



CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Financial Statements

June 30, 2010

(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, 2010, which collectively comprise the University's 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 on our audit. We did not audit the financial statements of the aggregate discretely presented auxiliary organizations of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for the discretely presented auxiliary organizations, 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 to the financial statements, 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, 2010, the changes in their financial position, or, 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 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, 2010, 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 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

January 31, 2011

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2010

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, 2010. 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*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities.

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 generally reported at their book value, on an accrual basis, as of the statement date, except investments, which are reported at their fair market value. 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 statements of cash flows for the discretely presented auxiliary organizations are not included in the University's financial statements.

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Management's Discussion and Analysis

June 30, 2010

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.

The University's condensed summary of net assets as of June 30, 2010 and 2009 are as follows:

Condensed Summary of Net Assets

	June 30	
	2010	2009
Assets:		
Current assets	\$ 34,198,046	28,602,985
Capital assets, net	253,038,175	227,415,371
Other noncurrent assets	213,383,983	251,061,977
Total assets	500,620,204	507,080,333
Liabilities:		
Current liabilities	18,274,637	31,648,729
Long-term debt obligations, net of current portion	273,014,259	274,724,490
Other noncurrent liabilities	2,965,686	1,101,591
Total liabilities	294,254,582	307,474,810
Net assets:		
Invested in capital assets, net of related debt	117,427,483	98,840,694
Restricted, expendable	6,950,201	33,693,766
Unrestricted	81,987,938	67,071,063
Total net assets	\$ 206,365,622	199,605,523

Assets

Total assets decreased \$6.5 million, or 1% from prior year due to a \$5.60 million increase in current assets, a \$25.6 million increase in capital assets, and a \$37.7 million decrease in other noncurrent assets. Total current assets increased \$5.6 million, or 20% primarily due to an increase in short-term investments of \$1.0 million, an increase in cash and cash equivalents of \$1.5 million, an increase in notes and leases receivable, current and accounts receivable, current of \$0.3 million, and \$2.6 million, respectively and an increase in other assets of \$0.2 million. The increase in accounts receivable, current is primarily due to a \$3.3 million increase in receivables from the California State University Channel Islands (CSUCI) Site Authority for housing and library debt. This increase is offset by a decrease of \$0.7 million from various other receivables.

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Management's Discussion and Analysis

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Capital assets, net, increased \$25.6 million, or 11.3% primarily due to \$33.4 million of current year additions, which are offset by \$7.5 million in current year depreciation and amortization expense and a \$0.3 million reduction due to the cancellation of Santa Rosa Village project. The \$33.4 million in additions are primarily for the infrastructure project.

Other noncurrent assets decreased \$37.7 million or 15%. The decrease is primarily due to \$28.4 million in accounts receivable, noncurrent related to a reduction in state appropriations and an addition \$8.6 million of bond expenditures for Housing, the Student Union, and the Library, \$1.4 million, \$0.6 million, and \$1.0 million, respectively.

Liabilities

Total liabilities decreased \$13.2 million or 4.3% from the prior year due to a decrease in current liabilities of \$13.4 million, a decrease in long-term debt obligations, net of current portion \$1.7 million, which is partially offset by an increase in other noncurrent liabilities of \$1.9 million.

Current liabilities decreased by \$13.4 million or 42.3%. This is primarily a decrease in accounts payable of \$14.4 million that represents a paid \$11.0 million American Recovery and Reinvestment Act (ARRA) payable and \$3.0 million for capital projects with the remaining \$0.400 million decrease in other payments, a decrease in other liabilities of \$0.9 million primarily for \$0.6 million cash deficient for claims not processed on capital projects and another \$0.2 million due to students in fiscal year 10-11. This is offset by an increase of \$1.8 million for deferred tuition and fees, Continuing Education and Housing, and Board for \$0.4 million, \$0.6 million, and \$0.7 million, respectively.

Long-term debt obligations, net of current portion decreased by \$1.7 million or less than 1%. This decrease is primarily due to the long-term debt obligations, net of current portion now in long-term debt obligations, current for Housing, Library, and Site Authority system revenue bonds.

