



**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

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## **Independent Auditors' Report**

Mr. Richard Rush  
President  
California State University, Channel Islands:

We have audited the accompanying financial statements of the business-type activities of the California State University, Channel Islands (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our 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 three discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 3 through 9 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

March 22, 2006

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

## Management's Discussion and Analysis (Unaudited)

June 30, 2005

This section of California State University, Channel Islands (the University) annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

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

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

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

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

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

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

### **Analytical Overview**

#### ***Summary***

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities. Included is an analysis of current year activities and balances, a discussion of restrictions of University net assets, a discussion of capital assets and long-term debt, and factors impacting future reporting periods.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Management's Discussion and Analysis (Unaudited)

June 30, 2005

The University's condensed summary of net assets as of June 30, 2005 and 2004 is as follows:

**Condensed Summary of Net Assets**

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u> (Unaudited)
Assets:		
Current assets	\$ 75,749,568	17,488,562
Capital assets	91,514,517	89,385,168
Other noncurrent assets	65,119,847	5,818
Total assets	<u>232,383,932</u>	<u>106,879,548</u>
Liabilities:		
Current liabilities	11,098,176	13,307,515
Long-term debt obligations, net of current portion	84,790,173	18,490,000
Other noncurrent liabilities	1,126,633	927,344
Total liabilities	<u>97,014,982</u>	<u>32,724,859</u>
Net assets:		
Invested in capital assets, net of related debt	130,822,618	68,229,759
Restricted, expendable	561,110	51,651
Unrestricted	3,985,222	5,873,279
Total net assets	<u>\$ 135,368,950</u>	<u>74,154,689</u>

**Assets**

Total assets increased by 117.4% or \$125.5 million from last year's \$106.9 million. Current assets increased \$58.3 million primarily attributable to the issuance of \$64.7 million in Systemwide revenue bonds, resulting in an increase in short-term investment representing unspent bond proceeds. The University issued these bonds to fund construction of the University library and certain other campus building renovations. In addition, the University entered into an agreement with the California State University, Channel Islands Site Authority (Site Authority) that states the Site Authority will provide the resources to repay these bonds. Noncurrent accounts receivable increased by \$64.7 million relating to this agreement. There was an increase in capital assets of \$2.1 million due to the purchase of equipment.

**Liabilities**

Total liabilities increased by 196.5% or \$64.3 million from last year's \$32.7 million. The increase is due to the \$64.7 million increase in long-term debt obligations. The debt was issued to fund construction of the University library and other projects.

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

## Management's Discussion and Analysis (Unaudited)

June 30, 2005

### Net Assets

Total net assets increased by 82.5% or \$61.2 million from last year's \$74.2 million. The increase is attributable to the \$64.7 repayment agreement between the California State University, Channel Islands Site Authority and the campus.

### Restricted Resources

Net assets of the University include funds that are restricted by donor or law. The University's restricted net assets at June 30, 2005 and 2004 were restricted for capital projects and totaled \$561,110 and \$51,651, respectively.

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2005 and 2004 is as follows:

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

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u> (Unaudited)
Operating revenues:		
Student tuition and fees	\$ 4,714,044	3,669,189
Grants, contracts, and gifts	3,972,798	3,656,337
Sales and services of auxiliary enterprises, net	2,620,803	621,001
Other operating revenues	—	22,760
Total operating revenues	<u>11,307,645</u>	<u>7,969,287</u>
Operating expenses	<u>46,670,374</u>	<u>44,280,576</u>
Nonoperating revenues (expenses):		
State appropriations	31,651,752	29,432,700
Investment income	441,634	208,863
Other nonoperating revenues (expenses)	<u>(885,399)</u>	<u>5,395,326</u>
Total nonoperating revenues	<u>31,207,987</u>	<u>35,036,889</u>
Other capital-related revenues:		
State appropriations, capital	258,108	75,000
Grants and gifts, capital	<u>65,110,895</u>	<u>4,314,252</u>
Increase in net assets	61,214,261	3,114,852
Beginning net assets	<u>74,154,689</u>	<u>71,039,837</u>
Ending net assets	<u>\$ 135,368,950</u>	<u>74,154,689</u>

## CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis (Unaudited)

June 30, 2005

### **Operating Revenues and Expenses**

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

#### ***Operating Revenues***

Operating revenues increased by 41.9% or \$3.3 million to \$11.3 million from last year's \$8.0 million. The increase is attributable to the increase in students, thereby increasing revenues from student fees and student housing fees. This was the first year student housing was available on campus. The average occupancy rate for the year was 90% and accounts for the \$2.0 million increase in sales and services of auxiliary enterprises. In addition, the University is growing its grants and contracts programs resulting in an 8.7% increase from the prior year.

