



CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

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KPMG LLP
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Los Angeles, CA 90071-1568

Independent Auditors' Report

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

We have audited the accompanying financial statements of the California State University Channel Islands (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the three discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 3 through 11 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

February 4, 2008

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2007

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, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

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

Analytical Overview

Summary

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities, exclusive of any auxiliary 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, 2007

The University's condensed summary of net assets as of June 30, 2007 and 2006 is as follows:

Condensed Summary of Net Assets

	June 30	
	<u>2007</u>	<u>2006</u>
Assets:		
Current assets	\$ 25,295,106	8,577,166
Capital assets	163,885,518	108,704,034
Other noncurrent assets	<u>100,203,500</u>	<u>145,033,902</u>
Total assets	<u>289,384,124</u>	<u>262,315,102</u>
Liabilities:		
Current liabilities	18,950,650	41,598,363
Long-term debt obligations, net of current portion	123,593,740	84,513,247
Other noncurrent liabilities	<u>1,245,226</u>	<u>1,174,595</u>
Total liabilities	<u>143,789,616</u>	<u>127,286,205</u>
Net assets:		
Invested in capital assets, net of related debt	66,423,540	66,169,984
Restricted, expendable	7,978,105	1,212,551
Unrestricted	<u>71,192,863</u>	<u>67,646,362</u>
Total net assets	<u>\$ 145,594,508</u>	<u>135,028,897</u>

Assets

Current assets increased by \$16.7 million primarily as a result of an increase of an \$18.9 million increase in investments. The increase in investments is comprised of a \$10.8 million increase related to the collection of student fees, which the University was previously required to deposit with the State of California, (recent legislation allows for the University to deposit these funds directly into a local bank account) and an \$8.1 million increase related to debt service payments to made in the next fiscal year. These increases were offset by a \$1.4 million decrease in cash related to the above referenced legislation, a \$0.5 million decrease in various accounts receivables, and a \$0.3 million decrease in miscellaneous prepaid expenses and other current assets.

The \$55.2 million increase in capital assets is due to two large construction projects, which were substantially complete as of June 30, 2007. These two projects are Santa Cruz Village – scheduled for completion in August 2007 and the John Spoor Broome library – scheduled for completion in February 2008. Capital construction is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System. General obligation bonds are not reflected in the accompanying financial statements because the state assumes the liability and the debt.

The \$44.8 million decrease in other noncurrent assets is primarily due to a decrease in long-term investments from proceeds on the Systemwide Revenue Bonds. These proceeds were spent on the two construction projects listed above.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2007

Liabilities

The \$16.5 million increase in total liabilities from the prior year is primarily due to a \$7.6 million increase in long-term debt obligations as a result of a current year conversion of a Revenue Bond Anticipation Note (BAN), which partially funded construction on the Santa Cruz Village housing project, to a Systemwide Revenue Bond, which covered all construction costs for Santa Cruz Village, and a \$5.6 million increase in accounts payable primarily related to the construction projects.

Net Assets

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of \$10.6 million from the prior year is primarily related to an increase of \$5.7 million in state appropriations for capital projects and an increase in investment income of \$2.0 million from investments made to the University's local bank account, neither of which has yet been spent but will be spent for various construction projects next fiscal year.

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

	June 30	
	2007	2006
Expendable:		
Capital projects	\$ 4,446,211	1,212,551
Debt service	3,531,894	—
Total restricted net assets – expendable	<u>\$ 7,978,105</u>	<u>1,212,551</u>

The \$6.8 million increase in restricted net assets – expendable relates to an increase in state appropriations capital projects of \$5.7 million, not all of which has been spent as of June 30, 2007, and an establishment of a reserve for debt service.

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Management's Discussion and Analysis

June 30, 2007

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006 is as follows:

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

	Year ended June 30	
	2007	2006
Operating revenues:		
Student tuition and fees, net	\$ 8,592,617	7,633,662
Grants and contracts	4,651,048	3,499,760
Sales and services of auxiliary enterprises, net	4,391,724	3,395,790
	17,635,389	14,529,212
Operating expenses	(58,910,318)	(53,201,018)
Operating loss	(41,274,929)	(38,671,806)
Nonoperating revenues (expenses):		
State appropriations, noncapital	41,396,024	34,229,640
Investment income, net	4,791,914	2,820,882
Other nonoperating expenses, net	(2,537,536)	(1,357,572)
Net nonoperating revenues	43,650,402	35,692,950
Income (loss) before other additions	2,375,473	(2,978,856)
State appropriations, capital	7,516,485	1,791,000
Grants and gifts, capital	673,653	847,803
Increase (decrease) in net assets	10,565,611	(340,053)
Beginning net assets	135,028,897	135,368,950
Ending net assets	\$ 145,594,508	135,028,897

Operating Revenues and Expenses

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

Operating Revenues

The University recognized \$17.6 million in operating revenues during this fiscal year, as compared to \$14.5 million in the prior year. This comprised 27.6% and 28.2% of total revenues for the years ended June 30, 2007 and 2006, respectively. Grants and contracts revenue increased \$1.2 million due to an increase in federal and state contracts awarded to the University primarily relating to student financial aid. Sales and services of

