u>	N/A

The assumptions used in the measurement of the Corporation's benefit obligation and net periodic benefit cost of the year ended June 30, 2007 are as follows:

Benefit obligation:	
Discount rate	6.00%
Expected return on plan assets	N/A
Rate of compensation increase	N/A
Net periodic benefit cost:	
Discount rate	6.00%
Expected return on plan assets	N/A
Rate of compensation increase	N/A

For measurement purposes, a 10.00% annual rate of increase in the per capita cost of covered health benefits, was assumed for 2007. The rate was assumed to decrease gradually to 5.0% by the year 2013 and remain at that level thereafter.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 10 - POSTRETIREMENT BENEFITS: (continued)

C. Cash Flows

The Corporation expects to contribute \$54,200 to their postretirement health plan in 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Postretirement Benefits</u>
2008	\$ 54,200
2009	62,400
2010	65,200
2011	79,100
2012	81,200
2013-2017	528,100

The expected benefits are based on the same assumptions used to measure the Corporation's benefit obligation at June 30 and include estimated future employee service.

NOTE 11 - EMPLOYEE RETIREMENT PLAN:

The employee retirement plan, administered through Teachers Insurance and Annuity Association, and the College Retirement Equity Fund, is a defined contribution plan that received a favorable determination from the Internal Revenue Service in 1994. All eligible employees that complete over 1,000 hours of service in the plan year, complete two consecutive years of employment, and are age 21 are eligible for the plan. The Corporation contributes up to 10% of the employees' salary. Under the terms of the plan, the Corporation and its eligible employees make contributions which the Corporation deposits monthly with a trustee. Contributions payable at June 30, 2007 and 2006 totaled \$19,082 and \$16,081. Pension expense for June 30, 2007 and 2006 totaled \$301,026 and \$274,531.

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

The Corporation participates in a number of federal, state, and local grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Corporation expects such amounts, if any, to be immaterial to the Corporation's financial statements.

THE UNIVERSITY CORPORATION
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 13 - RELATED PARTY TRANSACTIONS:

The Corporation and the University are closely interrelated financially and operationally. Goods and services related to the personnel office, plant services, and graduation-related services are provided by the University and reimbursed by the Corporation throughout the year. The Corporation leases certain premises from the University.

At June 30, 2007, included in accounts and notes receivable were \$15,022 due from California State University, Northridge Foundation, \$296 due from the University Student Union, \$4,665 due from the North Campus-University Park Development Corporation, and \$54,147 due from various departments of the University. These amounts are primarily related to catering services, payroll, rent, and licensing activities.

At June 30, 2006, included in accounts and notes receivable were \$33,601 due from California State University, Northridge Foundation, \$4,398 due from the University Student Union, \$3,650 due from the North Campus-University Park Development Corporation, and \$244,823 due from various departments of the University. These amounts are primarily related to catering services, payroll, rent, and licensing activities.

Included in accounts payable at June 30, 2007 and 2006 were \$271,670 and \$784,446 due to the University, \$768 and \$4,373 due to the University Student Union, and \$2,494 and \$0 due to the Associated Students CSUN Inc.

Amounts received from and paid to the University were \$2,158,797 and \$8,850,581, respectively for 2007 and were \$1,443,749 and \$7,587,523, respectively, for 2006. Amounts received from the University were for copy services, rent, and housing and food services provided to the campus. Amounts paid to the University included utilities and maintenance, Human Resource services, student scholarships, workshops and conferences, licensing, support for University projects, and grants and contracts activities including reimbursement of professor salaries in connection with federal grants.

In 2007, amounts received from other University auxiliary organizations were approximately \$232,063. Amounts received relate to catering services and food service management fees. In 2007, the Corporation paid \$72,243 to the University Student Union for commissions earned on food service sales, \$160,037 to the California State University, Northridge Foundation, and \$27,174 to Associated Students CSUN Inc.

In 2006, amounts received from other University auxiliary organizations were approximately \$247,700. Amounts received relate to catering services and food service management fees. In 2006, the Corporation paid \$53,675 to the University Student Union for commissions earned on food service sales, \$343,404 to the California State University, Northridge Foundation, and \$5,032 to Associated Students CSUN Inc.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
The University Corporation
California State University Northridge
Northridge, California

We have audited the financial statements of the University Corporation as of and for the year ended June 30, 2007 which collectively comprise the University Corporation's basic financial statements, and have issued our report thereon dated September 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the University Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University Corporation's internal control.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in a separate management letter dated September 10, 2007, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. We do not believe that this significant deficiency is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, board of directors, management of the Corporation, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

