



CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

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Independent Auditors' Report

Dr. Richard R. Rush
President
California State University, Channel Islands:

We have audited the accompanying financial statements 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, 2006, which collectively comprise the University's basic financial statements, as listed in the accompanying 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 the 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, 2006, 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006, and 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 10 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

December 1, 2006

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

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

Introduction to the Financial Statements

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

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

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

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

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

Analytical Overview

Summary

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

June 30, 2006

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

Condensed Summary of Net Assets

June 30

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 12,457,604	16,527,961
Capital assets	108,704,034	91,514,517
Other noncurrent assets	145,033,902	124,341,454
Total assets	<u>266,195,540</u>	<u>232,383,932</u>
Liabilities:		
Current liabilities	45,478,801	11,098,176
Long-term debt obligations, net of current portion	84,513,247	84,957,221
Other noncurrent liabilities	1,174,595	959,585
Total liabilities	<u>131,166,643</u>	<u>97,014,982</u>
Net assets:		
Invested in capital assets, net of related debt	66,169,984	66,167,618
Restricted, expendable	1,212,551	561,110
Unrestricted	67,646,362	68,640,222
Total net assets	<u>\$ 135,028,897</u>	<u>135,368,950</u>

Assets

The \$33.8 million increase is primarily due to a \$16.1 million increase in other long-term investments as a result of the University receiving cash in return for a Revenue Bond Anticipation Note and a \$17.2 million increase in capital assets related to construction of Santa Cruz Village Student Housing and the University Library. Capital expansion is financed through University funds, issuance of debt, issuance of California State University System Revenue Bonds, and issuance of general obligation bonds of the state of California, of which the latter are not reflected in the accompanying financial statements.

Liabilities

The \$34.2 million increase in total liabilities from the prior year is primarily due to the issuance of a Revenue Bond Anticipation Note for \$29.8 million and a \$790,000 increase in accrued salaries and benefits and a \$415,000 increase in accrued compensated absences relating to an increased number of faculty and staff. In addition, deferred revenue increased \$2.0 million as a result of increased student enrollment for registration and housing related to the fall 2006 semester.

Net Assets

The University's net assets totaled \$135 million at June 30, 2006. Approximately 49% of net assets at the end of the year are invested in capital assets.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

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, 2006 and 2005 were restricted for capital projects and totaled \$1,212,551 and \$561,110, respectively.

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

**Condensed Summary of Revenues, Expenses, and Changes in Net Assets
Year ended June 30**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees	\$ 7,633,662	4,714,044
Grants, contracts, and gifts	3,499,760	3,972,798
Sales and services of auxiliary enterprises, net	3,395,790	2,620,803
	<u>14,529,212</u>	<u>11,307,645</u>
Operating expenses	<u>(53,201,018)</u>	<u>(46,670,374)</u>
Nonoperating revenues (expenses):		
State appropriations	34,229,640	31,651,752
Investment income	2,820,882	441,634
Other nonoperating revenues (expenses)	(1,357,572)	(885,399)
Total nonoperating revenues	<u>35,692,950</u>	<u>31,207,987</u>
Other capital-related revenues:		
State appropriations, capital	1,791,000	258,108
Grants and gifts, capital	847,803	65,110,895
Increase (decrease) in net assets	<u>(340,053)</u>	<u>61,214,261</u>
Beginning net assets	<u>135,368,950</u>	<u>74,154,689</u>
Ending net assets	<u>\$ 135,028,897</u>	<u>135,368,950</u>

Operating Revenues and Expenses

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

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

Operating Revenues

The University recognized \$14.5 million in operating revenues during this fiscal year, as compared to \$11.3 million in the prior year. This comprised 26% of total revenues for the year ended June 30, 2006, compared to 10% of total revenues for the year ended June 30, 2005. Federal and state grants and contracts revenue decreased \$473,000 from \$4.0 million to \$3.5 million for the fiscal years ended June 30, 2006 and 2005, respectively, due to a decrease in federal and state grant activity in fiscal year 2006. Sales and services of auxiliary enterprises increased by \$775,000 primarily due to a \$590,000 increase in dormitory housing revenue, as a result of increased occupancy and conference services offered.