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Management's Discussion and Analysis

June 30, 2007

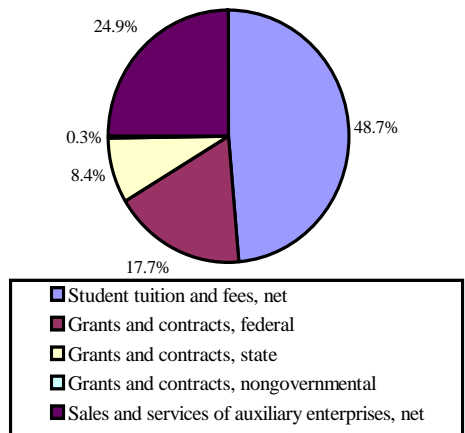
auxiliary enterprises increased by \$1.0 million primarily due to summer conference revenue, fines and fees to students for repairs, and additional parking permits sold to faculty, staff, and students.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2007 and 2006:

Operating Revenue

Year ended June 30, 2007

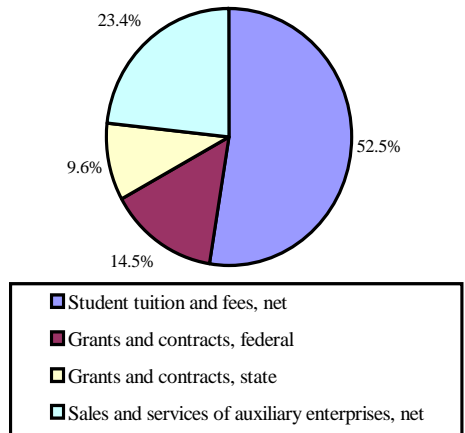
Student tuition and fees, net	\$ 8,592,617	48.7%
Grants and contracts, noncapital:		
Federal	3,112,426	17.7
State	1,480,106	8.4
Nongovernmental	58,516	0.3
Sales and services of auxiliary enterprises, net	<u>4,391,724</u>	<u>24.9</u>
Total operating revenue	<u>\$ 17,635,389</u>	<u>100.0%</u>



Operating Revenue

Year ended June 30, 2006

Student tuition and fees, net	\$ 7,633,662	52.5%
Grants and contracts, noncapital:		
Federal	2,108,482	14.5
State	1,391,278	9.6
Sales and services of auxiliary enterprises, net	<u>3,395,790</u>	<u>23.4</u>
Total operating revenue	<u>\$ 14,529,212</u>	<u>100.0%</u>



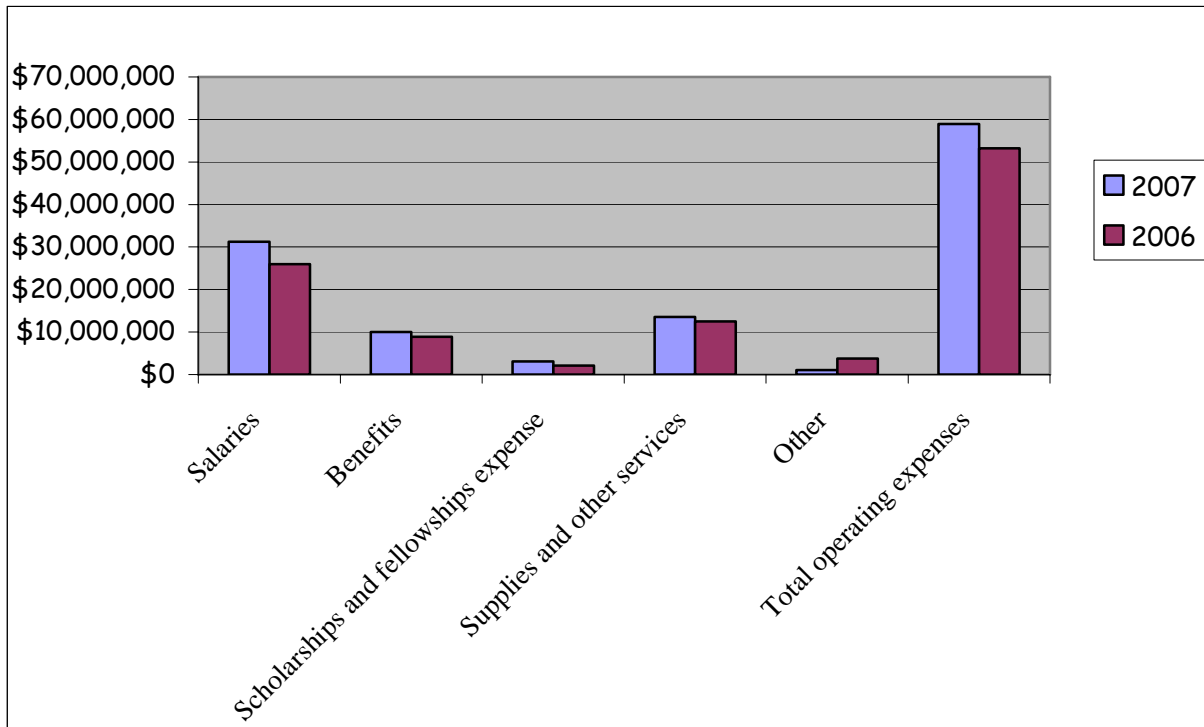
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Management's Discussion and Analysis