September 10, 2007

THE UNIVERSITY CORPORATION

Schedule 1

SCHEDULE OF NET ASSETS

June 30, 2007

(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 6,332,174
Short-term investments	—
Accounts receivable, net	4,358,975
Leases receivable, current portion	—
Pledges receivable, net	—
Prepaid expenses and other assets	278,994
Total current assets	<u>10,970,143</u>
Noncurrent assets:	
Restricted cash and cash equivalents	150,111
Accounts receivable, net	—
Leases receivable, net of current portion	—
Student loans receivable, net	—
Pledges receivable, net	—
Endowment investments	2,324,621
Other long-term investments	25,029,507
Capital assets, net	17,573,931
Other assets	188,012
Total noncurrent assets	<u>45,266,182</u>
Total assets	<u>56,236,325</u>
Liabilities:	
Current liabilities:	
Accounts payable	1,730,423
Accrued salaries and benefits payable	2,758,229
Accrued compensated absences— current portion	185,413
Deferred revenue	2,990,063
Capitalized lease obligations – current portion	136,040
Long-term debt obligations – current portion	109,361
Self-insurance claims liability - current portion	—
Other liabilities	—
Total current liabilities	<u>7,909,529</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	79,463
Deferred revenue	—
Grants refundable	—
Capitalized lease obligations, net of current portion	10,466,925
Long-term debt obligations, net of current portion	3,336,966
Self-insurance claims liabilities, net of current portion	—
Depository accounts	4,773,888
Other liabilities	—
Total noncurrent liabilities	<u>18,657,242</u>
Total liabilities	<u>26,566,771</u>
Net assets:	
Invested in capital assets, net of related debt	3,884,695
Restricted for:	
Nonexpendable – endowments	2,324,621
Expendable:	
Scholarships and fellowships	5,575,965
Research	—
Loans	—
Capital projects	—
Debt service	—
Other	—
Unrestricted	<u>17,884,273</u>
Total net assets	<u>\$ 29,669,554</u>

See accompanying independent auditors' report.

THE UNIVERSITY CORPORATION

Schedule 2

SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Fiscal Year Ended June 30, 2007

(for inclusion in the California State University)

Revenues:		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$_____)		\$ —
Grants and contracts, noncapital:		
Federal		13,646,148
State		800,372
Local		3,070,246
Nongovernmental		—
Sales and services of educational activities		—
Sales and services of auxiliary enterprises (net of scholarship allowances of \$_____)		11,206,624
Other operating revenues		<u>1,085,015</u>
Total operating revenues		<u>29,808,405</u>
Expenses:		
Operating expenses:		
Instruction		—
Research		15,962,215
Public service		—
Academic support		—
Student services		—
Institutional support		1,872,496
Operation and maintenance of plant		—
Student grants and scholarships		277,807
Auxiliary enterprise expenses		10,604,684
Depreciation and amortization		<u>1,142,118</u>
Total operating expenses		<u>29,859,320</u>
Operating income (loss)		<u>(50,915)</u>
Nonoperating revenues (expenses):		
State appropriations, noncapital		—
Gifts, noncapital		—
Investment income, net		2,631,339
Endowment income		2,197,287
Interest on capital-related debt		(761,896)
Other nonoperating revenues (expenses)		<u>(1,202,681)</u>
Net nonoperating revenues (expenses)		<u>2,864,049</u>
Income (loss) before other additions		2,813,134
State appropriations, capital		—
Grants and gifts, capital		—
Additions to permanent endowments		—
Increase (decrease) in net assets		<u>2,813,134</u>
Net assets:		
Net assets at beginning of year, as previously reported		26,856,420
Restatements		—
Net assets at end of year, as restated		<u>\$ 29,669,554</u>

See accompanying independent auditors' report.

THE UNIVERSITY CORPORATION

OTHER INFORMATION

(for inclusion in the California State University)

June 30, 2007

1 Restricted cash and cash equivalents at June 30, 2007:

Portion of restricted cash and cash equivalents related to endowments	\$	—
All other restricted cash and cash equivalents	\$	150,111
Total restricted cash and cash equivalents	\$	<u>150,111</u>

2 Composition of investments at June 30, 2007:

	Current	Noncurrent	Total
State of California Surplus Money Investment Fund (SMIF)	\$	—	—
State of California Local Agency Investment Fund (LAIF)	—	—	—
Met West Short Term Fund	—	—	—
Met West Medium Term Fund	—	—	—
Met West Equity Fund	—	76,247	76,247
Debt securities	—	1,803,504	1,803,504
Equity securities	—	—	—
Fixed income securities (Treasury notes, GNMA's)	—	178,044	178,044
Real estate	—	—	—
Certificates of deposit	—	—	—
Notes receivable	—	—	—
Mutual funds	—	18,834,445	18,834,445
Collateralized mortgage obligations:	—	—	—
Inverse floaters	—	—	—
Interest-only strips	—	—	—
Agency pass-through	—	—	—
Private pass-through	—	—	—
Other investments:	—	6,461,888	6,461,888
Public Safety Building	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Total investments	—	27,354,128	27,354,128
Less endowment investments (enter as negative number)	—	(2,324,621)	(2,324,621)
Total investments	\$	\$ 25,029,507	\$ 25,029,507

See accompanying independent auditors' report.