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



Operating Expenses

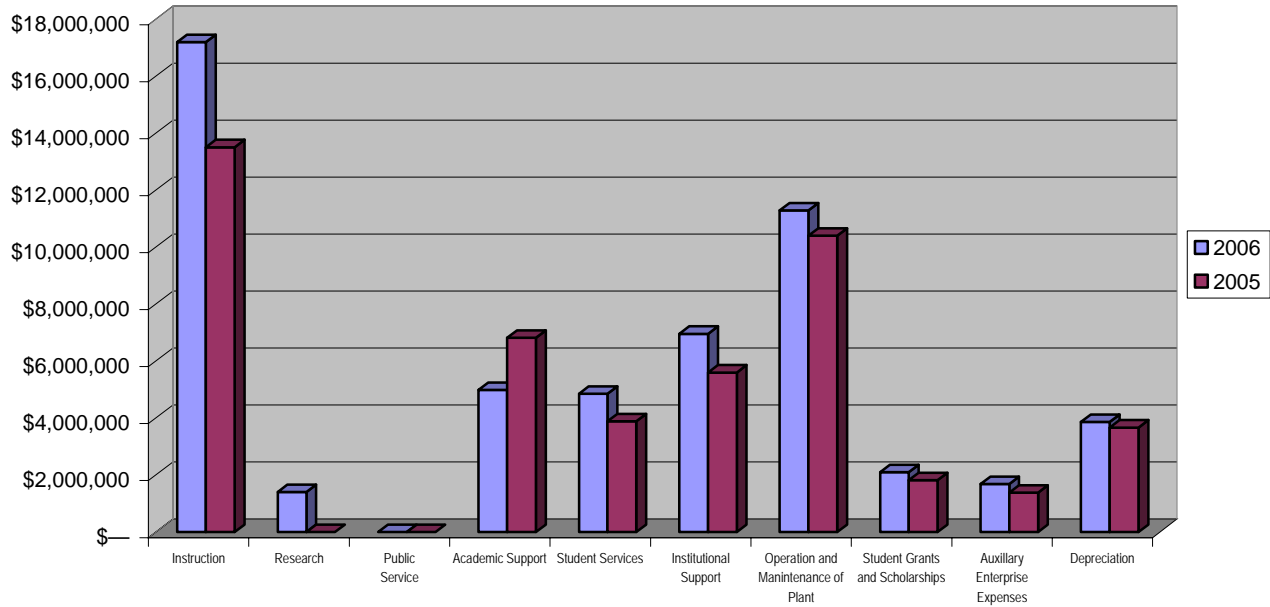
The University's operating expenses consist of salaries and fringe benefits of \$34.9 million, supplies and services of \$12.5 million, scholarships and fellowships of \$2.1 million, and depreciation of \$3.8 million. Total operating expenses, excluding depreciation, increased by \$6.3 million, or 15%, primarily due to instruction, student services and institutional support. Salaries and benefits costs increased by \$4.0 million due to salary rate increases and health and retirement benefit increases for all employees and an increase in faculty positions and support. The University's contribution to the California Employees' Retirement System (CalPERS) increased by \$250,000, or 7.3%. Student grants and scholarships increased by \$145,000. While the percentage of students receiving aid remained consistent at approximately 49.0%, enrollment increased by 25%. The increase in depreciation expense of \$230,000 relates to current year capital asset additions. The instruction function increased by \$3.7 million, or 28%, and is directly related to the increase in enrollment. The student services function increased by \$1.0 million, or 26%, as a result of the addition of staff to support the increase in enrollment. The institutional support function increased by \$1.2 million, or 23%, and is related to an increase in support staff directly related to an increase in enrollment.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

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



Nonoperating and Other Revenues (Expenses)

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

As the University is part of the California State University System, which is an agency of the state of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$1.8 million for the fiscal year ended June 30, 2006, an increase of \$1.5 million for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled \$34.2 million, an increase of \$2.6 million from the prior year.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2006	2005
Land and land improvements	\$ 31,732,078	31,732,078
Works of art and historical treasures	411,760	375,760
Buildings and building improvements	41,189,296	42,950,910
Improvements, other than buildings	39,244	43,861
Infrastructure	2,206,810	2,463,350
Personal property	6,440,671	6,555,615
Intangible assets	57,975	100,770
Construction work in progress	26,626,200	7,292,173
Total capital assets, net of accumulated depreciation	<u>\$ 108,704,034</u>	<u>91,514,517</u>

At June 30, 2006 and 2005, the University had \$108.7 million and \$91.5 million, respectively, in capital assets, net of accumulated depreciation of \$14.6 million and \$10.8 million, respectively. Depreciation expense totaled \$3.8 million and \$3.5 million for the years ended June 30, 2006 and 2005, respectively.

