



**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Financial Statements

June 30, 2008

(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 California State University Channel Islands (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2008, which collectively comprise the University's 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 two 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 of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008, the changes in their financial position, and, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

Management's discussion and analysis on pages 3 through 12 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

April 2, 2009

# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Management's Discussion and Analysis

June 30, 2008

(Unaudited)

This section of 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, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

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

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

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

### **Analytical Overview**

#### **Summary**

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities. Included is 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, 2008

(Unaudited)

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

**Condensed Summary of Net Assets**

	<b>June 30</b>	
	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>Assets:</b>		
Current assets	\$ 23,078,591	25,295,106
Capital assets	195,398,164	163,885,518
Other noncurrent assets	<u>125,898,158</u>	<u>100,203,500</u>
Total assets	<u>344,374,913</u>	<u>289,384,124</u>
<b>Liabilities:</b>		
Current liabilities	14,667,891	17,365,179
Long-term debt obligations, net of current portion	122,767,729	124,593,740
Other noncurrent liabilities	<u>1,672,545</u>	<u>1,830,697</u>
Total liabilities	<u>139,108,165</u>	<u>143,789,616</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	74,457,697	66,423,540
Restricted, expendable	57,810,941	7,978,105
Unrestricted	<u>72,998,110</u>	<u>71,192,863</u>
Total net assets	<u>\$ 205,266,748</u>	<u>145,594,508</u>

**Assets**

Total assets increased \$55.0 million, or 19.0%, from prior year due to a \$2.2 million decrease in current assets, a \$31.5 million increase in capital assets, and a \$25.7 million increase in other noncurrent assets. Total current assets decreased \$2.2 million, or 8.8%, primarily due to a decrease in short-term investments of \$1.8 million. The primary reason for the decrease in short-term investments was due to repayment of principal and interest for housing debt.

Capital assets, net, increased \$31.5 million, or 19.2%, primarily due to \$44.2 million of current year additions that are offset by \$7.8 million of disposals and \$4.9 million in current year depreciation expense. The additions consist of the library and housing projects, infrastructure programs, building improvements, and library books. Additionally, the University made a land trade valued at \$7.7 million. In order to put in a parking lot at the front entrance of the University, a lemon orchard, owned by the University, was traded for farm property adjacent to the University, which resulted in a \$7.7 million asset being placed into service and a \$7.7 million disposed asset.

Other noncurrent assets increased \$25.7 million, or 25.6%, primarily due to an increase in state appropriations, noncurrent receivable of \$48.4 million funded by ballot proposition 1D from the November 2006 elections, as well as several smaller state projects. Offsetting this increase is a decrease in other long-term investments totaling \$22.7 million. This decrease is the result of spending down on previously unspent bond proceeds for the library and housing construction projects.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

***Liabilities***

Total liabilities decreased \$4.7 million, or 3.3%, from prior year due to a \$2.7 million decrease in current liabilities, a \$1.8 million decrease in long-term debt obligations, net of current portion, which was partially offset by a \$0.2 million decrease in other noncurrent liabilities.

Total current liabilities decreased \$2.7 million, or 15.5%, primarily due to a \$5.8 million decrease in accounts payable related to the completion of construction during the year on the library and housing projects. This decrease is partially offset by an increase in accrued salaries and benefits payable of \$0.4 million as a result of an increase in both salaries expense and total headcount. Accrued compensated absences also increased \$0.7 million primarily as a result of more paid time off being used by employees as it is earned. The additional offset is an increase of \$0.8 million in deferred revenue primarily related to an increase in paid student registration for the summer and fall semesters.

Total long-term debt obligations, net of current portion, decreased by \$1.8 million, or 1.5%, from last year due to the repayment of \$0.3 million on bonds and \$1.7 million becoming due and payable in fiscal year 2009, resulting in a classification as a current liability.

***Net Assets***

Total net assets increased \$59.7 million, or 41.0%, from the prior year. A significant portion of the increase is in restricted, expendable for capital projects, which increased by \$53.4 million. The University received \$57.5 million of state appropriations, capital, predominantly related to the infrastructure project and also for the design of North Hall and an entry road to the University. Invested in capital assets, net of related debt, increased by \$8.0 million, or 12.1%. Of the \$8.0 million dollar increase, \$2.2 million of interest expense related to debt funded capital projects was capitalized. The remaining increase is from projects that include: data center upgrade, infrastructure design, new entry road design, nursing simulation lab, Solana Hall renovation, parking lot expansion funded by current operations, accounting and budget space in Bell Tower East, plus various other small projects, which is then reduced by \$4.9 million of depreciation expense.

**Restricted Resources**

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

**Restricted Net Assets**

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
Expendable:		
Capital projects	\$ 57,810,941	4,446,211
Debt service	—	3,531,894
Total restricted net assets – expendable	\$ 57,810,941	7,978,105

## CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

### Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Total restricted net assets – expendable increased \$49.8 million, or 624.6%. The increase is due to \$57.5 million of state appropriations revenue capital, predominantly related to the infrastructure project and also for design of North Hall and the new entry road. This increase is offset by expenditures on construction projects.