June 30, 2007

Operating Expenses

The University's operating expenses consist of salaries and fringe benefits of \$41.3 million, supplies and other services of \$13.5 million, scholarships and fellowships of \$3.1 million, and depreciation and amortization of \$1.0 million. Total operating expenses, excluding depreciation, increased by \$8.4 million, or 17.0%, primarily due to an increase of salaries and benefits costs of \$6.4 million, which is due to salary rate increases and health and retirement benefit increases for all employees. Included in this increase is the University's contribution to the California Employees' Retirement System (CalPERS), which increased \$923,000, or 25.4%. Student grants and scholarships increased by \$1.0 million. While the percentage of students receiving aid remained consistent at approximately 37.0%, enrollment increased by 20.5%. Expenses related to supplies and other services increased by \$1.0 million.



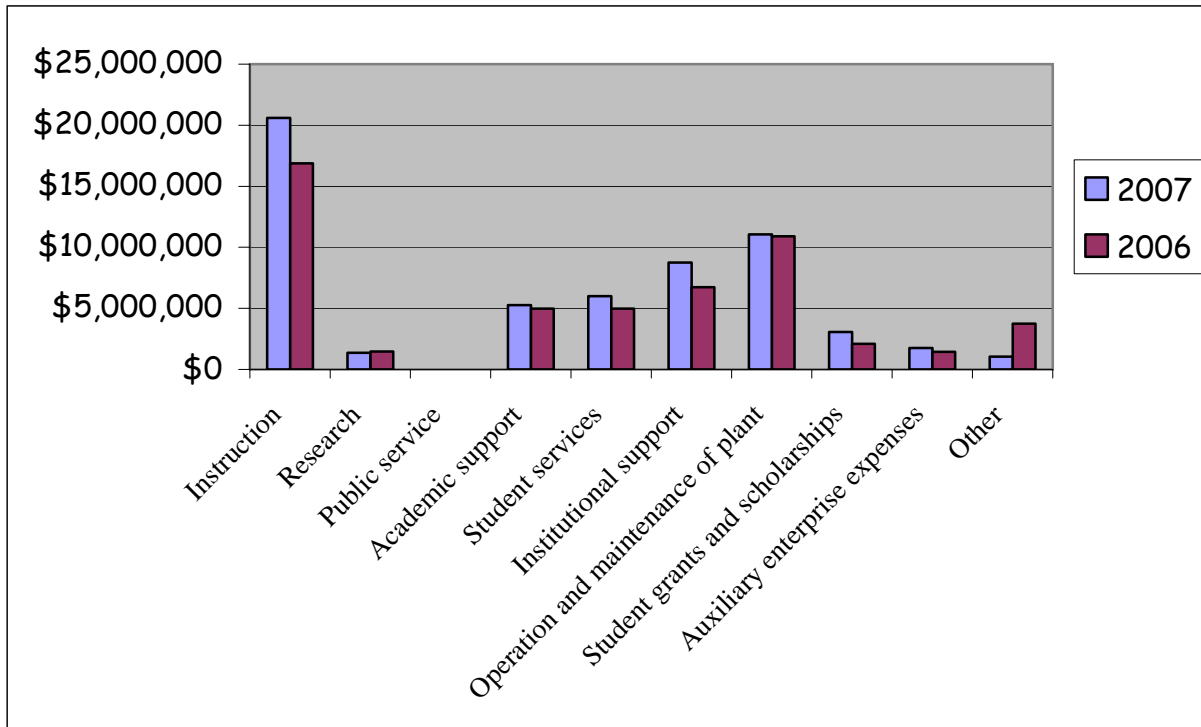
When looking at expenses by function, instruction increased by \$3.7 million because the University offered more courses and hired more faculty to teach the student body, which had increased by 20.5%. Student services increased by \$1.0 million as a result of hiring additional staff. Institutional support increased by \$2.0 million, primarily attributable to increases in several campus contracts including utilities, insurance, and campus bus services, as well as by general salary increases.

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Management's Discussion and Analysis

June 30, 2007

The following chart presents the distribution of expenses in support of the University's mission for fiscal years 2007 and 2006:



Nonoperating and Other Revenues (Expenses)

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

The University is part of the California State University System, which is an agency of the State of California and the University's operations are funded primarily from appropriations of state revenues. Appropriations used for purposes of acquisition of capital assets totaled \$7.5 million for the fiscal year ended June 30, 2007, up from \$1.8 million for the fiscal year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$41.4 million, an increase of \$7.2 million from the prior year.