The University had two major capital projects during the year. These projects were the construction of the University library, which total costs for 2005/2006 were \$14.5 million, and the construction of Santa Cruz Village student housing, which total costs for 2005/2006 were \$3.5 million. The University library is funded through general obligation debt and a Bond Anticipation Note (BAN) is funding Santa Cruz Village construction.

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

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

Long-Term Debt Obligations

Long-term debt outstanding at June 30, 2006 and 2005 is summarized below by type of debt instrument:

	June 30	
	2006	2005
Systemwide Revenue Bonds	\$ 82,835,000	83,145,000
Bond Anticipation Notes	29,754,000	—
Campus-originated debt	1,410,663	500,000
Capital leases	157,035	281,997
Total	114,156,698	83,926,997
Unamortized bond premium	1,070,487	1,455,173
Total long-term debt	115,227,185	85,382,170
Less current portion	(30,713,938)	(424,949)
Long-term debt, net of current portion	\$ 84,513,247	84,957,221

The interest rates on outstanding debt range from 2.0% to 5.5%.

At June 30, 2006 and 2005, the University had \$114.2 million and \$83.9 million, respectively, in debt outstanding. At June 30, 2006 the University had \$82.8 million in outstanding debt from Systemwide Revenue Bonds, of which \$18.2 million is for Anacapa Village student housing, which was completed in fall 2004, \$7.2 million is for various campus projects which were completed in the 2005/2006 fiscal year, and \$57.4 million is being used for the construction of the University Library, which is expected to be completed by 2008. Additionally, a BAN was issued for the construction of Santa Cruz Village student housing, which is expected to be completed by fall 2007, and the repayment on the BAN is due in 2007.

Bond Ratings

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

See notes 7 through 9 of the notes to the financial statements for further information on long-term debt obligations.

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2006/2007. The University is expecting a current year allocation of \$39 million, an increase of \$5 million over fiscal year 2005/2006. The increase is budgeted to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and complete deferred maintenance projects.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2006

Budgeted full-time equivalent enrollment targets for fiscal years 2006/2007 are 2,350, representing an increase of 20.1%. This anticipated growth will generate additional revenues of approximately \$1.1 million to the University.

In November 2006, voters elected to pass Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006, a statewide bond package to construct new buildings and related infrastructure, alter existing buildings, and purchase equipment for use in these buildings. Proposition 1D authorizes the sale of statewide general obligation bonds in the amount of \$10.4 billion. The \$690 million earmarked for the California State University from these bonds is expected to fund capital projects in 2007 and 2008.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Statement of Net Assets

June 30, 2006

Assets	Discretely presented component units		Total
	University	Auxiliary organizations	
Current assets:			
Cash and cash equivalents	\$ 1,558,685	750,395	2,309,080
Short-term investments	4,255,704	260,713	4,516,417
Accounts receivable, net	6,265,663	1,012,839	7,278,502
Pledges receivable, net	—	321,226	321,226
Prepaid expenses and other assets	377,552	2,000	379,552
Total current assets	12,457,604	2,347,173	14,804,777
Noncurrent assets:			
Restricted cash and cash equivalents	—	2,023,251	2,023,251
Accounts receivable, net	1,789,050	—	1,789,050
Note receivable	64,655,000	—	64,655,000
Pledges receivable, net	—	2,903,623	2,903,623
Endowment investments	—	4,091,671	4,091,671
Other long-term investments	78,589,852	5,656,049	84,245,901
Capital assets, net	108,704,034	5,179	108,709,213
Other assets	—	25,000	25,000
Total noncurrent assets	253,737,936	14,704,773	268,442,709
Total assets	266,195,540	17,051,946	283,247,486
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	5,069,537	605,408	5,674,945
Accrued salaries and benefits payable	1,958,906	39,869	1,998,775
Accrued compensated absences – current portion	1,210,394	—	1,210,394
Deferred revenue	4,738,936	170,917	4,909,853
Capitalized lease obligations – current portion	96,978	150,000	246,978
Long-term debt obligations – current portion	30,616,960	—	30,616,960
Other liabilities	1,787,090	18,028	1,805,118
Total current liabilities	45,478,801	984,222	46,463,023
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	1,162,928	—	1,162,928
Deferred revenue	11,667	508,404	520,071
Capitalized lease obligations, net of current portion	60,057	—	60,057
Long-term debt obligations, net of current portion	84,453,190	—	84,453,190
Depository accounts	—	12,750	12,750
Total noncurrent liabilities	85,687,842	521,154	86,208,996
Total liabilities	131,166,643	1,505,376	132,672,019
Net assets:			
Invested in capital assets, net of related debt	66,169,984	5,179	66,175,163
Restricted for:			
Nonexpendable – endowments	—	4,091,671	4,091,671
Expendable:			
Scholarships and fellowships	—	262,168	262,168
Research	—	406,645	406,645
Capital projects	1,212,551	7,294,887	8,507,438
Other	—	2,122,298	2,122,298
Unrestricted	67,646,362	1,363,722	69,010,084
Total net assets	\$ 135,028,897	15,546,570	150,575,467