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

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

	Year ended June 30	
	2008	2007
Operating revenues:		
Student tuition and fees, net	\$ 12,487,132	8,592,617
Grants and contracts, noncapital	1,287,780	1,223,220
Sales and services of auxiliary enterprises, net	6,187,638	4,391,724
Total operating revenues	19,962,550	14,207,561
Operating expenses	(71,526,952)	(58,910,318)
Operating loss	(51,564,402)	(44,702,757)
Nonoperating revenues (expenses):		
State appropriations, noncapital	47,402,176	41,396,024
Federal financial aid grants, noncapital	2,887,526	2,400,313
State and local financial aid grants, noncapital	1,410,070	1,027,515
Investment income, net	1,756,650	4,791,914
Other nonoperating expenses, net	(980,199)	(2,537,536)
Total nonoperating revenues, net	52,476,223	47,078,230
Income before other additions	911,821	2,375,473
State appropriations, capital	57,454,047	7,516,485
Grants and gifts, capital	1,306,372	673,653
Increase in net assets	59,672,240	10,565,611
Beginning net assets	145,594,508	135,028,897
Ending net assets	\$ 205,266,748	145,594,508

Certain reclassifications have been made to the 2007 condensed financial information to conform to the 2008 financial information presented. The changes were primarily related to the classification of certain federal, state, and local financial aid grant revenues from operating revenues to nonoperating revenues. There was no impact on the previously reported changes in net assets or total net assets of the University.



**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Management’s Discussion and Analysis

June 30, 2008

(Unaudited)

**Operating Revenues and Expenses**

Operating revenues and expenses come from sources that are connected directly to the University’s primary business function. This includes revenues from categories such as tuition and fees, certain grants and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises. Expenses include categories such as salaries, benefits, supplies and other services, scholarships and fellowships, and depreciation and amortization. In this discussion and analysis, expenses are reported by functional program such as instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, student grants and scholarships, auxiliary enterprise expenses, and depreciation and amortization.

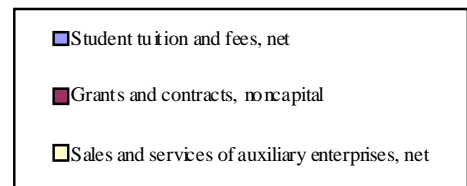
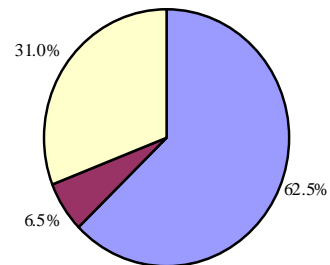
**Operating Revenues**

Total operating revenues increased \$5.8 million, or 40.5%, primarily due to a \$3.9 million increase in student tuition and fees, net and a \$1.8 million increase in sales and services of auxiliary enterprises, net, offset by a decrease in operating grants, noncapital, of \$0.1 million. The increase in student tuition and fees is due to a 10.0% fee increase and student enrollment growth of 24.0%. The increase in sales and services of auxiliary enterprises, net, is primarily due to housing revenues that grew by \$1.7 million, or 49.5%, due to the opening of the second housing facility, Santa Cruz Village, and the increase in housing rates at Anacapa Village. Santa Cruz Village added 453 beds to the University’s housing portfolio; however, because of the restrictions on campus growth in the freshman cohort, those who most typically live in this style of housing, average University housing occupancy was 75%. Anacapa housing occupancy was over 100% occupancy last year as many single rooms were doubled to make room for students that wished to live in University housing.

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

**Operating Revenues**  
Year ended June 30, 2008  
(In thousands)

Student tuition and fees, net	\$ 12,487,132	62.5%
Grants and contracts, noncapital	1,287,780	6.5
Sales and services of auxiliary enterprises, net	<u>6,187,638</u>	<u>31.0</u>
Total operating revenues	<u>\$ 19,962,550</u>	<u>100.0%</u>



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Management's Discussion and Analysis

June 30, 2008

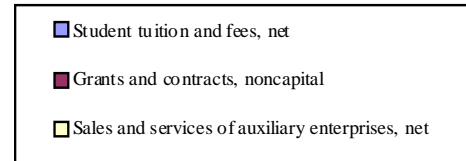
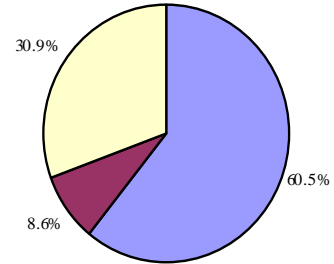
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**Operating Revenues**

Year ended June 30, 2007

(In thousands)

Student tuition and fees, net	\$ 8,592,617	60.5%
Grants and contracts, noncapital	1,223,220	8.6
Sales and services of auxiliary enterprises, net	<u>4,391,724</u>	<u>30.9</u>
 Total operating revenues	 <u>\$ 14,207,561</u>	 <u>100.0%</u>



***Operating Expenses***

The University's operating expenses consist of salaries and fringe benefits of \$49.9 million, supplies and other services of \$13.2 million, student grants and scholarships of \$3.5 million, and depreciation and amortization of \$4.9 million. Total operating expenses, excluding depreciation, increased by \$8.7 million, or 15.1%, primarily due to a \$2.9 million increase in instruction, a \$2.0 million increase in academic support, a \$1.7 million in auxiliary enterprise expenses, a \$1.5 million increase in student services, and a \$0.5 million increase in student grants and scholarships. Salaries and benefits, within all functions, increased by \$8.6 million primarily due to salary rate increases that averaged 5.0% and health and retirement benefit increases for all employees. Included in this increase is the University's contribution to the California Public Employees' Retirement System (CalPERS), which increased \$0.9 million or 19.0%. Student grants and scholarships increased \$0.5 million. While the University's student population grew 24.0%, their financial need did not increase proportionately. The amount that the University can give is limited by the allocation from the Chancellor's Office for the State University Grant (SUG) and the amount from the state for Cal Grants; however Pell awards alone increased by \$0.5 million. Supplies and other services expense, within all functions, decreased by \$0.3 million. The increase in depreciation and amortization expense of \$3.9 million is primarily related to the completion of the library and housing projects. The addition of the Library increased the campus space from approximately 200,000 square feet to over 300,000 square feet.