Other noncurrent liabilities increased by \$1.9 million or 169%. The increase is due to \$0.7 million for accrued compensated absences net of current portion and \$1.2 million for capitalized lease obligation, net of current portion.

Net Assets

Total net assets increased \$6.8 million or 3.4% from the prior year. A significant portion, \$117 million, of net assets at the end of the year is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt increased \$18.6 million from prior year primarily due to construction work in progress related to the campus infrastructure project. \$7.0 million of net assets at the end of the year is restricted for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which decreased \$26.7 million from prior year as discussed below. \$82.0 million of net assets at the end of the year is unrestricted and increased by \$14.9 million. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2010

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	
	2010	2009
Expendable:		
Capital projects	\$ 6,806,157	33,547,808
Debt service	144,044	145,958
Total restricted net assets – expendable	\$ 6,950,201	33,693,766

Total restricted net assets – expendable decreased \$26.7 million or 79.4%. This is primarily due to a \$26.7 million decrease in net assets restricted for capital projects as a result of spending bond proceeds for the campus infrastructure project.

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Management's Discussion and Analysis

June 30, 2010

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2010 and 2009 is as follows:

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

	Year ended June 30	
	2010	2009
Operating revenues:		
Student tuition and fees, net	\$ 16,846,814	12,921,261
Grants and contracts, noncapital	2,477,060	1,639,244
Sales and services of auxiliary enterprises, net	6,766,369	7,632,820
Total operating revenues	26,090,243	22,193,325
Operating expenses	(76,189,553)	(76,310,809)
Operating loss	(50,099,310)	(54,117,484)
Nonoperating revenues (expenses):		
State appropriations, noncapital	43,255,072	36,041,705
Federal financial aid grants, noncapital	4,631,647	3,473,006
State financial aid grants, noncapital	2,057,435	1,551,746
Other Federal nonoperating grants, noncapital	7,065,700	4,130,200
Gifts, noncapital	213,649	1,455,450
Investment income, net	10,097,661	7,687,520
Interest expense	(12,715,550)	(12,740,757)
Other nonoperating revenues, net	1,570,795	2,539,433
Total nonoperating revenues, net	56,176,409	44,138,303
Income (loss) before other additions	6,077,099	(9,979,181)
State appropriations, capital	683,000	599,000
Grants and gifts, capital	—	3,718,956
Increase (decrease) in net assets	6,760,099	(5,661,225)
Beginning net assets	199,605,523	205,266,748
Ending net assets	\$ 206,365,622	199,605,523

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.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Management's Discussion and Analysis

June 30, 2010

Operating Revenues

Total operating revenues increased \$3.9 million or 17.6% primarily due to a \$3.9 million increase in student tuition and fees, net, a \$0.8 million increase in grants and contracts, noncapital, and a \$0.8 million decrease in sales and services of auxiliary enterprises, net. The Board of Trustees approved a 10% state university fee in May 2009 for Fall 2009 and another fee increase of 20% in July 2009 for Fall 2009. Enrollment growth for Fall 2009 increased by 79 students but was flat for Spring and Summer 2010. Grants and contracts, noncapital, increased \$0.8 million from the prior year primarily due to new state and local grants and contracts in the current year related to a federal grant awarded from the National Science Foundation for \$7.0 million. Sales and services of auxiliary enterprises, net, decreased \$0.8 million from the prior year primarily due to a \$0.8 million decrease in scholarship allowances, as a result of an increase in tuition discounting expense.

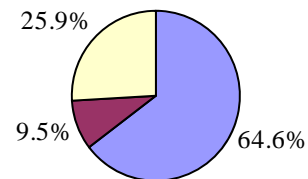
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2010 and 2009:

Operating Revenues

Year ended June 30, 2010

(In thousands)

Student tuition and fees, net	\$ 16,846,814	64.6%
Grants and contracts, net	2,477,060	9.5
Sales and services of auxiliary enterprises, net	<u>6,766,369</u>	<u>25.9</u>
Total operating revenues	<u>\$ 26,090,243</u>	<u>100.0%</u>