#### ***Operating Expenses***

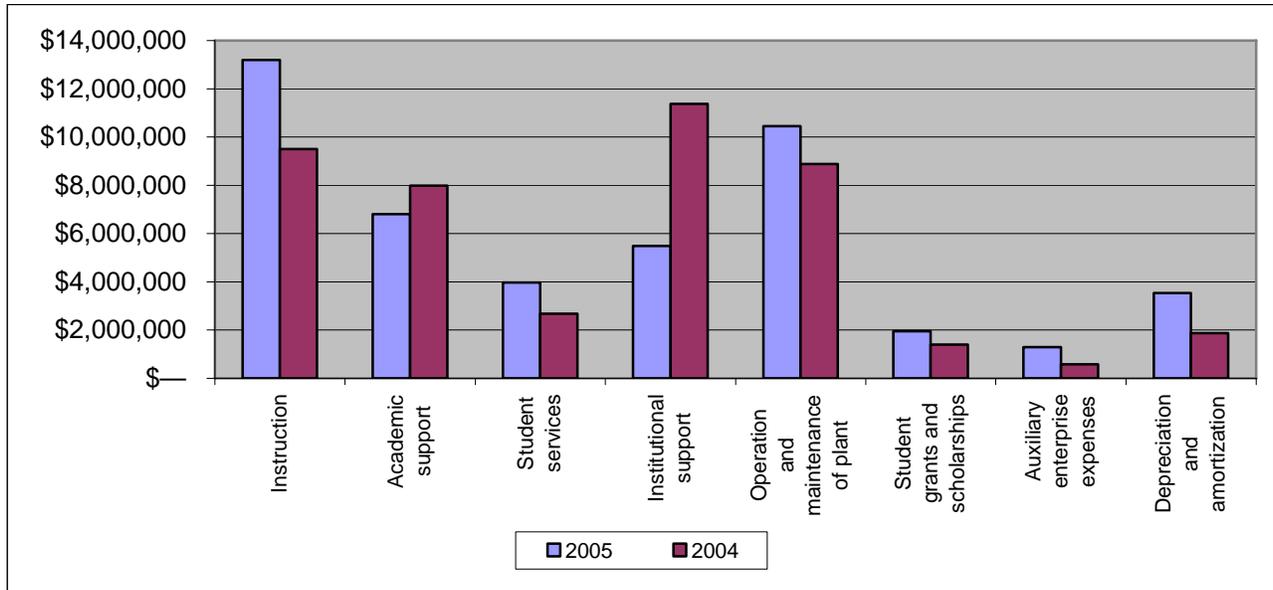
The University's operating expenses consist of salaries and fringe benefits of \$30.8 million, supplies and services of \$10.3 million, scholarships and fellowships of \$2.0 million, and depreciation of \$3.5 million. Total operating expenses, excluding depreciation, increased by 1.7% or \$728,000, primarily due to salaries and benefits costs. Salaries and benefits costs increased by \$4.0 million due to salary rate increases and health and retirement benefit cost increases for all employees. Student grants and scholarships increased by \$557,000. In anticipation of budget cuts, expenses related to supplies and other services were reduced by \$3.9 million. The increase in depreciation expense of \$1.7 million relates to current year capital asset additions, including construction completion. Instruction increased \$3.7 million, academic support function decreased by \$1.2 million, and institutional support decreased by \$5.9 million due to classification changes of some expenses such as public safety and logistical services to operation and maintenance of plant based on the new definitions by National Association of Colleges and University Business Officers (NACUBO). Operation and maintenance of plant increased by \$1.6 million due to an increase in utility costs.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Management's Discussion and Analysis (Unaudited)

June 30, 2005

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



**Nonoperating and Other Revenues (Expenses)**

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

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. General (noncapital) appropriation revenues totaled \$31.7 million, an increase of \$2.2 million from the prior year. Appropriations used for purposes of acquisition of capital assets totaled \$258,108 for the fiscal year ended June 30, 2005, up from \$75,000 for the fiscal year ended June 30, 2004.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Management's Discussion and Analysis (Unaudited)