The instruction function increased \$2.9 million, or 14.2%. Because of the continuing growth in the student population, the University continues to invest in instructional programs. The campus hired 18 full-time faculty, 11 part-time faculty, 5 temporary full-time faculty, and well over 50 temporary part-time lecturers. Their additional salary and benefit expense, plus the existing faculty who would have participated in a salary program with an average 5.0% increase, amounts to \$3.3 million. The increase is offset by \$0.4 million less spent in supplies and services. The savings occurred throughout this program by cutting back on faculty development, recruitment costs, and overall supplies for the various academic programs. The academic support function increased \$2.0 million. Total employees increased by 19.0% with the larger increases for those areas that most

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Management’s Discussion and Analysis

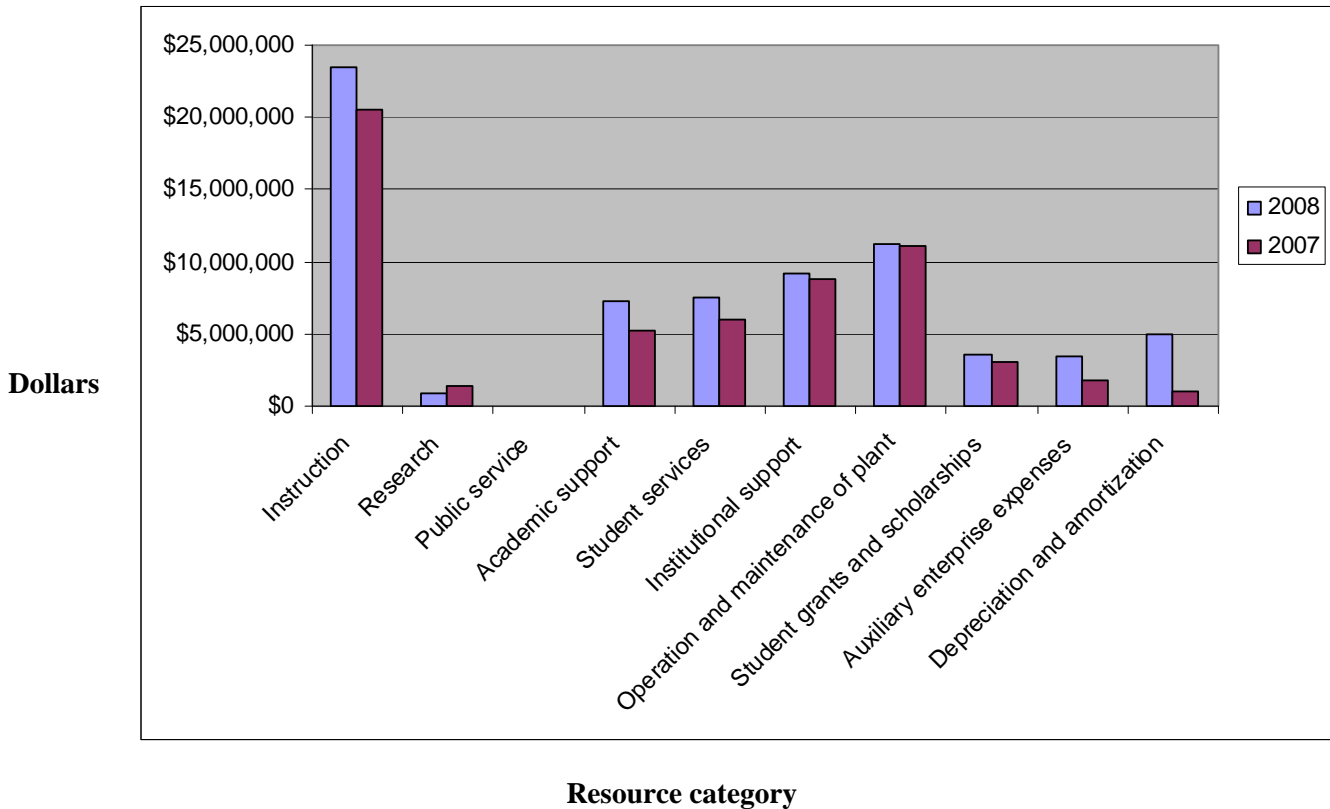
June 30, 2008

(Unaudited)

directly support students, academic support, and instruction. This accounts for \$1.3 million related to salary and benefit expenses. The balance of the \$0.7 million is an increase in supplies and services primarily related to the library. Auxiliary enterprise expenses increased by \$1.7 million. Housing enterprise expenses increased due to the opening of Santa Cruz Village (800 beds), which translates into significant additional costs in upkeep and maintenance. There were also a number of staff positions that had been unfilled until late in fiscal year 2007, so student housing has been fully staffed for most of 2008. Parking enterprises added two new parking lots this year and there was also additional maintenance and staff required for their upkeep. Student services expenses increased by \$1.5 million. As the student population grows the University continues to provide more services to students in enrollment services, admissions, and in campus support such as disability accommodations.

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

**Comparative Distribution of Resources for fiscal years ended 2008 and 2007**



***Nonoperating Revenues (Expenses)***

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

# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Management's Discussion and Analysis

June 30, 2008

(Unaudited)

As the University is part of the California State University System, which is an agency of the State of California (the State), the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$57.5 million for the fiscal year ended June 30, 2008, up from \$7.5 million for the fiscal year ended June 30, 2007. General (noncapital) appropriation revenues totaled \$47.4 million, an increase of \$6.0 million from the prior year. This increase is in line with the enrollment growth funding allocated through the Chancellor's Office. Gifts, noncapital, increased by \$0.4 million primarily due to individuals donating \$5,000 of small equipment for the nursing labs at the University and individuals and small companies donating office furniture and other unique items. Additionally, a courtyard in the Bell Tower building was renovated this year with donated materials and labor and the campus received a grant from R.A. Bianchi & Associates for consulting services. Investment income was \$1.8 million, a decrease of \$3.0 million, or 63.3%, from prior year, which corresponds to the decrease in the University's investment balance of \$24.4 million, or 47.0%. Additionally, the weakening of the U.S. economy lowered investment returns. Interest expense was \$3.6 million, a decrease of \$1.3 million, or 25.9%, as the University capitalized more interest into construction work in progress than in prior year with the construction of the library and Santa Cruz Village.