■ Student tuition and fees, net
■ Grants and contracts, noncapital
■ Sales and services of auxiliary enterprises, net

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Management's Discussion and Analysis

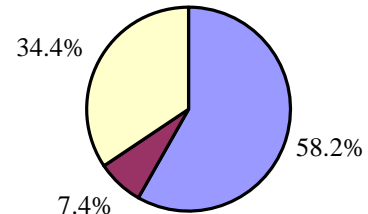
June 30, 2010

Operating Revenues

Year ended June 30, 2009

(In thousands)

Student tuition and fees, net	\$ 12,921,261	58.2%
Grants and contracts, net	1,639,244	7.4
Sales and services of auxiliary enterprises, net	<u>7,632,820</u>	<u>34.4</u>
Total operating revenues	<u>\$ 22,193,325</u>	<u>100.0%</u>



■ Student tuition and fees, net
■ Grants and contracts, noncapital
■ Sales and services of auxiliary enterprises, net

Operating Expenses

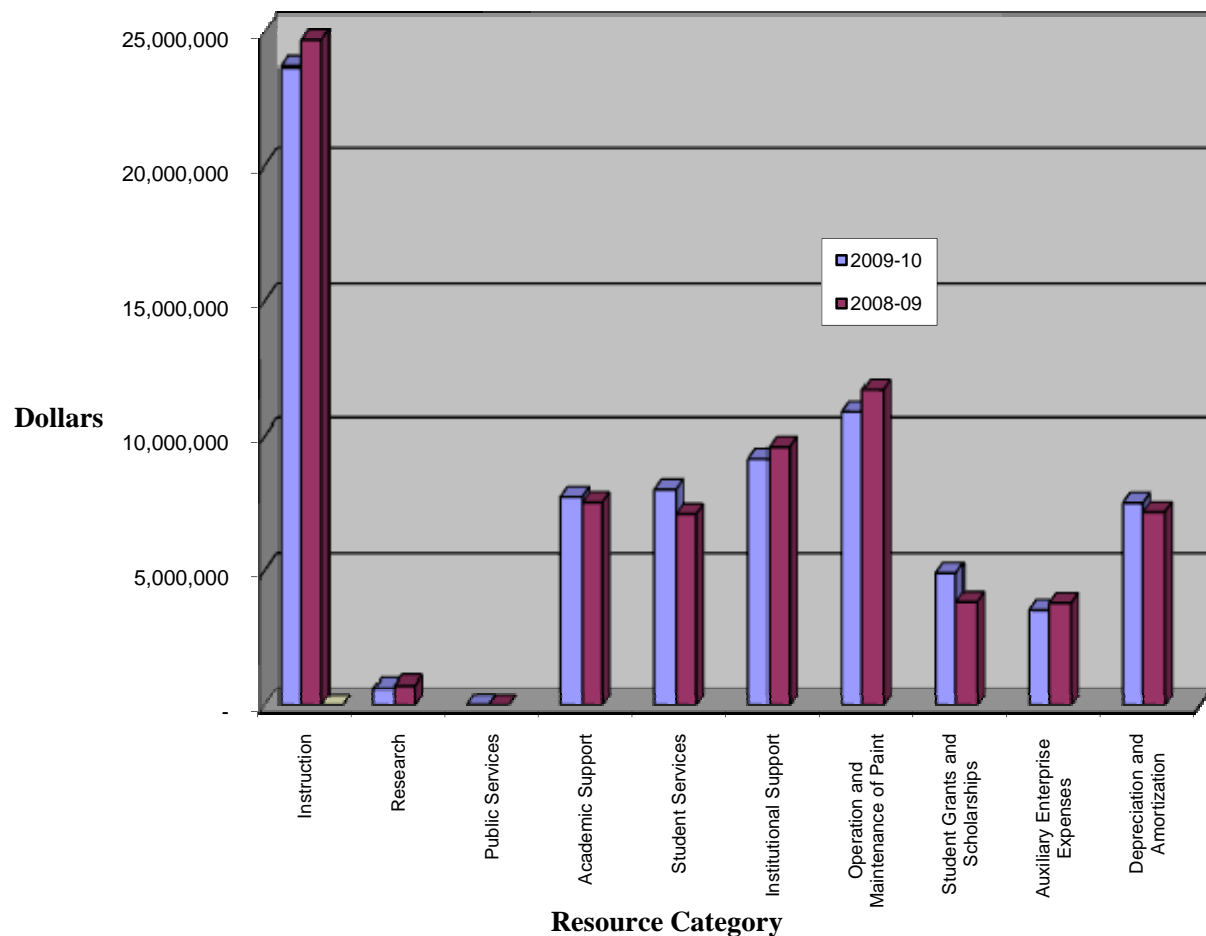
Total operating expenses decreased by \$0.1 million, or 0.2%, primarily due to decreases in Instruction, Research, Institutional Support, Operation and Maintenance of Plant, and Auxiliary Enterprise of \$1.0 million, \$0.1 million, \$0.5 million, \$0.9 million, and \$0.3 million, respectively. Offsetting are increases to Public Service, Academic Support, Student Services, Student Grants and Scholarships, and depreciation and amortization of \$0.01 million, \$0.21 million, \$0.95 million, \$1.0 million, and \$0.4 million, respectively. Salaries and benefit costs within each program decreased by \$3.3 million primarily due to a furlough salary reduction decrease of 10.0%. Supplies and other services expense, within each of these programs, increased by \$1.8 million due to an increase in instructional costs related to supplies and services and overhead costs for Grants and Contracts and for academic support and student services. Student grants and scholarships increased by \$1.0 million primarily due to an increase in Pell grant awards. The increase in depreciation and amortization expense of \$0.4 million relates to current year capital assets placed in service related to the Student Union.