June 30, 2005

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

***Capital Assets***

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

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
		(Unaudited)
Land and land improvements	\$ 31,732,078	31,732,078
Works of art and historical treasures	375,760	375,760
Buildings and building improvements	42,950,910	27,655,677
Improvements, other than buildings	43,861	—
Infrastructure	2,463,350	1,552,044
Personal property	6,555,615	4,615,551
Intangible assets	100,770	143,566
Construction work in progress	7,292,173	23,310,489
Total capital assets, net of accumulated depreciation	<u>\$ 91,514,517</u>	<u>89,385,165</u>

At June 30, 2005 and 2004, the University had \$91.5 million and \$89.4 million, respectively, in capital assets, net of accumulated depreciation of \$10.8 million and \$7.3 million, respectively. Depreciation expense totaled \$3.5 million and \$1.9 million for the years ended June 30, 2005 and 2004, respectively.

***Long-term Debt Obligations***

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

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
		(Unaudited)
Systemwide Revenue Bonds	\$ 83,145,000	18,490,000
BAN	—	6,940,000
Loans	500,000	—
Capital leases	281,997	130,338
Total	<u>83,926,997</u>	<u>25,560,338</u>
Unamortized bond premium	<u>1,455,173</u>	<u>—</u>
Total long-term debt	85,382,170	25,560,338
Less current portion	<u>(424,949)</u>	<u>(6,984,933)</u>
Long-term debt, net of current portion	<u>\$ 84,957,221</u>	<u>18,575,405</u>

The interest rates on outstanding debt range from 2.0% to 5.25%.

## CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

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

June 30, 2005

At June 30, 2004, the University had long-term debt of \$18.5 million from Systemwide Revenue Bonds for Anacapa Village (student housing), which was completed in early fall 2004, and a Revenue Bond Anticipation Note (BAN) for \$6.9 million to fund various campus renovation projects. In April 2005, the University received \$64.7 million through the issuance of Systemwide Revenue Bonds. These bonds were issued to fund the construction of the library and to repay the BAN. At June 30, 2005, the University had long-term debt of \$84.6 million from Systemwide Revenue Bonds, which funded Anacapa Village for \$18.5 million, the campus library project for \$57.4 million, and \$7.3 million related to various campus renovation projects. Additionally, the University has a loan for \$500,000 from the California State University, Chancellor's Office (Chancellor's Office) to begin planning for Santa Cruz Village (student housing phase II).

#### *Bond Ratings*

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

#### **Factors Impacting Future Periods**

The California State University, Channel Islands Site Authority (the Site Authority) was formed for the purpose of providing a specific reuse plan to finance and support the transition of the property previously known as the Camarillo State Hospital from its former use to the campus. The Site Authority is governed by a board of seven members comprised of four representatives of the Trustees of the California State University and three representatives from the County of Ventura. The Site Authority oversees the East Campus project and is providing the funding to repay the library bond.

The property is comprised of two major sectors: the West Campus and East Campus. The West Campus consisting of developed space on 42 acres is used for academic purposes. The East Campus is comprised of 162 acres of developable land, which is planned to contain 900 residential units and 30,000 square feet of retail commercial uses. The development of the East Campus began in October 2000 and is projected to be completed by August 2008. The infrastructure will be constructed in phases and is expected to be completed by September 2006. The development plan also includes the construction of 350,000 square feet of research and development facilities. The net income generated from these activities and after debt service payments has been bonded and used to fund academic building capital needs.

The campus is at risk that the Site Authority will not generate adequate income to meet the campus's capital needs. At this time, Phase III of a five-phase staff and faculty housing project is almost completed. The research and development project as well as other projects have not yet begun. The Site Authority cannot meet all of the campus's capital needs and the campus is looking to the state for assistance, and failing that, enrollment growth will be limited by the facilities available.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Statement of Net Assets