### Capital Assets and Long-Term Debt Obligations

#### *Capital Assets*

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

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
Land and land improvements	\$ 31,732,078	31,732,078
Works of art and historical treasures	411,760	411,760
Buildings and building improvements	142,783,297	42,322,416
Improvements, other than buildings	1,049,762	49,304
Infrastructure	3,538,468	3,301,786
Personal property	8,408,447	6,715,581
Intangible assets	263,321	158,275
Construction work in progress	7,211,031	79,194,318
Total capital assets, net of accumulated depreciation	<u>\$ 195,398,164</u>	<u>163,885,518</u>

Capital assets, net increased \$31.5 million primarily due to \$44.2 million of current year additions that are offset by \$7.8 million of disposals and \$4.9 million in current year depreciation expense. The additions consisted of the library and housing being completed, infrastructure programs, numerous building improvements, and library books.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

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(Unaudited)

Major capital projects expenditures during fiscal year 2008 are as follows (in thousands):

Santa Cruz Village Housing	\$ 17,000
Library	12,500
Land	7,000
	<u>36,500</u>
	<u>\$ 36,500</u>

Capital asset construction commitments at June 30, 2008 totaled \$46.8 million.

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

***Long-Term Debt Obligations***

At June 30, 2008 and 2007, the University had \$124.7 million and \$125.0 million, respectively, in long-term debt outstanding. Debt outstanding at June 30, 2008 and 2007 is summarized below by type of debt instrument:

	<b>June 30</b>	
	<u>2008</u>	<u>2007</u>
Systemwide revenue bonds	\$ 119,540,000	119,875,000
Campus-originated debt	1,818,427	1,860,313
Capitalized leases	185,235	75,194
Total	121,543,662	121,810,507
Unamortized bond premium	3,128,349	3,235,312
Total long-term debt	124,672,011	125,045,819
Less current portion	(1,785,822)	(433,622)
Long-term debt, net of current portion	<u>\$ 122,886,189</u>	<u>124,612,197</u>

The interest rates on outstanding debt range from 2.5% to 5.5%.

***Bond Ratings***

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

# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Management's Discussion and Analysis

June 30, 2008

(Unaudited)

### **Factors Impacting Future Periods**

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2008/2009. The allocation provided to the University is \$48.1 million representing an increase of 1.5% from 2007/2008. The University's allocation is to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and complete deferred maintenance projects.

The University's enrollment target remains unchanged at 2,957 full-time equivalent students for 2008/2009.

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 72% in the California State University's Investment Pool and 28% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

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

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Statement of Net Assets

June 30, 2008

Assets	University	Discretely presented component units	Total
		Auxiliary organizations	
<b>Current assets:</b>			
Cash and cash equivalents	\$ 24,479	1,070,950	1,095,429
Short-term investments	21,384,032	258,062	21,642,094
Accounts receivable, net	1,423,645	422,297	1,845,942
Notes receivable, current portion	110,000	—	110,000
Pledges receivable, net	—	1,834,020	1,834,020
Prepaid expenses and other assets	136,435	15,535	151,970
Total current assets	23,078,591	3,600,864	26,679,455
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents	—	2,925,640	2,925,640
Accounts receivable, net	55,140,584	—	55,140,584
Notes receivable, net of current portion	64,545,000	—	64,545,000
Pledges receivable, net	—	1,710,921	1,710,921
Endowment investments	—	4,985,063	4,985,063
Other long-term investments	6,161,599	4,474,990	10,636,589
Capital assets, net	195,398,164	10,963	195,409,127
Other assets	50,975	—	50,975
Total noncurrent assets	321,296,322	14,107,577	335,403,899
Total assets	344,374,913	17,708,441	362,083,354
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable	3,947,250	416,370	4,363,620
Accrued salaries and benefits payable	2,942,549	—	2,942,549
Accrued compensated absences – current portion	1,966,581	—	1,966,581
Deferred revenue	2,933,372	38,804	2,972,176
Capitalized lease obligations – current portion	66,775	—	66,775
Long-term debt obligations – current portion	1,719,047	—	1,719,047
Other liabilities	1,092,317	43,554	1,135,871
Total current liabilities	14,667,891	498,728	15,166,619
<b>Noncurrent liabilities:</b>			
Accrued compensated absences, net of current portion	968,614	—	968,614
Deferred revenue	—	308,564	308,564
Capitalized lease obligations, net of current portion	118,460	—	118,460
Long-term debt obligations, net of current portion	122,767,729	—	122,767,729
Depository accounts	585,471	12,437	597,908
Total noncurrent liabilities	124,440,274	321,001	124,761,275
Total liabilities	139,108,165	819,729	139,927,894
<b>Net assets:</b>			
Invested in capital assets, net of related debt	74,457,697	10,963	74,468,660
Restricted for:			
Nonexpendable – endowments	—	4,985,063	4,985,063
Expendable:			
Scholarships and fellowships	—	886,294	886,294
Research	—	84,334	84,334
Capital projects	57,810,941	2,469,385	60,280,326
Other	—	7,366,990	7,366,990
Unrestricted	72,998,110	1,085,683	74,083,793
Total net assets	\$ 205,266,748	16,888,712	222,155,460