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

	University	Discretely presented component units Auxiliary organizations	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$1,423,713)	\$ 7,633,662	418,185	—	8,051,847
Grants and contracts, noncapital:				
Federal	2,108,482	—	—	2,108,482
State and local	1,391,278	—	—	1,391,278
Sales and services of educational activities	—	9,680	—	9,680
Sales and services of auxiliary enterprises	3,395,790	126,024	—	3,521,814
Other operating revenues	—	933,822	—	933,822
Total operating revenues	<u>14,529,212</u>	<u>1,487,711</u>	<u>—</u>	<u>16,016,923</u>
Expenses:				
Operating expenses:				
Instruction	16,889,347	159,756	(105,000)	16,944,103
Research	1,458,438	745,510	—	2,203,948
Public service	—	986,200	—	986,200
Academic support	4,967,951	168,844	—	5,136,795
Student services	4,982,614	286,688	—	5,269,302
Institutional support	6,725,107	772,119	(850,803)	6,646,423
Operation and maintenance of plant	10,888,510	18,187	—	10,906,697
Student grants and scholarships	2,099,135	102,264	—	2,201,399
Auxiliary enterprise expenses	1,432,057	—	—	1,432,057
Depreciation	3,757,859	1,295	—	3,759,154
Total operating expenses	<u>53,201,018</u>	<u>3,240,863</u>	<u>(955,803)</u>	<u>55,486,078</u>
Operating loss	<u>(38,671,806)</u>	<u>(1,753,152)</u>	<u>955,803</u>	<u>(39,469,155)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	34,229,640	—	—	34,229,640
Gifts, noncapital	108,000	5,641,332	(108,000)	5,641,332
Investment income, net	2,820,882	92,065	—	2,912,947
Endowment income	—	839,113	—	839,113
Interest on capital-related debt	(2,815,153)	—	—	(2,815,153)
Other nonoperating revenue, net	1,349,581	—	—	1,349,581
Net nonoperating revenues	<u>35,692,950</u>	<u>6,572,510</u>	<u>(108,000)</u>	<u>42,157,460</u>
Income (loss) before other additions	<u>(2,978,856)</u>	<u>4,819,358</u>	<u>847,803</u>	<u>2,688,305</u>
State appropriations, capital	1,791,000	—	—	1,791,000
Grants and gifts, capital	847,803	—	(847,803)	—
Additions to permanent endowments	—	177,349	—	177,349
Increase (decrease) in net assets	<u>(340,053)</u>	<u>4,996,707</u>	<u>—</u>	<u>4,656,654</u>
Net assets:				
Net assets at beginning of year	<u>135,368,950</u>	<u>10,549,863</u>	<u>—</u>	<u>145,918,813</u>
Net assets at end of year	<u>\$ 135,028,897</u>	<u>15,546,570</u>	<u>—</u>	<u>150,575,467</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 7,883,862
Federal grants and contracts	1,953,522
State and local grants and contracts	1,923,097
Payments to suppliers	(13,838,520)
Payments to employees	(33,639,511)
Payments to students	(1,929,231)
Sales and services of auxiliary enterprises	3,466,139
Other payments	(4,821,886)
Net cash used in operating activities	<u>(39,002,528)</u>
Cash flows from noncapital financing activities:	
State appropriations	35,487,350
Other	2,420,007
Net cash provided by noncapital financing activities	<u>37,907,357</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	29,405,241
State appropriations	472,239
Acquisition of capital assets	(17,962,390)
Principal paid on capital debt and leases	(434,962)
Interest paid on capital debt and leases	(2,842,289)
Net cash provided by capital and related financing activities	<u>8,637,839</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	17,889,264
Purchases of investments	(29,875,314)
Investment income received	2,820,882
Net cash used in investing activities	<u>(9,165,168)</u>
Net decrease in cash and cash equivalents	(1,622,500)
Cash and cash equivalents at beginning of year	<u>3,181,185</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,558,685</u></u>