June 30, 2005

<b>Assets</b>	<b>University</b>	<b>Discretely presented component units Auxiliary organizations</b>	<b>Total</b>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 3,160,991	322,210	3,483,201
Short-term investments	66,739,217	251,383	66,990,600
Accounts receivable, net	5,235,572	624,226	5,859,798
Due from California State University Risk Management Authority	525,204	—	525,204
Pledges receivable, current portion	—	144,423	144,423
Prepaid expenses and other assets	88,584	1,750	90,334
Total current assets	<u>75,749,568</u>	<u>1,343,992</u>	<u>77,093,560</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents	20,194	934,738	954,932
Accounts receivable, net	444,653	—	444,653
Notes receivable, net	64,655,000	—	64,655,000
Pledges receivable, net	—	103,155	103,155
Endowment investments	—	8,192,168	8,192,168
Other long-term investments	—	788,871	788,871
Capital assets, net	91,514,517	6,474	91,520,991
Other assets	—	25,000	25,000
Total noncurrent assets	<u>156,634,364</u>	<u>10,050,406</u>	<u>166,684,770</u>
Total assets	<u>232,383,932</u>	<u>11,394,398</u>	<u>243,778,330</u>
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable	4,532,710	76,294	4,609,004
Accrued salaries and benefits payable	1,170,463	94,577	1,265,040
Accrued compensated absences – current portion	998,751	—	998,751
Deferred revenue	2,786,741	21,305	2,808,046
Capitalized lease obligations – current portion	114,949	—	114,949
Long-term debt obligations – current portion	310,000	—	310,000
Other liabilities	1,184,562	29,256	1,213,818
Total current liabilities	<u>11,098,176</u>	<u>221,432</u>	<u>11,319,608</u>
<b>Noncurrent liabilities:</b>			
Accrued compensated absences, net of current portion	959,585	—	959,585
Capitalized lease obligations, net of current portion	167,048	—	167,048
Long-term debt obligations, net of current portion	84,790,173	125,000	84,915,173
Depository accounts	—	4,682	4,682
Other liabilities	—	493,421	493,421
Total noncurrent liabilities	<u>85,916,806</u>	<u>623,103</u>	<u>86,539,909</u>
Total liabilities	<u>97,014,982</u>	<u>844,535</u>	<u>97,859,517</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	130,822,618	6,474	130,829,092
Restricted for:			
Nonexpendable – endowments	—	8,192,168	8,192,168
Expendable:			
Scholarships and fellowships	—	226,282	226,282
Research	—	129,741	129,741
Capital projects	561,110	348,496	909,606
Other	—	870,533	870,533
Unrestricted	3,985,222	776,169	4,761,391
Total net assets	<u>\$ 135,368,950</u>	<u>10,549,863</u>	<u>145,918,813</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2005

	<b>University</b>	<b>Discretely presented component units Auxiliary organizations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues:</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$1,295,607)	\$ 4,714,044	355,897	—	5,069,941
Grants and contracts, noncapital:				
Federal	1,676,473	—	—	1,676,473
State and local	2,296,325	—	—	2,296,325
Sales and services of auxiliary enterprises (net of scholarship allowances of \$51,400)	2,620,803	129,260	—	2,750,063
Other operating revenues	—	695,382	—	695,382
<b>Total operating revenues</b>	<b>11,307,645</b>	<b>1,180,539</b>	<b>—</b>	<b>12,488,184</b>
<b>Expenses:</b>				
Operating expenses:				
Instruction	13,196,098	134,196	(134,196)	13,196,098
Research	—	4,935	—	4,935
Public service	—	549,992	—	549,992
Academic support	6,804,519	200,724	(6,351)	6,998,892
Student services	3,964,584	210,952	—	4,175,536
Institutional support	5,486,370	993,322	(633,556)	5,846,136
Operation and maintenance of plant	10,450,000	150,070	—	10,600,070
Student grants and scholarships	1,954,913	46,243	—	2,001,156
Auxiliary enterprise expenses	1,286,493	—	—	1,286,493
Depreciation	3,527,397	2,150	—	3,529,547
<b>Total operating expenses</b>	<b>46,670,374</b>	<b>2,292,584</b>	<b>(774,103)</b>	<b>48,188,855</b>
<b>Operating loss</b>	<b>(35,362,729)</b>	<b>(1,112,045)</b>	<b>774,103</b>	<b>(35,700,671)</b>
Nonoperating revenues (expenses):				
State appropriations, noncapital	31,651,752	—	—	31,651,752
Gifts, noncapital	318,208	1,697,979	(318,208)	1,697,979
Investment income, net	441,634	20,630	—	462,264
Endowment income	—	634,337	—	634,337
Interest on capital-related debt	(1,663,890)	—	—	(1,663,890)
Other nonoperating revenues, net	460,283	—	—	460,283
<b>Net nonoperating revenues (expenses)</b>	<b>31,207,987</b>	<b>2,352,946</b>	<b>(318,208)</b>	<b>33,242,725</b>
<b>Income (loss) before other additions</b>	<b>(4,154,742)</b>	<b>1,240,901</b>	<b>455,895</b>	<b>(2,457,946)</b>
State appropriations, capital	258,108	—	—	258,108
Grants and gifts, capital	65,110,895	—	(455,895)	64,655,000
Additions to permanent endowments	—	103,923	—	103,923
<b>Increase in net assets</b>	<b>61,214,261</b>	<b>1,344,824</b>	<b>—</b>	<b>62,559,085</b>
<b>Net assets:</b>				
Net assets at beginning of year	74,154,689	9,205,039	—	83,359,728
Net assets at end of year	\$ 135,368,950	10,549,863	—	145,918,813