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

	<u>University</u>	<u>Discretely presented component units Auxiliary organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$2,261,944)	\$ 12,487,132	572,061	—	13,059,193
Grants and contracts, noncapital:				
Federal	475,241	—	—	475,241
State	191,338	—	—	191,338
Local	293,088	—	—	293,088
Nongovernmental	328,113	—	—	328,113
Sales and services of educational activities	—	4,770	—	4,770
Sales and services of auxiliary enterprises (net of scholarship allowances of \$92,609)	6,187,638	40,653	—	6,228,291
Other operating revenues	—	157,931	—	157,931
<b>Total operating revenues</b>	<b>19,962,550</b>	<b>775,415</b>	<b>—</b>	<b>20,737,965</b>
Expenses:				
Operating expenses:				
Instruction	23,519,538	814,543	(141,482)	24,192,599
Research	922,802	20,000	—	942,802
Public service	7,136	32,545	—	39,681
Academic support	7,222,201	182,118	—	7,404,319
Student services	7,503,232	496,933	—	8,000,165
Institutional support	9,163,820	627,406	(1,306,372)	8,484,854
Operation and maintenance of plant	11,282,323	1,318,095	—	12,600,418
Student grants and scholarships	3,538,436	180,249	—	3,718,685
Auxiliary enterprise expenses	3,419,328	—	—	3,419,328
Depreciation and amortization	4,948,136	2,715	—	4,950,851
<b>Total operating expenses</b>	<b>71,526,952</b>	<b>3,674,604</b>	<b>(1,447,854)</b>	<b>73,753,702</b>
<b>Operating loss</b>	<b>(51,564,402)</b>	<b>(2,899,189)</b>	<b>1,447,854</b>	<b>(53,015,737)</b>
Nonoperating revenues (expenses):				
State appropriations, noncapital	47,402,176	—	—	47,402,176
Federal financial aid grants, noncapital	2,887,526	—	—	2,887,526
State and local financial aid grants, noncapital	1,410,070	—	—	1,410,070
Gifts, noncapital	907,800	1,951,042	(141,482)	2,717,360
Investment income, net	1,756,650	192,129	—	1,948,779
Endowment loss, net	—	(263,790)	—	(263,790)
Interest expense	(3,605,457)	—	—	(3,605,457)
Other nonoperating revenues (expenses), net	1,717,458	(757,440)	—	960,018
<b>Net nonoperating revenues</b>	<b>52,476,223</b>	<b>1,121,941</b>	<b>(141,482)</b>	<b>53,456,682</b>
<b>Income (loss) before other additions</b>	<b>911,821</b>	<b>(1,777,248)</b>	<b>1,306,372</b>	<b>440,945</b>
State appropriations, capital	57,454,047	—	—	57,454,047
Grants and gifts, capital	1,306,372	—	(1,306,372)	—
Additions to permanent endowments	—	1,092,604	—	1,092,604
<b>Increase (decrease) in net assets</b>	<b>59,672,240</b>	<b>(684,644)</b>	<b>—</b>	<b>58,987,596</b>
Net assets:				
Net assets at beginning of year	145,594,508	17,573,356	—	163,167,864
Net assets at end of year	\$ 205,266,748	16,888,712	—	222,155,460

See accompanying notes to financial statements.



**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Statement of Cash Flows

Year ended June 30, 2008

	<b>University</b>
Cash flows from operating activities:	
Student tuition and fees	\$ 13,486,396
Federal grants and contracts	624,978
State grants and contracts	240,676
Local grants and contracts	293,088
Nongovernmental grants and contracts	328,113
Payments to suppliers	(14,876,228)
Payments to employees	(49,054,714)
Payments to students	(3,551,251)
Sales and services of auxiliary enterprises	5,678,421
Other receipts	2,751
Net cash used in operating activities	(46,827,770)
Cash flows from noncapital financing activities:	
State appropriations	47,409,903
Federal financial aid grants	2,887,526
State and local financial aid grants	1,410,070
Gifts and grants received for other than capital purposes	766,318
Other	1,661,567
Net cash provided by noncapital financing activities	54,135,384
Cash flows from capital and related financing activities:	
State appropriations	9,015,073
Acquisition of capital assets	(36,913,966)
Principal paid on capital debt and leases	(414,036)
Interest paid on capital debt and leases	(6,187,003)
Net cash used in capital and related financing activities	(34,499,932)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	70,744,520
Purchases of investments	(43,962,156)
Investment income received	236,042
Net cash provided by investing activities	27,018,406
Net decrease in cash and cash equivalents	(173,912)
Cash and cash equivalents at beginning of year	198,391
Cash and cash equivalents at end of year	\$ 24,479

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Statement of Cash Flows

Year ended June 30, 2008

	<b>University</b>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (51,564,402)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	4,948,136
Change in assets and liabilities:	
Accounts receivable, net	(170,610)
Prepaid expenses and other assets	(125,109)
Accounts payable	(1,573,146)
Salaries and benefits payable	369,831
Accrued compensated absences	431,585
Deferred revenue	799,372
Depository accounts	585,471
Other liabilities	(528,898)
Net cash used in operating activities	\$ (46,827,770)
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 1,306,372
Acquisition of capital asset through capital lease	226,520
Change in accrued capital asset costs (purchased but unpaid at year-end)	(4,179,929)
Gifts in kind	141,482
Amortization of bond premium	106,963

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2008

### (1) Organization

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

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

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

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

<b>June 30, 2008</b>	<b>Total auxiliary organizations</b>
Current assets	\$ 3,600,864
Capital assets, net	10,963
Other noncurrent assets	14,096,614
Total assets	\$ <u>17,708,441</u>
Current liabilities	\$ 498,728
Noncurrent liabilities	321,001
Total liabilities	\$ <u>819,729</u>
Invested in capital assets, net of related debt	\$ 10,963
Restricted	15,792,066
Unrestricted	1,085,683
Total net assets	\$ <u>16,888,712</u>
<b>Year ended June 30, 2008</b>	<b>Total auxiliary organizations</b>
Operating revenues:	
Student tuition and fees, net	\$ 572,061
Sales and services of auxiliary enterprises, net	40,653
Other	162,701
Total operating revenues	<u>775,415</u>
Operating expenses:	
Instruction	814,543
Research	20,000
Public service	32,545
Academic support	182,118
Student services	496,933
Institutional support	627,406
Operation and maintenance of plant	1,318,095