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (38,671,806)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,757,859
Changes in assets and liabilities:	
Accounts receivable, net	(6,433,726)
Prepaid expenses and other assets	236,236
Accounts payable	(1,597,981)
Accrued salaries and benefits	788,443
Accrued compensated absences	414,986
Deferred revenue	1,920,528
Other liabilities	582,933
Net cash used in operating activities	<u>\$ (39,002,528)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 847,803
Accrued capital asset costs (purchased but unpaid at year end)	2,134,806
Gifts-in-kind	108,000
Capital asset transferred from the Office of the Chancellor	2,377
Amortization of bond premiums	35,927
Addition of debt not related to capital asset acquisition	938,020

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2006

(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 housing, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs, which are funded primarily through state and federal programs.

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's three recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The discretely presented auxiliary organizations are as follows:

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

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2006

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

June 30, 2006	California State University, Channel Islands Foundation	Other auxiliary organizations	Total
Current assets	\$ 975,461	1,371,712	2,347,173
Capital assets, net	—	5,179	5,179
Other noncurrent assets	14,699,594	—	14,699,594
Total assets	<u>15,675,055</u>	<u>1,376,891</u>	<u>17,051,946</u>
Current liabilities	510,557	473,665	984,222
Noncurrent liabilities	508,404	12,750	521,154
Total liabilities	<u>1,018,961</u>	<u>486,415</u>	<u>1,505,376</u>
Invested in capital assets, net of related debt	—	5,179	5,179
Restricted	14,177,669	—	14,177,669
Unrestricted	478,425	885,297	1,363,722
Total net assets	<u>\$ 14,656,094</u>	<u>890,476</u>	<u>15,546,570</u>
Operating revenues:			
Student tuition and fees	\$ —	418,185	418,185
Sales and services of auxiliary enterprises, net	126,024	—	126,024
Other	1,100	942,402	943,502
Total operating revenues	<u>127,124</u>	<u>1,360,587</u>	<u>1,487,711</u>
Operating expenses:			
Instruction	159,756	—	159,756
Research	745,510	—	745,510
Public service	552,559	433,641	986,200
Academic support	168,844	—	168,844
Student services	27,048	259,640	286,688
Institutional support	513,519	258,600	772,119
Operation and maintenance of plant	18,187	—	18,187
Student grants and scholarships	102,264	—	102,264
Depreciation	—	1,295	1,295
Total operating expenses	<u>2,287,687</u>	<u>953,176</u>	<u>3,240,863</u>
Operating income (loss)	<u>(2,160,563)</u>	<u>407,411</u>	<u>(1,753,152)</u>
Net nonoperating revenues	<u>6,556,612</u>	<u>15,898</u>	<u>6,572,510</u>
Income before other additions	4,396,049	423,309	4,819,358
Additions to permanent endowments	177,349	—	177,349
Increase in net assets	4,573,398	423,309	4,996,707
Beginning net assets, July 1, 2005	10,082,696	467,167	10,549,863
Ending net assets, June 30, 2006	<u>\$ 14,656,094</u>	<u>890,476</u>	<u>15,546,570</u>

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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 academic support, fundraising, student programs, and student development. 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 System as of June 30, 2006, 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 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 Statements No. 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) *Election of Applicable FASB Statements*

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

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

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

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

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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.