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Management's Discussion and Analysis

June 30, 2007

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2007	2006
Land and land improvements	\$ 31,732,078	31,732,078
Works of art and historical treasures	411,760	411,760
Buildings and building improvements	42,322,416	41,189,296
Improvements, other than buildings	49,304	39,244
Infrastructure	3,301,786	2,206,810
Personal property	6,715,581	6,440,671
Intangible assets	158,275	57,975
Construction work in progress	79,194,318	26,626,200
Total capital assets, net of accumulated depreciation	<u>\$ 163,885,518</u>	<u>108,704,034</u>

At June 30, 2007 and 2006, the University had \$163.9 million and \$108.7 million, respectively, in capital assets, net of accumulated depreciation of \$15.2 million and \$14.6 million, respectively.

The University had two major capital projects during the year. These projects were the construction of the John Spoor Broome library and the Santa Cruz Village (student resident hall) both funded by Systemwide Revenue Bonds. Future principal and interest payments for the John Spoor Broome library will be provided by the California State University, Channel Islands Site Authority. The principal and interest payments for Santa Cruz Village will be provided from net student housing fees.

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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2007

Long-Term Debt Obligations

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

	June 30	
	2007	2006
Systemwide Revenue Bonds	\$ 119,875,000	82,835,000
Revenue Bond Anticipation Notes	—	29,754,000
Campus originated debt	860,313	1,410,663
Capitalized leases	75,194	157,035
Total	<u>120,810,507</u>	<u>114,156,698</u>
Unamortized bond premium	3,235,312	1,070,487
Total long-term debt	<u>124,045,819</u>	<u>115,227,185</u>
Less current portion	<u>433,622</u>	<u>30,713,938</u>
Long-term debt, net of current portion	<u>\$ 123,612,197</u>	<u>84,513,247</u>

The interest rates on outstanding debt range from 2.50% to 5.50%.

At June 30, 2007 and 2006, the University had \$124.0 million and \$115.2 million, respectively, in long-term debt outstanding. The University issued new long-term bonds during fiscal year 2007 to refinance existing BAN on Santa Cruz Village.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at Aa3 and the Student Union Revenue Bonds at A1 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds at A+ and the Student Union Revenue Bonds at A (however, these bonds are insured to AAA).

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

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2007/2008. The allocation provided to the University is \$48.0 million, an increase of \$6.6 million over fiscal year 2006/2007. The increase is budgeted to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and otherwise provide instructional services to the University's growing student population.

Budgeted full-time equivalent enrollment targets for fiscal years 2007/2008 are 2,957 representing an increase of 26.0 %. This anticipated growth will generate additional revenues of approximately \$2,230,916 to the University.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Net Assets

June 30, 2007

Assets	University	Discretely presented component units Auxiliary organizations	Total
Current assets:			
Cash and cash equivalents	\$ 198,391	1,101,201	1,299,592
Short-term investments	23,144,409	247,979	23,392,388
Accounts receivable, net	1,890,005	935,223	2,825,228
Pledges receivable, net	—	1,921,093	1,921,093
Prepaid expenses and other assets	62,301	10,452	72,753
Total current assets	<u>25,295,106</u>	<u>4,215,948</u>	<u>29,511,054</u>
Noncurrent assets:			
Restricted cash and cash equivalents	—	2,595,738	2,595,738
Accounts receivable, net	6,701,611	—	6,701,611
Note receivable	64,655,000	—	64,655,000
Pledges receivable, net	—	1,718,657	1,718,657
Endowment investments	—	3,950,476	3,950,476
Other long-term investments	28,846,889	6,095,089	34,941,978
Capital assets, net	163,885,518	13,678	163,899,196
Total noncurrent assets	<u>264,089,018</u>	<u>14,373,638</u>	<u>278,462,656</u>
Total assets	<u>289,384,124</u>	<u>18,589,586</u>	<u>307,973,710</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	10,700,325	115,719	10,816,044
Accrued salaries and benefits payable	2,572,718	20,891	2,593,609
Accrued compensated absences – current portion	1,276,841	—	1,276,841
Deferred revenue – current portion	2,134,000	289,377	2,423,377
Capitalized lease obligations – current portion	56,737	—	56,737
Long-term debt obligations – current portion	376,885	—	376,885
Other liabilities	1,833,144	80,364	1,913,508
Total current liabilities	<u>18,950,650</u>	<u>506,351</u>	<u>19,457,001</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	1,226,769	—	1,226,769
Deferred revenue	—	493,469	493,469
Capitalized lease obligations, net of current portion	18,457	—	18,457
Long-term debt obligations, net of current portion	123,593,740	—	123,593,740
Depository accounts	—	16,410	16,410
Total noncurrent liabilities	<u>124,838,966</u>	<u>509,879</u>	<u>125,348,845</u>
Total liabilities	<u>143,789,616</u>	<u>1,016,230</u>	<u>144,805,846</u>
Net assets:			
Invested in capital assets, net of related debt	66,423,540	13,678	66,437,218
Restricted for:			
Nonexpendable – endowments	—	3,950,476	3,950,476
Expendable:			
Scholarships and fellowships	—	1,061,230	1,061,230
Research	—	269,415	269,415
Capital projects	4,446,211	3,116,976	7,563,187
Debt service	3,531,894	—	3,531,894
Other	—	8,114,120	8,114,120
Unrestricted	71,192,863	1,047,461	72,240,324
Total net assets	<u>\$ 145,594,508</u>	<u>17,573,356</u>	<u>163,167,864</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2007