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

<u>Year ended June 30, 2008</u>	<u>Total auxiliary organizations</u>
Student grants and scholarships	\$ 180,249
Depreciation and amortization	2,715
Total operating expenses	<u>3,674,604</u>
Operating loss	(2,899,189)
Net nonoperating revenues	<u>1,121,941</u>
Loss before other additions	(1,777,248)
Additions to permanent endowments	<u>1,092,604</u>
Decrease in net assets	(684,644)
Beginning net assets, June 30, 2007	<u>17,573,356</u>
Ending net assets, June 30, 2008	\$ <u><u>16,888,712</u></u>

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

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

# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2008

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

**(d) *Classification of Current and Noncurrent Assets (other than Investments) and Liabilities***

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

**(e) *Cash and Cash Equivalents***

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

**(f) *Investments***

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

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

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

**(g) Capital Assets**

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

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

Capitalized interest, net of related investment income at June 30, 2008 is as follows:

Interest expense capitalized for construction projects	\$ 3,054,148
Investment income related to unspent bond proceeds for construction	<u>(828,938)</u>
Capitalized interest, net of related investment income	<u><u>\$ 2,225,210</u></u>

**(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:

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

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

## CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

### Notes to Financial Statements

June 30, 2008

**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.

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

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

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

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

**(l) *Internal Services Activities***

Certain institutional internal providers offer goods and services to University departments, as well as to their external customers. These include activities such as copy centers, postal services, and telecommunications. All internal service activities to University departments have been eliminated in



# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2008

the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

**(m) *Income Taxes***

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

**(n) *New Accounting Pronouncements***

On July 1, 2007, the University adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs. The University participates in a postretirement healthcare program sponsored by the State administered by the California Public Employees' Retirement System (CalPERS). The State provides medical and prescription drug (healthcare benefits) to retired statewide employees, including retirees from the University (OPEB Plan). Currently, the majority of the University's retiree premium payments are paid by the State and not reflected within the University's financial statements. The OPEB liability and expense related to GASB Statement No. 45 for the System has been reported in the System's consolidated financial statements. The accrued OPEB liability and expense for the System are not a liability of, and are not allocated to the University. See note 10 for a description of the OPEB plan.

On July 1, 2007, the University adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets*, which requires additional disclosures related to pledged future revenues. The University has pledged future housing and parking revenues, net of specified operating expense, to repay Systemwide Revenue Bonds. The bonds are payable solely from housing and parking net revenues. The California State University Channel Islands Site Authority is responsible for repayment of bond issued for the University's library. See note 8(b) for further details.

**(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.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

**(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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Total cash and cash equivalents	\$ 24,479
Short-term investments	21,384,032
Other long-term investments	<u>6,161,599</u>
Total investments	<u>27,545,631</u>
Total cash, cash equivalents, and investments	<u><u>\$ 27,570,110</u></u>

**(a) Cash and Cash Equivalents**

At June 30, 2008, cash and cash equivalents of \$24,479 consisted of cash on hand and petty cash.

**Custodial Credit Risk for Deposits**

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

**(b) Investments**

At June 30, 2008, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the University's various funds and programs.

**Investment Policy**

State law and regulations require that surplus 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

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

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 long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2008 is presented in the table on the following page.

**Credit Risk**

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

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

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 7,392	0.00	\$ 7,392	—	—	—	—
Commercial paper	5,026,399	0.05	—	—	5,026,399	—	—
Certificates of deposit	4,270,273	0.13	—	—	4,270,273	—	—
Repurchase agreements	470,709	0.50	—	—	470,709	—	—
U.S. agency securities	2,457,759	1.17	2,082,036	—	375,723	—	—
Corporate and fixed income securities	6,849,412	1.68	2,112,185	2,258,240	2,316,487	57,147	105,353
State of California Surplus Money Investment Fund	7,757,037	0.58	—	—	—	—	7,757,037
Mortgage-backed securities	659,617	11.97	659,617	—	—	—	—
<b>Total</b>	<b>27,498,598</b>		<b>\$ 4,861,230</b>	<b>2,258,240</b>	<b>12,459,591</b>	<b>57,147</b>	<b>7,862,390</b>
Not subject to ratings:							
U.S. Treasury securities	47,033	5.65					
<b>Total investments</b>	<b>\$ 27,545,631</b>						

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

**Concentration of Credit Risk**

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2008, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank bonds and mortgage-backed securities totaling \$1,386,778 (5.0%).

**Risk and Uncertainties**

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

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

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

**(4) Accounts Receivable**

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 4,994	55,140,584	55,145,578
Auxiliary organizations	156,145	—	156,145
Student accounts	195,845	—	195,845
Government grants and contracts	38,130	—	38,130
Other	1,050,242	—	1,050,242
	<u>1,445,356</u>	<u>55,140,584</u>	<u>56,585,940</u>
Less allowance for doubtful accounts	<u>(21,711)</u>	<u>—</u>	<u>(21,711)</u>
Total	<u>\$ 1,423,645</u>	<u>55,140,584</u>	<u>56,564,229</u>

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

**(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 the library. The proceeds from the issuance of the Systemwide Revenue Bonds, Series 2005A were used to finance such facilities. The note receivable bears interest at rates ranging from 3.0% 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.