(e) Cash and Cash Equivalents

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

(f) Investments

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

(g) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. 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.

(h) Deferred Revenue

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

(i) Compensated Absences

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

(j) Net Assets

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

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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 utilizing restricted – expendable funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

(k) 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.

(l) 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

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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.

(m) 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.

(n) Use of Estimates

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

(3) Cash and Cash Equivalents and Short-Term Investments

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

Cash and cash equivalents	\$ <u>1,558,685</u>
Short-term investments	4,255,704
Other long-term investments	<u>78,589,852</u>
Total Investments	<u>82,845,556</u>
Total cash and cash equivalents and investments	<u>\$ 84,404,241</u>

(a) Cash and Cash Equivalents

At June 30, 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$1,558,685 had a corresponding carrying value balance with the State Treasury of \$2,117,617 at June 30, 2006. The differences related primarily to deposits in transit and outstanding checks.

(b) Investments

At June 30, 2006, the University's investment portfolio consisted primarily of investments held in an external investment pool and interest-bearing accounts held in the State Treasury.

Investment Policy

State law and regulations require that surplus moneys of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts

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under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity (in years) of the University's investment portfolio at June 30, 2006 is 0.42.

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, 2006, the fair value of the University's investments portfolio was \$82,845,556 and consisted of the State of California Surplus Money Investment Fund (SMIF). Investments in the Surplus Money Investment Fund unrated and have a weighted average maturity (in years) of 0.42.

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, 2006 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 812,408	1,461,355	2,273,763
Auxiliary organizations	237,055	—	237,055
Student accounts	4,044,358	—	4,044,358
Government grants and contracts	465,193	327,695	792,888
Other	709,136	—	709,136
	<u>6,268,150</u>	<u>1,789,050</u>	<u>8,057,200</u>
Less allowance for doubtful accounts	<u>(2,487)</u>	<u>—</u>	<u>(2,487)</u>
Total	<u>\$ 6,265,663</u>	<u>1,789,050</u>	<u>8,054,713</u>

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(5) Note Receivable

During fiscal year 2005, the University entered into an agreement with the California State University, Channel Islands Site Authority (the Authority) whereby the Authority agreed to fund the renovation of certain existing campus facilities and the construction of a University library. The proceeds from the issuance of the Systemwide Revenue Bonds, Series 2005A were used to finance such facilities. As a result, the University recorded grants and gifts, capital revenue in the amount of \$64,655,000 and a corresponding note receivable during the year ended June 30, 2005. The note receivable bears interest ranging from 2.5% to 5.0% and is due in fiscal year 2037. Note receivable payments from the Authority 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.

Principal payments on the note receivable are due to the University as follows:

Fiscal year ending:	
2007	\$ —
2008	—
2009	110,000
2010	255,000
2011	395,000
Thereafter	<u>63,895,000</u>
Total note receivable	\$ <u><u>64,655,000</u></u>

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Notes to Financial Statements

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(6) Capital Assets

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

	<u>Balance, June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2006</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 31,732,078	—	—	—	31,732,078
Works of art and historical treasures	375,760	36,000	—	—	411,760
Construction work in progress	7,292,173	19,334,027	—	—	26,626,200
Total nondepreciable capital assets	<u>39,400,011</u>	<u>19,370,027</u>	<u>—</u>	<u>—</u>	<u>58,770,038</u>
Depreciable capital assets:					
Buildings and building improvements	49,882,379	583,726	—	—	50,466,105
Improvements, other than buildings	557,170	—	—	—	557,170
Infrastructure	3,542,952	48,548	—	—	3,591,500
Personal property:					
Equipment	6,219,197	688,977	—	11,884	6,920,058
Library books and materials	2,515,819	253,721	—	—	2,769,540
Intangible assets	213,979	—	—	—	213,979
Total depreciable capital assets	<u>62,931,496</u>	<u>1,574,972</u>	<u>—</u>	<u>11,884</u>	<u>64,518,352</u>
Total cost	<u>102,331,507</u>	<u>20,944,999</u>	<u>—</u>	<u>11,884</u>	<u>123,288,390</u>
Less accumulated depreciation:					
Buildings and building improvements	(6,931,469)	(2,345,340)	—	—	(9,276,809)
Improvements, other than buildings	(513,309)	(4,617)	—	—	(517,926)
Infrastructure	(1,079,602)	(305,088)	—	—	(1,384,690)
Personal property:					
Equipment	(1,379,742)	(795,751)	—	(9,507)	(2,185,000)
Library books and materials	(799,659)	(264,268)	—	—	(1,063,927)
Intangible assets	(113,209)	(42,795)	—	—	(156,004)
Total accumulated depreciation	<u>(10,816,990)</u>	<u>(3,757,859)</u>	<u>—</u>	<u>(9,507)</u>	<u>(14,584,356)</u>
Net capital assets	\$ <u>91,514,517</u>	<u>17,187,140</u>	<u>—</u>	<u>2,377</u>	<u>108,704,034</u>