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Statement of Cash Flows

Year ended June 30, 2005

	<b>University</b>
Cash flows from operating activities:	
Student tuition and fees	\$ 5,409,805
Federal grants and contracts	2,602,055
State and local grants and contracts	3,249,523
Payments to suppliers	(10,947,380)
Payments to employees	(29,708,521)
Payments to students	(2,905,522)
Sales and services of auxiliary enterprises	2,620,803
Other receipts	3,668,280
Net cash used in operating activities	(26,010,957)
Cash flows from noncapital financing activities:	
State appropriations	32,487,655
Other	238,484
Net cash provided by noncapital financing activities	32,726,139
Cash flows from capital and related financing activities:	
Proceeds from capital debt	66,748,736
State appropriations	167,919
Acquisition of capital assets	(2,547,978)
Principal paid on capital debt and leases	(7,174,494)
Interest paid on capital debt and leases	(500,360)
Net cash provided by capital and related financing activities	56,693,823
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	18,603,114
Purchases of investments	(81,816,447)
Investment income received	97,400
Net cash used in investing activities	(63,115,933)
Net increase in cash and cash equivalents	293,072
Cash and cash equivalents at beginning of year	2,888,113
Cash and cash equivalents at end of year	\$ 3,181,185
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 3,160,991
Restricted cash and cash equivalents	20,194
Total cash and cash equivalents at end of year	\$ 3,181,185

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Statement of Cash Flows

Year ended June 30, 2005

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (35,362,729)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,527,397
Change in assets and liabilities:	
Accounts receivable, net	3,046,481
Prepaid expenses and other assets	(607,970)
Accounts payable	(899,203)
Accrued salaries and benefits	820,858
Accrued compensated absences	315,101
Deferred revenue	2,398,574
Due to California State University Risk Management Authority	(323,000)
Other liabilities	1,073,534
Net cash used in operating activities	<u>\$ (26,010,957)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 455,895
Acquisition of capital asset through capital lease	254,977
Accrued capital asset costs (purchased but unpaid at year end)	1,082,427
Gifts in-kind	318,208
Loan receivable for capital gift from California State University, Channel Islands Site Authority	64,655,000

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2005

### (1) Organization

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

The University provides instruction for baccalaureate and masters' degrees and certificate programs and operates various auxiliary enterprises such as student dormitories 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, *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's three recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The discretely presented auxiliary organizations are as follows:

- California State University, Channel Islands Foundation
- Associated Students Incorporated
- University Glen Corporation.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

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

<u>June 30, 2005</u>	<b>California State University, Channel Islands Foundation</b>	<b>Other auxilliary organizations</b>	<b>Total</b>
Current assets	\$ 567,113	776,879	1,343,992
Capital assets, net	—	6,474	6,474
Other noncurrent assets	10,043,932	—	10,043,932
Total assets	<u>10,611,045</u>	<u>783,353</u>	<u>11,394,398</u>
Current liabilities	59,928	161,504	221,432
Noncurrent liabilities	468,421	154,682	623,103
Total liabilities	<u>528,349</u>	<u>316,186</u>	<u>844,535</u>
Invested in capital assets, net of related debt	—	6,474	6,474
Restricted	9,767,220	—	9,767,220
Unrestricted	315,476	460,693	776,169
Total net assets	<u>\$ 10,082,696</u>	<u>467,167</u>	<u>10,549,863</u>
Revenues:			
Student tuition and fees	—	355,897	355,897
Sales and services of auxiliary enterprises, net	129,260	—	129,260
Other	—	695,382	695,382
Total operating revenues	<u>129,260</u>	<u>1,051,279</u>	<u>1,180,539</u>
Expenses:			
Instruction	134,196	—	134,196
Research	4,935	—	4,935
Public service	184,759	365,233	549,992
Academic support	200,724	—	200,724
Student services	8,230	202,722	210,952
Institutional support	702,549	290,773	993,322
Operation and maintenance of plant	150,070	—	150,070
Student grants and scholarships	46,243	—	46,243
Depreciation	2,150	—	2,150
Total operating expenses	<u>1,433,856</u>	<u>858,728</u>	<u>2,292,584</u>
Operating loss	(1,304,596)	192,551	(1,112,045)
Net nonoperating revenues	<u>2,352,777</u>	<u>169</u>	<u>2,352,946</u>
Income before other additions	1,048,181	192,720	1,240,901
Additions to permanent endowments	103,923	—	103,923
Increase in net assets	1,152,104	192,720	1,344,824
Beginning net assets, July 1, 2004	8,930,592	274,447	9,205,039
Ending net assets, June 30, 2005	<u>\$ 10,082,696</u>	<u>467,167</u>	<u>10,549,863</u>