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

Fiscal year ending:		
2009	\$	110,000
2010		255,000
2011		395,000
2012		440,000
2013		560,000
Thereafter		<u>62,895,000</u>
Total note receivable		64,655,000
Less current portion		<u>(110,000)</u>
Long-term note receivable, net of current portion	\$	<u><u>64,545,000</u></u>

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

**(6) Capital Assets**

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

	<b>Balance, June 30, 2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance, June 30, 2008</b>
Nondepreciable capital assets:					
Land and land improvements	\$ 31,732,078	7,700,000	(7,700,000)	—	31,732,078
Works of art and historical treasures	411,760	—	—	—	411,760
Construction work in progress	79,194,318	22,725,204	(25,550)	(94,682,941)	7,211,031
<b>Total nondepreciable capital assets</b>	<b>111,338,156</b>	<b>30,425,204</b>	<b>(7,725,550)</b>	<b>(94,682,941)</b>	<b>39,354,869</b>
Depreciable capital assets:					
Buildings and building improvements	51,081,248	10,479,630	—	93,351,774	154,912,652
Improvements, other than buildings	572,619	91,726	—	948,222	1,612,567
Infrastructure	5,010,214	199,582	—	382,945	5,592,741
Personal property:					
Equipment	7,714,219	2,332,814	(79,412)	—	9,967,621
Library books and materials	3,044,140	520,261	—	—	3,564,401
Intangible assets	372,974	168,472	—	—	541,446
<b>Total depreciable capital assets</b>	<b>67,795,414</b>	<b>13,792,485</b>	<b>(79,412)</b>	<b>94,682,941</b>	<b>176,191,428</b>
<b>Total cost</b>	<b>179,133,570</b>	<b>44,217,689</b>	<b>(7,804,962)</b>	<b>—</b>	<b>215,546,297</b>
Less accumulated depreciation:					
Buildings and building improvements	\$ (8,758,832)	(3,370,523)	—	—	(12,129,355)
Improvements, other than buildings	(523,315)	(39,490)	—	—	(562,805)
Infrastructure	(1,708,428)	(345,845)	—	—	(2,054,273)
Personal property:					
Equipment	(2,688,167)	(791,514)	48,055	—	(3,431,626)
Library books and materials	(1,354,611)	(337,338)	—	—	(1,691,949)
Intangible assets	(214,699)	(63,426)	—	—	(278,125)
<b>Total accumulated depreciation</b>	<b>(15,248,052)</b>	<b>(4,948,136)</b>	<b>48,055</b>	<b>—</b>	<b>(20,148,133)</b>
<b>Net capital assets</b>	<b>\$ 163,885,518</b>	<b>39,269,553</b>	<b>(7,756,907)</b>	<b>—</b>	<b>195,398,164</b>

During the year ended June 30, 2008, the University entered into an agreement with an unrelated third party to exchange land recorded at \$7.7 million on the books of the University for land adjacent to the University that was needed for a parking lot. The transaction was recorded at the book value of the land held by the University, as the University does not expect significant changes in the cash flows related to the land received compared to the land exchanged.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

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

**(7) Lease Obligations**

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$220,329 at June 30, 2008. 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 2011.

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

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2009	\$ 73,452	360,905
2010	64,898	363,800
2011	59,839	111,483
2012	—	35,702
Total minimum lease payments	<u>198,189</u>	<u>\$ 871,890</u>
Less amount representing interest	<u>(12,954)</u>	
Present value of future minimum lease payments	185,235	
Less current portion	<u>(66,775)</u>	
Capital lease obligations, net of current portion	<u>\$ 118,460</u>	

Rent expense under operating leases for the year ended June 30, 2008 totaled \$353,379.

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

## CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

### Notes to Financial Statements

June 30, 2008

#### (8) Long-Term Debt Obligations

##### (a) *General Obligation Bond Program*

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the System, and the Community Colleges. Financing provided to the University through State General Obligation Bonds is not allocated to the System by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the State related to System projects is approximately \$1,494,093,000 as of June 30, 2008.

##### (b) *Revenue Bond Programs*

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

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

The student union program provides facilities and programs aimed at creating and enhancing learning experiences outside the classroom by promoting interaction among students, faculty, and staff. The student union program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for maintenance and repair, 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, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after



# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2008

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

The University participates in the SRB program and its allocated share of outstanding SRB debt as of June 30, 2008 is \$119,540,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking and student union revenues, plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$2,804,033,000 in Systemwide Revenue Bonds issued through fiscal year 2008. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2044/2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$4,939,829,000. In fiscal year 2008, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$148,395,000 and \$213,695,000, respectively.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

June 30, 2008

Long-term debt obligations of the University as of June 30, 2008 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 at June 30</u>
Systemwide revenue bonds:				
SRB 2004A Housing	2.5% — 5.25%	2034/2035	\$ 18,490,000	17,525,000
SRB 2005A Auxiliary Organization	3.0% — 5.0%	2037/2038	57,385,000	57,385,000
SRB 2005A Auxiliary Organization	3.0% — 5.0%	2037/2038	7,270,000	7,270,000
SRB 2007A Housing	4.0% — 5.0%	2037/2038	36,725,000	36,725,000
SRB 2007A Parking	4.0% — 5.0%	2031/2032	635,000	635,000
Other:				
Camrosa Water District California State University Risk Management Authority Loan	5.5%	2020/2021	938,020	818,427
	2.5%	2008	1,000,000	<u>1,000,000</u>
Total				121,358,427
Unamortized bond premium, net				<u>3,128,349</u>
Total long-term debt				124,486,776
Less current portion				<u>(1,719,047)</u>
Long-term debt, net of current portion				<u>\$ 122,767,729</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 1,719,047	5,933,051	7,652,098
2010	1,020,646	5,837,914	6,858,560
2011	1,288,503	5,793,095	7,081,598
2012	1,471,521	5,740,802	7,212,323
2013	1,719,709	5,678,102	7,397,811
2014 – 2018	11,883,030	26,929,898	38,812,928
2019 – 2023	17,675,971	23,209,957	40,885,928
2024 – 2028	22,570,000	18,229,496	40,799,496
2029 – 2033	28,920,000	11,841,023	40,761,023
2034 – 2038	33,090,000	3,990,120	37,080,120
	<u>\$ 121,358,427</u>	<u>113,183,458</u>	<u>234,541,885</u>