The University capitalizes interest cost as a component of the cost of construction work in progress. Interest cost capitalized in 2006 was \$1,508,167 and interest cost charged to income in 2006 was \$2,815,153.

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

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(7) Leases

(a) Lease Obligations

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$157,035 at June 30, 2006. 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 and operating leases having remaining terms in excess of one year are as follows:

	Capital leases
Year ending June 30:	
2007	\$ 101,097
2008	54,376
2009	6,935
	<hr/>
Total minimum lease payments	162,408
Less amount representing interest	<u>(5,373)</u>
Present value of future minimum lease payments	157,035
Less current portion	<u>(96,978)</u>
Capital lease obligation, net of current portion	<u><u>\$ 60,057</u></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, 2006 totaled \$554,748,000.

(b) Lease Income

The University is the lessor for various facilities used principally for educational purposes. The leases expire at various dates through 2013. Future annual minimum lease rental revenues under noncancelable operating leases are as follows:

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Year ending June 30:	
2007	\$ 572,360
2008	587,676
2009	489,545
2010	16,777
2011	17,280
2012 – 2016	32,999
	<u>\$ 1,716,637</u>

Rent revenue for the year ended June 30, 2006 totaled \$817,506 and is recorded in the accompanying statement of revenues, expenses, and changes in net assets as other nonoperating revenues.

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the state of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the System, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the state of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,277,682,000 as of June 30, 2006.

(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

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balances of these funds are available for transfer to the campus auxiliary organization that has contracted with the University to operate the facility. The operating entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income.

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

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

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

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

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining hall facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower-cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue-producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$1,982,433,000 at June 30, 2006. The University's portion of the total outstanding balance under this program was \$82,835,000 at June 30, 2006.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2006, the System's outstanding balance for these senior bonds totaled \$70,020,000. The University had no outstanding balances for these senior bonds at June 30, 2006.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Notes to Financial Statements

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(c) Revenue Bond Anticipation Notes

The University issued Revenue Bond Anticipation Notes during 2006 to finance the development and construction of student housing facilities. The Revenue Bond Anticipation Notes are issued for a one- to three-year period in anticipation of issuing permanent revenue bonds at a future date. Amounts outstanding under the Revenue Bond Anticipation Notes totaled \$29,754,000 at June 30, 2006.

(d) Other Long-Term Debt

In 2006, the University entered into an agreement with Camrosa Water District for \$938,020 to fund the construction of a reclaimed water line. The debt will be repaid over 15 years beginning in 2007 from general operating funds and bears interest at a rate of 5.5%.

On May 18, 2005, the Office of the Chancellor 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 4.591% at June 30, 2006.

Long-term debt obligations of the University as of June 30, 2006 consist of the following:

<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 2005A	2.50% – 5.00%	2037/2038	\$ 64,655,000	64,655,000
Series 2004A	2.00% – 5.25%	2034/2035	18,490,000	18,180,000
Revenue Bond Anticipation Notes				
	3.20% – 3.58%	2006/2007	29,754,000	29,754,000
Other:				
Camrosa	5.5%	2020/2021	938,020	910,663
Student Housing Phase II	4.59%	2006/2007	500,000	500,000
Total				113,999,663
Unamortized bond premium				1,070,487
Unamortized loss on refunding				—
Total long-term debt				115,070,150
Less current portion				(30,616,960)
Long-term debt, net of current portion				\$ 84,453,190