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Management's Discussion and Analysis

June 30, 2010

The following chart presents the distribution of resources in support of the University's mission for fiscal years 2010 and 2009:



Nonoperating Revenues (Expenses)

General (noncapital) appropriation revenues totaled \$43.3 million, an increase of \$7.2 million from the prior year. It is partially offset by funding of \$7.0 million from the federal ARRA grant to restore the state appropriation.

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 \$33.7 million for the fiscal year ended June 30, 2010, up from \$30.8 million for the fiscal year ended June 30, 2009. Capital state appropriations in the prior year included one-time appropriations of \$0.7 million for the campus infrastructure project. General

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Management's Discussion and Analysis

June 30, 2010

(noncapital) appropriation revenues totaled \$43.2 million, an increase of \$7.2 million from the prior year. It is offset by a reimbursement of \$7.0 million from the federal ARRA grant to restore the state appropriation. Investment income was \$10.0 million, an increase of \$2.4 million from prior year primarily due to a transfer of earnings from the CSU SWIFT investments related to the CSUCI Site Authority Library debt. Other nonoperating revenues (expenses), net, decreased \$0.9 million primarily due to a \$0.4 million decrease in project management fees, a loss on capital asset disposal of \$0.3 million due to the cancellation of the Santa Rosa Housing project, \$0.25 million decrease from OPC cost recovery for capital projects and Cogen plant revenue for thermal usage. Grants and gifts, capital decreased \$3.7 million due to no capital gifts donated by the CSU Channel Islands Foundation. In the prior year, the campus received \$2.8 million in capital gifts for the Martin V. Smith Decision Center and a gift of \$0.9 million for the land acquisition of Camarillo Regional Park.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2010	2009
Land and land improvements	\$ 32,749,578	32,749,578
Works of art and historical treasures	411,760	411,760
Buildings and building improvements	159,293,233	150,859,408
Improvements, other than buildings	748,551	555,456
Infrastructure	4,994,755	4,549,648
Personal property	7,179,860	8,038,296
Intangible assets	164,022	220,169
Construction work in progress	47,496,416	30,031,056
Total capital assets, net of accumulated depreciation	\$ 253,038,175	227,415,371

Capital assets increased \$25.6 million primarily due to \$33.4 million of current year additions, which was partially offset by \$7.5 million in current year depreciation and amortization expense and a \$0.3 million reduction due to the cancellation of the Santa Rosa Village project. The \$33.4 million in current year additions is primarily due to the Infrastructure project.