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

## Notes to Financial Statements

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The auxiliary organizations are presented in the accompanying financial statements as component units due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to the activities that the organizations carry out on behalf of the University, such as research, grant administration, foodservice, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2005 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**(b) *Basis of Presentation***

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

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

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

**(c) *New Accounting Pronouncement***

For the fiscal year ended June 30, 2005, the University implemented GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*. This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

required to be disclosed. Implementation of GASB Statement No. 40 did not have an impact on the University's financial statements as of and for the year ended June 30, 2005 but required additional disclosures related to deposits and investment risks (see note 3).

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

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

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

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

**(f) Cash Equivalents**

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

**(g) Investments**

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

**(h) Capital Assets**

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

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

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

(i) ***Deferred Revenue***

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

(j) ***Compensated Absences***

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

(k) ***Grants Refundable***

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

(l) ***Net Assets***

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

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

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

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

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

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

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2005

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

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

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

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

**(n) *Income Taxes***

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

**(o) *Eliminations***

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

**(p) *Use of Estimates***

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

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

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

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

Cash and cash equivalents	\$ 3,160,991
Restricted cash and cash equivalents	20,194
Total cash and cash equivalents	<u>3,181,185</u>
Short-term investments	<u>66,739,217</u>
Total cash and cash equivalents and investments	<u><u>\$ 69,920,402</u></u>

**(a) Cash and Cash Equivalents**

At June 30, 2005 and 2004, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$3,181,185 had a corresponding carrying value balance with the State Treasury of \$1,706,408 at June 30, 2005. The difference related primarily to deposits in transit and outstanding checks.

**(b) Investments**

At June 30, 2005, the University's short-term investment portfolio consists primarily of investments held in interest-bearing accounts held in the State Treasury.

**Investment Policy**

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

**Interest Rate Risk**

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

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

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**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.

At June 30, 2005, the University's investments consisted of the state of California Surplus Money Investment Fund, which is not subject to rating.

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

**(4) Accounts Receivable**

Accounts receivable at June 30, 2005 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 2,070,118	142,594	2,212,712
Auxiliary organizations	469,696	125,000	594,696
Student accounts	1,970,605	—	1,970,605
Government grants and contracts	604,347	—	604,347
Other	145,508	177,059	322,567
	<u>5,260,274</u>	<u>444,653</u>	<u>5,704,927</u>
Less allowance for doubtful accounts	<u>(24,702)</u>	<u>—</u>	<u>(24,702)</u>
Total	<u>\$ 5,235,572</u>	<u>444,653</u>	<u>5,680,225</u>

**(5) Note Receivable**

The University entered into a 32-year agreement with California State University, Channel Islands Site Authority to fund the renovation of certain existing campus facilities and for the construction of a University library. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A was used to finance such facilities. Note receivable payments are due twice a year on May 1 and November 1, representing principal and interest payments. Interest-only payments begin in 2007 with principal and interest payments beginning in 2009.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

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June 30, 2005

Note receivable payments are due to the University as follows:

Fiscal year ending:		
2006	\$	—
2007		—
2008		—
2009		110,000
2010		140,000
Thereafter		<u>64,405,000</u>
Total note receivable	\$	<u><u>64,655,000</u></u>

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

**(6) Capital Assets**

Capital asset activity for the year ended June 30, 2005 consisted of the following:

	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2005</b>
Nondepreciable capital assets:					
Land and land improvements	\$ 31,732,078	—	—	—	31,732,078
Works of art and historical treasures	375,760	—	—	—	375,760
Construction work in progress	23,310,489	2,619,949	(306,538)	(18,331,727)	7,292,173
<b>Total nondepreciable capital assets</b>	<b>55,418,327</b>	<b>2,619,949</b>	<b>(306,538)</b>	<b>(18,331,727)</b>	<b>39,400,011</b>
Depreciable capital assets:					
Buildings and building improvements	32,285,297	414,876	—	17,182,206	49,882,379
Improvements, other than buildings	511,000	46,170	—	—	557,170
Infrastructure	2,342,173	51,258	—	1,149,521	3,542,952
Personal property:					
Equipment	3,496,793	2,783,904	(61,500)	—	6,219,197
Library books and materials	2,429,233	86,586	—	—	2,515,819
Intangible assets	213,979	—	—	—	213,979
<b>Total depreciable capital assets</b>	<b>41,278,475</b>	<b>3,382,794</b>	<b>(61,500)</b>	<b>18,331,727</b>	<b>62,931,496</b>
<b>Total cost</b>	<b>96,696,802</b>	<b>6,002,743</b>	<b>(368,038)</b>	<b>—</b>	<b>102,331,507</b>
Less accumulated depreciation:					
Buildings and building improvements	(4,629,620)	(2,301,849)	—	—	(6,931,469)
Improvements, other than buildings	(511,000)	(2,309)	—	—	(513,309)
Infrastructure	(790,129)	(289,473)	—	—	(1,079,602)
Personal property:					
Equipment	(758,069)	(643,717)	22,044	—	(1,379,742)
Library books and materials	(552,406)	(247,253)	—	—	(799,659)
Intangible assets	(70,413)	(42,796)	—	—	(113,209)
<b>Total accumulated depreciation</b>	<b>(7,311,637)</b>	<b>(3,527,397)</b>	<b>22,044</b>	<b>—</b>	<b>(10,816,990)</b>
<b>Net capital assets</b>	<b>\$ 89,385,165</b>	<b>2,475,346</b>	<b>(345,994)</b>	<b>—</b>	<b>91,514,517</b>

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

**(7) Capitalized Lease Obligations**

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

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

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Capital leases consist primarily of leases of office equipment and a vehicle. Total capital assets related to capital leases have a carrying value of \$393,769 at June 30, 2005. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.32% to 4.69% and have terms expiring in various years through 2009.

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

	<u>Capital leases</u>
Year ending June 30:	
2006	\$ 122,939
2007	104,891
2008	60,977
2009	<u>6,935</u>
Total minimum lease payments	295,742
Less amount representing interest	<u>(13,745)</u>
Present value of future minimum lease payments	<u>\$ 281,997</u>

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the state of California in the state Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2005 totaled \$546,127,000.

**(8) Long-term Debt Obligations**

**(a) General Obligation Bond Program**

The General Obligation Bond Program of the state of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University System, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$534,097,000 as of June 30, 2005.

# CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2005

**(b) Revenue Bond Programs**

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

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

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

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

The 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

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The Systemwide Revenue Bond Program, formerly the Housing Revenue Bond Program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue-producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond Program was \$1,510,223,000 at June 30, 2005. The University's portion of the total outstanding balance under this program was \$83,145,000 at June 30, 2005.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, C, and D, Parking Revenue Bonds Series A and B, and Headquarters Building Authority Lease Revenue Bonds, Series B. At June 30, 2005, the System's outstanding balance for these senior bonds totaled \$145,545,000.

**(c) Revenue Bond Anticipation Notes**

The University issued Revenue Bond Anticipation Notes during 2005 to finance the development and construction of the University library. The Revenue Bond Anticipation Notes are issued for a one- to three-year period in anticipation of issuing permanent revenue bonds at a future date. There were no amounts outstanding under the Revenue Bond Anticipation Notes at June 30, 2005.

**(d) Loan from Chancellor's Office**

On May 18, 2005, the Chancellor's Office loaned the University \$500,000 for use in the planning of the Student Housing Phase II project. The loan will be repaid upon the issuance of Revenue Bond Anticipation Notes or Systemwide Revenue Bonds. The loan bears interest at the SMIF rate, which was 2.851% at June 30, 2005.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

Long-term debt obligations of the University as of June 30, 2005 consist of the following as of June 30:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds:				
Series 2004A	2.0% – 5.25%	2035	\$ 18,490,000	18,490,000
Series 2005A	2.5% – 5.0%	2038	64,655,000	64,655,000
Other:				
Loan from Chancellor's Office	2.851%	2007	500,000	<u>500,000</u>
Total				83,645,000
Unamortized bond premium				<u>1,455,173</u>
Total long-term debt				85,100,173
Less current portion				<u>(310,000)</u>
Long-term debt, net of current portion				<u>\$ 84,790,173</u>