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

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June 30, 2006

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

Year ending June 30:	<u>Principal</u>	<u>Interest</u>
2007	\$ 30,616,960	4,075,588
2008	380,381	4,060,066
2009	502,942	4,043,980
2010	665,646	4,024,364
2011	818,503	3,996,045
2012 – 2016	5,856,335	19,337,293
2017 – 2021	11,028,896	17,267,927
2022 – 2026	14,430,000	14,077,291
2027 – 2031	18,495,000	10,013,630
2032 – 2036	22,535,000	4,810,761
2037 – 2041	8,670,000	405,621
	<u>\$ 113,999,663</u>	<u>86,112,566</u>

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

(9) Long-Term Liabilities Activity

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 1,958,336	1,576,665	(1,161,679)	2,373,322	1,210,394
Capitalized lease obligations	281,997	—	(124,962)	157,035	96,978
Long-term debt obligations:					
Systemwide Revenue Bonds	83,145,000	—	(310,000)	82,835,000	320,000
Revenue Bond Anticipation Notes	—	29,754,000	—	29,754,000	29,754,000
Other	500,000	938,020	(27,357)	1,410,663	542,960
Total	83,645,000	30,692,020	(337,357)	113,999,663	30,616,960
Unamortized bond premium	1,455,173	(348,759)	(35,927)	1,070,487	—
Total long-term debt obligations	85,100,173	30,343,261	(373,284)	115,070,150	30,616,960
Total long-term liabilities	<u>\$ 87,340,506</u>	<u>31,919,926</u>	<u>(1,659,925)</u>	<u>117,600,507</u>	<u>31,924,332</u>

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(10) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

(b) Funding Policy

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 15.942% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2004	\$	2,592,637
2005		3,381,630
2006		3,629,074

(11) Self-Insurance Program

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

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Changes in the System's self-insurance claims liability for the two years ended June 30, 2006 are as follows:

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
Incurred claims and changes in estimates	23,938,000
Claim payments	<u>(29,201,000)</u>
Liability at June 30, 2006	112,376,000
Less current portion	<u>(27,441,000)</u>
Long-term liability at June 30, 2006, net of current portion	<u>\$ 84,935,000</u>

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

The University's allocation of the System's total self-insurance claims liability as of June 30, 2006 was approximately 1%, or \$1,082,000. 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, 2006.

The University's receivable due from CSURMA totaled \$361,602 at June 30, 2006, which is recorded as a component of prepaid expenses and other assets in the accompanying financial statements. The receivable balance is a result of amounts paid by the University to CSURMA prior to year end related to the University's share of the estimated future funding liability.

(12) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2006 totaled \$71,226,424. 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.

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Notes to Financial Statements

June 30, 2006

(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, 2006, operating expenses by natural classification consisted of the following:

<u>2006</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 11,005,037	3,827,676	—	2,056,634	—	16,889,347
Research	713,794	184,264	—	560,380	—	1,458,438
Academic support	3,151,903	1,004,763	—	811,285	—	4,967,951
Student services	3,126,218	940,205	—	916,191	—	4,982,614
Institutional support	3,487,358	1,368,544	—	1,869,205	—	6,725,107
Operation and maintenance of plant	3,984,882	1,312,963	—	5,590,665	—	10,888,510
Student grants and scholarships	—	—	2,099,135	—	—	2,099,135
Auxiliary enterprise expenses	529,473	214,241	—	688,343	—	1,432,057
Depreciation	—	—	—	—	3,757,859	3,757,859
Total	\$ 25,998,665	8,852,656	2,099,135	12,492,703	3,757,859	53,201,018

(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 \$36,020,640 for the year ended June 30, 2006. State appropriations receivable aggregated \$2,273,673 at June 30, 2006. The University also received lottery fund distributions from the state of California in the amount of \$612,000 for the year ended June 30, 2006, which is included in other nonoperating revenues and expenses.

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

The University has recorded capital assets that have been financed by the System that are not reflected in the accompanying financial statements. For the year ended June 30, 2006, no such additions of capital assets are included in the accompanying financial statements.

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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, 2006:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	519,992
Gifts-in-kind to the University from recognized auxiliary organizations		955,803
Amounts receivable from the recognized auxiliary organizations		237,055
Amounts payable to recognized auxiliary organizations		(496,517)
Amounts receivable from the Office of the Chancellor		454,741
Amounts payable to the Office of the Chancellor		(3,633)