	<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 \$1,652,805)	\$ 8,592,617	498,835	—	9,091,452
Grants and contracts, noncapital:				
Federal	3,112,426	—	—	3,112,426
State	1,480,106	—	—	1,480,106
Nongovernmental	58,516	—	—	58,516
Sales and services of educational activities	—	1,865	—	1,865
Sales and services of auxiliary enterprises (net of scholarship allowances of \$95,942)	4,391,724	141,413	—	4,533,137
Other operating revenues	—	801,310	—	801,310
Total operating revenues	<u>17,635,389</u>	<u>1,443,423</u>	<u>—</u>	<u>19,078,812</u>
Expenses:				
Operating expenses:				
Instruction	20,587,291	618,555	(304,339)	20,901,507
Research	1,370,419	—	—	1,370,419
Public service	6,695	671,135	—	677,830
Academic support	5,256,782	16,386	—	5,273,168
Student services	5,999,680	446,139	—	6,445,819
Institutional support	8,758,089	1,314,360	(673,653)	9,398,796
Operation and maintenance of plant	11,060,572	(1,479)	—	11,059,093
Student grants and scholarships	3,061,521	103,814	—	3,165,335
Auxiliary enterprise expenses	1,766,583	—	—	1,766,583
Depreciation and amortization	1,042,686	1,754	—	1,044,440
Total operating expenses	<u>58,910,318</u>	<u>3,170,664</u>	<u>(977,992)</u>	<u>61,102,990</u>
Operating income (loss)	<u>(41,274,929)</u>	<u>(1,727,241)</u>	<u>977,992</u>	<u>(42,024,178)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	41,396,024	—	—	41,396,024
Gifts, noncapital	481,076	2,129,123	(304,339)	2,305,860
Investment income, net	4,791,914	1,583,260	—	6,375,174
Interest on capital-related debt	(4,863,731)	—	—	(4,863,731)
Other nonoperating revenues, net	1,845,119	—	—	1,845,119
Net nonoperating revenues (expenses)	<u>43,650,402</u>	<u>3,712,383</u>	<u>(304,339)</u>	<u>47,058,446</u>
Income before other additions	2,375,473	1,985,142	673,653	5,034,268
State appropriations, capital	7,516,485	—	—	7,516,485
Grants and gifts, capital	673,653	—	(673,653)	—
Additions to permanent endowments	—	41,644	—	41,644
Increase in net assets	<u>10,565,611</u>	<u>2,026,786</u>	<u>—</u>	<u>12,592,397</u>
Net assets:				
Net assets at beginning of year	<u>135,028,897</u>	<u>15,546,570</u>	<u>—</u>	<u>150,575,467</u>
Net assets at end of year	<u>\$ 145,594,508</u>	<u>17,573,356</u>	<u>—</u>	<u>163,167,864</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Cash Flows

Year ended June 30, 2007

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 8,088,273
Federal grants and contracts	3,099,328
State grants and contracts	1,920,816
Nongovernmental grants and contracts	58,516
Payments to suppliers	(10,599,199)
Payments to employees	(40,542,127)
Payments to students	(2,828,286)
Sales and services of auxiliary enterprises	5,623,034
Other payments	(3,074,291)
Net cash used in operating activities	<u>(38,253,936)</u>
Cash flows from noncapital financing activities:	
State appropriations	42,195,711
Gifts and grants received for other than capital purposes	117,824
Other	47,290,645
Net cash provided by noncapital financing activities	<u>89,604,180</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	39,580,134
State appropriations	2,276,229
Acquisition of capital assets	(52,936,104)
Principal paid on capital debt and leases	(30,726,210)
Interest paid on capital debt and leases	(4,919,039)
Net cash used in capital and related financing activities	<u>(46,724,990)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	112,290,917
Purchases of investments	(122,969,365)
Investment income received	4,692,900
Net cash used in investing activities	<u>(5,985,548)</u>
Net decrease in cash and cash equivalents	(1,360,294)
Cash and cash equivalents at beginning of year	<u>1,558,685</u>
Cash and cash equivalents at end of year	\$ <u><u>198,391</u></u>

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Cash Flows

Year ended June 30, 2007

	University
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (41,274,929)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	1,042,686
Change in assets and liabilities:	
Accounts receivable, net	(3,396,744)
Prepaid expenses and other assets	315,251
Accounts payable	3,040,718
Accrued salaries and benefits	613,812
Accrued compensated absences	130,288
Deferred revenue	1,275,502
Depository accounts	(520)
Net cash used in operating activities	\$ (38,253,936)
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 673,653
Acquisition of capital asset through capital lease	20,019
Construction work in progress acquired from the Office of the Chancellor	172,883
Accrued capital asset costs (purchased but unpaid at year-end)	2,590,070
Gifts in kind	481,706
Amortization of bond premium (discount)	55,309