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2006	\$ 310,000	4,187,313
2007	820,000	4,026,574
2008	335,000	4,013,475
2009	455,000	3,999,949
2010	615,000	3,983,037
2011 – 2015	4,900,000	19,422,840
2016 – 2020	9,600,000	17,731,005
2021 – 2025	13,735,000	14,774,722
2026 – 2030	17,595,000	10,912,531
2031 – 2035	22,575,000	5,933,335
2036 – 2040	12,705,000	907,484
	<u>\$ 83,645,000</u>	<u>89,892,265</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 individually discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2005

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

Long-term liabilities activity for the year ended June 30, 2005 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 1,643,235	1,430,638	(1,115,537)	1,958,336	998,751
Capitalized lease obligations (note 7)	130,338	254,977	(103,318)	281,997	114,949
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds	18,490,000	64,655,000	—	83,145,000	310,000
Revenue Bond Anticipation Notes	6,940,000	131,176	(7,071,176)	—	—
Other	—	500,000	—	500,000	—
Total	<u>25,430,000</u>	<u>65,286,176</u>	<u>(7,071,176)</u>	<u>83,645,000</u>	<u>310,000</u>
Unamortized bond premium	—	1,462,560	(7,387)	1,455,173	—
Total long-term debt obligations	<u>25,430,000</u>	<u>66,748,736</u>	<u>(7,078,563)</u>	<u>85,100,173</u>	<u>310,000</u>
Total long-term liabilities	<u>\$ 27,203,573</u>	<u>68,434,351</u>	<u>(8,297,418)</u>	<u>87,340,506</u>	<u>1,423,700</u>

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

**(a) Plan Description**

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

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

**(b) Funding Policy**

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 17.02% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2003	\$	1,044,605
2004		2,592,637
2005		3,381,630

**(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, 2005.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2005 are as follows:

Liability at June 30, 2003	\$	104,371,000
Incurred claims and changes in estimates		49,591,000
Claim payments		<u>(35,251,000)</u>
Liability at June 30, 2004		118,711,000
Incurred claims and changes in estimates		33,419,000
Claim payments		<u>(34,491,000)</u>
Liability at June 30, 2005		117,639,000
Less current portion		<u>(39,633,000)</u>
Long-term liability at June 30, 2005, net of current portion	\$	<u><u>78,006,000</u></u>

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

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June 30, 2005

The University's allocation of the System's total self-insurance claims liability as of June 30, 2005 was approximately 1% or \$1,021,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2005.

The University's receivable from California State University Risk Management Authority (CSURMA) totaled \$525,204 at June 30, 2005, which is recorded as due from CSURMA in the accompanying financial statements. The receivable balance is a result of amounts paid by the University to CSURMA prior to year end in excess of the University's share of the estimated claims liability.

**(12) Commitments and Contingencies**

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

Contractual commitments for construction projects unexpended as of June 30, 2005 totaled \$61,151,282. These expenditures will be funded primarily from 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 statement of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2005, operating expenses by natural classification consisted of the following:

<u>2005</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 9,843,542	2,765,730	—	586,826	—	13,196,098
Academic support	3,255,621	1,067,046	—	2,481,852	—	6,804,519
Student services	2,403,843	765,718	—	795,023	—	3,964,584
Institutional support	3,093,747	1,128,860	—	1,263,763	—	5,486,370
Operation and maintenance of plant	4,088,761	1,717,246	—	4,643,993	—	10,450,000
Student grants and scholarships	—	—	1,954,913	—	—	1,954,913
Auxiliary enterprise expenses	526,662	187,702	—	572,129	—	1,286,493
Depreciation	—	—	—	—	3,527,397	3,527,397
Total	\$ <u>23,212,176</u>	<u>7,632,302</u>	<u>1,954,913</u>	<u>10,343,586</u>	<u>3,527,397</u>	<u>46,670,374</u>

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June 30, 2005

**(14) Transactions with Related Entities**

The System is an agency of the state of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$31,909,860 for the year ended June 30, 2005. State appropriations receivable aggregated \$2,212,712 at June 30, 2005. The University also received lottery appropriations from the state of California in the amount of \$110,000 for the year ended June 30, 2005, which is included in other nonoperating revenues.

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or state of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2005, no such additions of capital assets are included in the accompanying financial statements.

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

The 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, 2005:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	440,260
Gifts-in-kind to the University from recognized auxiliary organizations		774,103
Amounts receivable from recognized auxiliary organizations		594,696
Amounts payable to recognized auxiliary organizations		(8,048)