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

Notes to Financial Statements

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

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

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 2,503,610	2,223,349	(1,791,764)	2,935,195	1,966,581
Capitalized lease obligations (note 7)	75,194	226,520	(116,479)	185,235	66,775
Long-term debt obligations (note 8):					
Systemwide revenue bonds	119,875,000	—	(335,000)	119,540,000	675,000
Other	1,860,313	—	(41,886)	1,818,427	1,044,047
Total	121,735,313	—	(376,886)	121,358,427	1,719,047
Unamortized bond premium	3,235,312	—	(106,963)	3,128,349	—
Total long-term debt obligations	124,970,625	—	(483,849)	124,486,776	1,719,047
Total long-term liabilities	\$ <u>127,549,429</u>	<u>2,449,869</u>	<u>(2,392,092)</u>	<u>127,607,206</u>	<u>3,752,403</u>

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

**(a) Pension Plan**

**Plan Description**

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

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

All University retirees that retire within 120 days of their separation from employment, have been eligible for enrollment in a CalPERS medical plan on their date of separation, and receive a

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

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retirement allowance from CalPERS are eligible for retirement health benefits through CalPERS, which include medical and dental coverage. The retiree's family members can also be covered by the plan and eligible dependents include his or her spouse, domestic partner, children under age 23 and never married, and disabled children over age 23. The monthly out-of-pocket enrollment cost to the retiree for medical coverage will depend on which plan and the level of coverage the retiree chooses.

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

**Funding Policy**

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

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

2006	\$	3,629,074
2007		4,551,697
2008		5,416,263

**(b) Postretirement Healthcare Plan**

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

**Plan Description**

The State provides retiree healthcare benefits to statewide employees, including University employees, through the programs administered by CalPERS. The State's substantive plan represents a single-employer defined benefit OPEB plan which includes medical and prescription drug benefits (collectively healthcare benefits) to the retired University employees. The System provides dental

## CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

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benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with five years of service credit.

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

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

#### **Funding Policy, Funded Status, and Funding Progress**

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

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

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

#### **Annual OPEB Cost and Net OPEB Obligation**

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

#### **Actuarial Methods and Assumptions**

As an agency of the State, the University was included in the State's OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controllers Office and allocated

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

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to the System. The dental portion of the ARC for the nonbillable accounts was estimated based on the percentage of dental contributions compared to the total contributions. Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended 2008.

**(11) Self-Insurance Program**

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

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

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

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

Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF. The CSURMA remains liable for assessments from SELF in settlement of claims

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS**

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incurred prior to July 1, 2004. For the years ended June 30, 2008 and 2007, this assessment totaled \$19,834,000 and \$17,509,000, respectively.

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2008 was approximately 1%, or \$825,000. 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, 2008. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

**(12) Commitments and Contingencies**

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

Contractual commitments for construction projects unexpended as of June 30, 2008 totaled \$46,757,253. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

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

**(13) Classification of Operating Expenses**

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

<u>2008</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 15,536,659	5,633,636	—	2,349,243	—	23,519,538
Research	480,698	132,476	—	309,628	—	922,802
Public service	7,136	—	—	—	—	7,136
Academic support	4,282,399	1,472,656	—	1,467,146	—	7,222,201
Student services	4,192,488	1,522,538	—	1,788,206	—	7,503,232
Institutional support	5,142,855	1,387,295	—	2,633,670	—	9,163,820
Operation and maintenance of plant	6,447,588	2,141,335	—	2,693,400	—	11,282,323
Student grants and scholarships	—	—	3,538,436	—	—	3,538,436
Auxiliary enterprise expenses	1,145,246	334,552	—	1,939,530	—	3,419,328
Depreciation and amortization	—	—	—	—	4,948,136	4,948,136
Total	\$ <u>37,235,069</u>	<u>12,624,488</u>	<u>3,538,436</u>	<u>13,180,823</u>	<u>4,948,136</u>	<u>71,526,952</u>

# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2008

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

### **(14) Transactions with Related Entities**

The System is an agency of the State and receives more than half of its total revenues through state appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$104,856,223 for the year ended June 30, 2008. State appropriations receivable aggregated \$55,145,578 at June 30, 2008. The University also received lottery fund distributions from the State in the amount of \$130,000 for the year ended June 30, 2008, which is included in other nonoperating revenues (expense), net in the accompanying statement of revenues, expenses, and changes in net assets.

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

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

As discussed in notes 7 and 8, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2008, no such additions of capital assets are included in the accompanying financial statements.



# CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

## Notes to Financial Statements

June 30, 2008

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

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 160,498
Gifts-in-kind to the University from recognized auxiliary organizations	1,447,864
Payments to the Office of the Chancellor for State pro rata charges	146,459
Amounts receivable from the Office of the Chancellor	846,607
Payments to the Office of the Chancellor for administrative activities	119,018
Amounts receivable from recognized auxiliary organizations	156,145

### (15) Subsequent Events

In March 2007, a \$1,000,000 loan was issued to the University from CSURMA to fund the design phase for the University's Student Union. This loan was repaid with interest of \$67,472 in September 2008.

In July 2008, a \$14.8 million Revenue Bond Anticipation Note was authorized for the construction of the Student Union. In September 2008, \$8.6 million of commercial paper was issued, leaving an unissued amount of \$6.2 million. The proceeds from the Revenue Bond Anticipation Note are expected to be paid with proceeds from Proposition 1D money in the third quarter of 2009.

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 72% in the California State University's Investment Pool and 28% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

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