THE UNIVERSITY CORPORATION
OTHER INFORMATION

(for inclusion in the California State University)

June 30, 2007

3 Composition of capital assets at June 30, 2007:

	Balance June 30, 2006	Prior period Adjustments	Reclassifications	Balance 30-Jun-06 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2007
Nondepreciable capital assets:								
Land and land improvements	\$ 712,716	—	—	712,716	—	—	—	712,716
Works of art and historical treasures	—	—	—	—	—	—	—	—
Construction work in progress (CWIP)	670,821	—	—	670,821	4,726,311	—	(643,520)	4,753,612
Total nondepreciable capital assets	1,383,537	—	—	1,383,537	4,726,311	—	(643,520)	5,466,328
Depreciable capital assets:								
Buildings and building improvements	17,899,876	—	—	17,899,876	—	(402,814)	—	17,497,062
Improvements, other than buildings	—	—	—	—	—	—	—	—
Infrastructure	—	—	—	—	—	—	—	—
Leasehold improvements	—	—	—	—	—	—	352,999	352,999
Personal property:								
Equipment	4,271,741	—	—	4,271,741	25,168	(894,234)	290,521	3,693,196
Library books and materials	—	—	—	—	—	—	—	—
Intangible assets	—	—	—	—	—	—	—	—
Total depreciable capital assets	22,171,617	—	—	22,171,617	25,168	(1,297,048)	643,520	21,543,257
Total cost	23,555,154	—	—	23,555,154	4,751,479	(1,297,048)	—	27,009,585
Less accumulated depreciation:								
Buildings and building improvements	(6,993,140)	—	—	(6,993,140)	(541,258)	889,738	—	(6,644,660)
Improvements, other than buildings	—	—	—	—	—	—	—	—
Infrastructure	—	—	—	—	—	—	—	—
Leasehold improvements	—	—	—	—	—	—	—	—
Personal property:								
Equipment	(2,591,531)	—	—	(2,591,531)	(585,826)	386,363	—	(2,790,994)
Library books and materials	—	—	—	—	—	—	—	—
Intangible assets	—	—	—	—	—	—	—	—
Total accumulated depreciation	(9,584,671)	—	—	(9,584,671)	(1,127,084)	1,276,101	—	(9,435,654)
Net capital assets	\$ 13,970,483	—	—	\$ 13,970,483	\$ 3,624,395	\$ (20,947)	—	\$ 17,573,931

Detail of depreciation and amortization expense for the year ended June 30, 2007:

Depreciation and amortization expense related to capital assets	\$ 1,127,084
Amortization expense related to other assets	15,034
Total depreciation and amortization	\$ 1,142,118

See accompanying independent auditors' report.

THE UNIVERSITY CORPORATION

OTHER INFORMATION

(for inclusion in the California State University)

June 30, 2007

5 Future minimum lease payments:

Year ending June 30:	Principal	Interest	Principal and Interest
2008	\$ 125,000	518,531	643,531
2009	275,000	487,893	762,893
2010	285,000	478,343	763,343
2011	295,000	468,025	763,025
2012	305,000	457,122	762,122
2013 - 2017	1,745,000	2,066,450	3,811,450
2018 - 2022	2,250,000	1,571,681	3,821,681
2023 - 2027	2,545,000	935,250	3,480,250
2028 - 2032	1,735,000	431,987	2,166,987
2033 - 2037	825,000	41,874	866,874
2038 - 2042	—	—	—
2043 - 2047	—	—	—
2048 - 2052	—	—	—
2053 - 2057	—	—	—
Total minimum lease payments			17,842,156
Less amounts representing interest			(7,457,156)
Present value of future minimum lease payments			10,385,000
Less: current portion			(125,000)
Capitalized lease obligation, net of current portion			\$ 10,260,000

See accompanying independent auditors' report.

THE UNIVERSITY CORPORATION
OTHER INFORMATION

(for inclusion in the California State University)

June 30, 2007

7 Calculation of net assets - Invested in capital assets, net of related debt

	Auxiliary Organizations		Total Auxiliaries
	GASB	EASB	
Capital assets, net of accumulated depreciation	\$	17,573,931	17,573,931
Capitalized lease obligations - current portion	—	—	—
Capitalized lease obligations, net of current portion	—	(245,401)	(245,401)
Long-term debt obligations - current portion	—	(13,803,891)	(13,803,891)
Long-term debt obligations, net of current portion	—	—	—
Portion of outstanding debt that is unspent at year-end	—	—	—
Other:			
Investments in real estate held for sale	—	172,044	172,044
Deferred financing cost, net	—	188,012	188,012
(description)	—	—	—
(description)	—	—	—
(description)	—	—	—
Net assets - invested in capital assets, net of related debt	\$	3,884,695	3,884,695

8 The nature and amount of the prior period adjustment(s) recorded to beginning net assets: not applicable

See accompanying independent auditors' report.