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

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

The discretely presented auxiliary organizations are as follows:

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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

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

<u>June 30, 2007</u>	California State University Channel Islands Foundation	Other auxiliary organizations	Total
Current assets	\$ 2,624,532	1,591,416	4,215,948
Capital assets, net	—	13,678	13,678
Other noncurrent assets	14,359,960	—	14,359,960
Total assets	<u>16,984,492</u>	<u>1,605,094</u>	<u>18,589,586</u>
Current liabilities	76,340	430,011	506,351
Noncurrent liabilities	493,469	16,410	509,879
Total liabilities	<u>569,809</u>	<u>446,421</u>	<u>1,016,230</u>
Invested in capital assets, net of related debt	—	13,678	13,678
Restricted	15,876,000	636,217	16,512,217
Unrestricted	538,683	508,778	1,047,461
Total net assets	<u>\$ 16,414,683</u>	<u>1,158,673</u>	<u>17,573,356</u>
<u>Year ended June 30, 2007</u>			
Operating revenues:			
Student tuition and fees, net	\$ —	498,835	498,835
Sales and services of auxiliary enterprises, net	141,413	1,865	143,278
Other	99,514	701,796	801,310
Total operating revenues	<u>\$ 240,927</u>	<u>1,202,496</u>	<u>1,443,423</u>

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

Year ended June 30, 2007	California State University Channel Islands Foundation	Other auxiliary organizations	Total
Operating expenses:			
Instruction	\$ 618,555	—	618,555
Public service	363,988	307,147	671,135
Academic support	16,386	—	16,386
Student services	83,764	362,375	446,139
Institutional support	1,040,477	273,883	1,314,360
Operation and maintenance of plant	(1,479)	—	(1,479)
Student grants and scholarships	103,814	—	103,814
Depreciation and amortization	—	1,754	1,754
Total operating expenses	<u>2,225,505</u>	<u>945,159</u>	<u>3,170,664</u>
Operating income (loss)	(1,984,578)	257,337	(1,727,241)
Net nonoperating revenues	<u>3,701,523</u>	<u>10,860</u>	<u>3,712,383</u>
Income before other additions	1,716,945	268,197	1,985,142
Additions to permanent endowments	<u>41,644</u>	—	<u>41,644</u>
Increase in net assets	1,758,589	268,197	2,026,786
Beginning net assets, July 1, 2006	<u>14,656,094</u>	<u>890,476</u>	<u>15,546,570</u>
Ending net assets, June 30, 2007	<u>\$ 16,414,683</u>	<u>1,158,673</u>	<u>17,573,356</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 philanthropy, faculty and staff housing, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2007 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(b) *Basis of Presentation*

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

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

(e) *Cash and Cash Equivalents*

The University considers 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 present auxiliary organizations.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(f) **Investments**

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

(g) **Capital Assets**

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

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

(h) **Deferred Revenue**

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

(i) **Compensated Absences**

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

(j) **Net Assets**

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

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

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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

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.

(k) Classification of Revenues and Expenses

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

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

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

(l) Income Taxes

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

(m) Eliminations

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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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, 2007 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ <u>198,391</u>
Short-term investments	23,144,409
Other long-term investments	<u>28,846,889</u>
Total investments	<u>51,991,298</u>
Total cash and cash equivalents and investments	<u>\$ 52,189,689</u>

(a) Cash and Cash Equivalents

At June 30, 2007, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$198,391 had a corresponding carrying value balance with the State Treasury of \$54,539 at June 30, 2007. The differences related primarily to deposits in transit and outstanding checks.

Custodial Credit Risk for Deposits

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

(b) Investments

At June 30, 2007, the University's investment portfolio consists primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

Investment Policy

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

Interest Rate Risk

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

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, 2007:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds \$	6,235	0.01	—	—	—	6,235
Certificates of deposit	4,975,792	0.38	\$ —	3,649,649	1,326,143	—
Commercial paper	4,886,034	0.01	—	—	4,886,034	—
Mortgage-backed securities	20,575	15.56	20,575	—	—	—
Corporate and fixed income securities	7,347,871	1.42	756,884	3,106,422	3,484,565	—
State of California Surplus Money Investment Fund	34,754,791	0.48	—	—	—	34,754,791
Total investment \$	51,991,298		777,459	6,756,071	9,696,742	34,761,026

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, 2007, there

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

were no investments (other than U.S. Treasury securities, mutual funds, and external investment pools) representing 5% or more of the University's investment portfolio.

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

(4) Accounts Receivable

Accounts receivable at June 30, 2007 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 12,721	6,701,611	6,714,332
Auxiliary organizations	59,748	—	59,748
Student accounts	74,779	—	74,779
Government grants and contracts	236,205	—	236,205
Other	1,551,577	—	1,551,577
	<u>1,935,030</u>	<u>6,701,611</u>	<u>8,636,641</u>
Less allowance for doubtful accounts	(45,025)	—	(45,025)
Total	<u>\$ 1,890,005</u>	<u>6,701,611</u>	<u>8,591,616</u>

(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 John Spoor Broome library. The proceeds from the issuance of the Systemwide Revenue Bonds, Series 2005A were used to finance such facilities. As a result, the University recorded grants and gifts capital revenue in the amount of \$64,655,000 and a corresponding note receivable during the year ended June 30, 2005. The note receivable bears interest ranging from 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. Interest only payments began this current fiscal year with principal and interest payments beginning in 2009.

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

Fiscal year ending:	
2008	\$ —
2009	110,000
2010	255,000
2011	395,000
2012	440,000
Thereafter	<u>63,455,000</u>
Total note receivable	<u>\$ 64,655,000</u>

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(6) Capital Assets

Capital asset activity for the year ended June 30, 2007 consisted of the following:

	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 31,732,078	—	—	—	31,732,078
Works of art and historical treasures	411,760	—	—	—	411,760
Construction work in progress	<u>26,626,200</u>	<u>54,073,961</u>	<u>—</u>	<u>(1,505,843)</u>	<u>79,194,318</u>
Total nondepreciable capital assets	<u>58,770,038</u>	<u>54,073,961</u>	<u>—</u>	<u>(1,505,843)</u>	<u>111,338,156</u>
Depreciable capital assets:					
Buildings and building improvements	50,466,105	615,143	—	—	51,081,248
Improvements, other than buildings	557,170	15,449	—	—	572,619
Infrastructure	3,591,500	599,617	—	819,097	5,010,214
Personal property:					
Equipment	6,920,058	654,964	(620,383)	759,580	7,714,219
Library books and materials	2,769,540	274,600	—	—	3,044,140
Intangible assets	<u>213,979</u>	<u>158,995</u>	<u>—</u>	<u>—</u>	<u>372,974</u>
Total depreciable capital assets	<u>64,518,352</u>	<u>2,318,768</u>	<u>(620,383)</u>	<u>1,578,677</u>	<u>67,795,414</u>
Total cost	<u>123,288,390</u>	<u>56,392,729</u>	<u>(620,383)</u>	<u>72,834</u>	<u>179,133,570</u>
Less accumulated depreciation:					
Buildings and building improvements	(9,276,809)	517,977	—	—	(8,758,832)
Improvements, other than buildings	(517,926)	(5,389)	—	—	(523,315)
Infrastructure	(1,384,690)	(323,738)	—	—	(1,708,428)
Personal property:					
Equipment	(2,185,000)	(882,157)	451,824	(72,834)	(2,688,167)
Library books and materials	(1,063,927)	(290,684)	—	—	(1,354,611)
Intangible assets	<u>(156,004)</u>	<u>(58,695)</u>	<u>—</u>	<u>—</u>	<u>(214,699)</u>
Total accumulated depreciation	<u>(14,584,356)</u>	<u>(1,042,686)</u>	<u>451,824</u>	<u>(72,834)</u>	<u>(15,248,052)</u>
Net capital assets	\$ <u><u>108,704,034</u></u>	<u><u>55,350,043</u></u>	<u><u>(168,559)</u></u>	<u><u>—</u></u>	<u><u>163,885,518</u></u>

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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(7) Lease

(a) Lease Obligations

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$79,009 at June 30, 2007. 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 2010.

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:		
2008	\$ 58,639	89,156
2009	14,164	100,121
2010	5,058	102,994
2011	—	106,019
2012	—	35,693
	<u>77,861</u>	<u>\$ 433,983</u>
Less amount representing interest	<u>(2,667)</u>	
Present value of future minimum lease payments	75,194	
Less current portion	<u>(56,737)</u>	
Capital lease obligation, net of current portion	<u>\$ 18,457</u>	

Rent expense under operating leases for the year ended June 30, 2007 totaled \$46,261 and is recorded in the accompanying statement of revenues, expenses, and changes in net assets as other nonoperating revenues, net.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2007 totaled \$570,858,000.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

(b) Lease Income

The University is the lessor for various facilities used principally for educational purposes. The leases expire at various dates through 2012. Future annual minimum lease rental revenues under noncancelable operating leases are as follows:

Year ending June 30:		
2008	\$	53,943
2009		34,182
2010		18,213
2011		17,754
2012		16,721
		<hr/>
	\$	140,813
		<hr/>

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University System, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,393,141,000 as of June 30, 2007.

(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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2007

contracted with the University to operate the facility. The operating entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income.

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

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

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

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

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$2,302,428,000 at June 30, 2007. The University's portion of the total outstanding balance under this program was \$119,875,000 at June 30, 2007.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2007, the System's outstanding balance for these senior bonds totaled \$68,550,000. The University had no outstanding balances for these senior bonds at June 30, 2007.

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Long-term debt obligations of the University as of June 30, 2007 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds:				
Series 2004A	2.50% – 5.25%	2034/2035	\$ 18,490,000	17,860,000
Series 2005A	3.00% – 5.00%	2037/2038	64,655,000	64,655,000
Series 2007A	4.00% – 5.00%	2037/2038	37,360,000	37,360,000
Other:				
Camrosa Water District	5.50%	2020/2021	938,020	860,313
Total				120,735,313
Unamortized bond premium				3,235,312
Total long-term debt				123,970,625
Less current portion				(376,885)
Long-term debt, net of current portion				\$ 123,593,740

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2008	\$ 376,885	6,128,159
2009	723,161	5,868,810
2010	1,020,878	5,837,682
2011	1,288,748	5,792,850
2012	1,471,780	5,740,543
2013 – 2017	10,730,711	27,466,692
2018 – 2022	16,663,150	24,068,595
2023 – 2027	21,480,000	19,322,816
2028 – 2032	27,550,000	13,250,060
2033 – 2037	32,640,000	5,606,181
2038 – 2042	6,790,000	161,439
	\$ 120,735,313	119,243,827

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(9) Long-Term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2007 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 2,373,322	1,888,143	(1,757,855)	2,503,610	1,276,841
Capitalized lease obligations (note 7)	157,035	20,019	(101,860)	75,194	56,737
Long-term debt obligations (note 8)					
Systemwide Revenue Bonds	82,835,000	37,360,000	(320,000)	119,875,000	335,000
Revenue Bond Anticipation Notes	29,754,000	—	(29,754,000)	—	—
Other	1,410,663	—	(550,350)	860,313	41,885
Total	113,999,663	37,360,000	(30,624,350)	120,735,313	376,885
Unamortized bond premium	1,070,487	2,220,134	(55,309)	3,235,312	—
Total long-term debt obligations	115,070,150	39,580,134	(30,679,659)	123,970,625	376,885
Total long-term liabilities	\$ 117,600,507	41,488,296	(32,539,374)	126,549,429	1,710,463

(10) Pension Plan and Postretirement Benefits

(a) Plan Description

The University, as an agency of the State of California, contributes to the California Public Employees' Retirement System (CalPERS). The state's plan with CalPERS is an agent multiple-employer defined benefit 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 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

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on which plan and the level of coverage the retiree chooses. CalPERS currently pays the full cost of the basic level dental coverage for eligible retirees and their eligible dependents.

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

(b) Funding Policy

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 16.997% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2005	\$	3,381,630
2006		3,629,074
2007		4,551,697

(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, 2007.

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Changes in the System's self-insurance claims liability for the two years ended June 30, 2007 are as follows:

Liability at June 30, 2005	\$ 117,639,000
Incurred claims and changes in estimates	23,938,000
Claim payments	<u>(29,201,000)</u>
Liability at June 30, 2006	112,376,000
Incurred claims and changes in estimates	35,794,000
Claim payments	<u>(39,978,000)</u>
Liability at June 30, 2007	108,192,000
Less current portion	<u>(27,250,000)</u>
Long-term liability at June 30, 2007, net of current portion	<u><u>\$ 80,942,000</u></u>

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

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 CSURMA's total self-insurance claims liability as of June 30, 2007 was approximately 1.0%, or \$1,081,000. 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, 2007. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA. The University's payable to CSURMA was \$0 at June 30, 2007.

(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, 2007 totaled \$25,723,528. These expenditures will be funded primarily from Systemwide Revenue Bonds.

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

(13) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2007, operating expenses by natural classification consisted of the following:

<u>2007</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 13,928,298	3,936,822	—	2,722,171	—	20,587,291
Research	706,529	189,610	—	474,280	—	1,370,419
Public service	6,695	—	—	—	—	6,695
Academic support	3,379,819	1,085,847	—	791,116	—	5,256,782
Student services	3,194,466	1,112,791	—	1,692,423	—	5,999,680
Institutional support	4,096,649	2,005,083	—	2,656,357	—	8,758,089
Operation and maintenance of plant	5,317,236	1,531,508	—	4,211,828	—	11,060,572
Student grants and scholarships	—	—	3,061,521	—	—	3,061,521
Auxiliary enterprise expenses	629,744	173,856	—	962,983	—	1,766,583
Depreciation and amortization	—	—	—	—	1,042,686	1,042,686
Total	\$ 31,259,436	10,035,517	3,061,521	13,511,158	1,042,686	58,910,318

(14) Transactions with Related Entities

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$48,912,509 for the year ended June 30, 2007. State appropriations receivable aggregated \$6,714,332 at June 30, 2007. The University also received lottery fund distributions from the State of California in the amount of \$171,000 for the year ended June 30, 2007, which is included in other nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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

As discussed in notes 6, 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, 2007, \$2,310,398 of such additions of capital assets is included in the accompanying financial statements.

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The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2007:

Reimbursements from recognized auxiliary organizations for other than salaries of University employees	\$	482,223
Gifts in kind to the University from recognized auxiliary organizations		977,992
Amounts receivable from recognized auxiliary organizations		59,748
Amounts payable to recognized auxiliary organizations		(650,038)
Amounts receivable from the Office of the Chancellor		2,449
Amounts payable to the Office of the Chancellor		(1,006,279)