Major capital projects additions during fiscal year 2010 are as follows (in millions):

Infrastructure	\$ 24.4
Entrance Road	0.4
North Hall	0.2

Capital assets commitments at June 30, 2010 totaled \$8.3 million.

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Management's Discussion and Analysis

June 30, 2010

Due to the State's budget crisis and its difficulty issuing bonds in the financial market, the State suspended most State-funded capital projects, including General Obligation Bond projects, and froze disbursements on these projects starting in December 2008. The State later on lifted the suspension of the General Obligation bond projects in April 2009. In October 2009, the State was able to resume bond sales for the General Obligation Bonds to support near term construction finance needs for new and previously approved projects through the Federal Build America Bonds program under the American Recovery and Reinvestment Act (ARRA). All previously suspended projects have been restarted. See note 2(g) of the notes to the financial statements for further information on capital assets.

Long-Term Debt Obligations

Debt outstanding at June 30, 2010 and 2009 is summarized below by type of debt instrument:

	June 30	
	2010	2009
Systemwide Revenue Bonds:		
Series 2004A	\$ 16,820,000	17,180,000
Series 2005A	64,290,000	64,545,000
Series 2007A	171,820,000	172,375,000
Series 2007B	4,235,000	4,235,000
Series 2009A	14,115,000	14,115,000
Other	723,735	774,381
Total	272,003,735	273,224,381
Unamortized bond premium (discount)	2,624,027	2,720,755
Total long-term debt	274,627,762	275,945,136
Less current portion	(1,613,503)	(1,317,374)
Long-term debt, net of current portion	\$ 273,014,259	274,627,762

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, Series 2008A, and Series 2009A, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 9 to the financial statements for further information on long-term debt obligations.

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Management's Discussion and Analysis

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Factors Impacting Future Periods

The University's state noncapital appropriations budget enacted for fiscal year 2011 approved by the legislative process is \$46 million. This increase of \$8 million over the fiscal year 2010 funding level of \$38 million marks the first partial restoration of state funding since 2007. Moreover, the University was not a participant in the October ARRA allocation/general fund swap, so the University will not receive ARRA in 2010-11. In addition, an increase in student fees in fiscal year 2011 is expected to generate \$3.3 million during fiscal year 2011 in new revenue, gross of financial aid or \$1.6 million, net of financial aid.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Net Assets

June 30, 2010

Assets	University	Discretely presented component units		Total
		GASB Auxiliary Organizations	FASB Auxiliary Organizations	
Current assets:				
Cash and cash equivalents	\$ 1,477,374	3,544,289	143,460	5,165,123
Short-term investments	25,560,017	267,456	—	25,827,473
Accounts receivable, net	5,993,546	4,466,264	913,789	11,373,599
Leases receivable, current portion	325,000	—	—	325,000
Notes receivable, current portion	395,000	—	—	395,000
Pledges receivable, net	—	1,108,035	—	1,108,035
Prepaid expenses and other assets	447,109	4,959,690	10,510	5,417,309
Total current assets	34,198,046	14,345,734	1,067,759	49,611,539
Noncurrent assets:				
Restricted cash and cash equivalents	—	1,278,642	—	1,278,642
Accounts receivable, net	8,956,906	—	—	8,956,906
Leases receivable, net of current portion	138,945,000	—	—	138,945,000
Notes receivable, net of current portion	63,895,000	—	—	63,895,000
Pledges receivable, net	—	1,954,969	—	1,954,969
Endowment investments	—	4,791,400	—	4,791,400
Other long-term investments	1,584,080	5,202,195	—	6,786,275
Capital assets, net	253,038,175	129,332,924	6,322	382,377,421
Other assets	2,997	—	—	2,997
Total noncurrent assets	466,422,158	142,560,130	6,322	608,988,610
Total assets	500,620,204	156,905,864	1,074,081	658,600,149
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	4,521,081	2,190,693	34,437	6,746,211
Accrued salaries and benefits payable	2,971,079	1,145,918	—	4,116,997
Accrued compensated absences – current portion	1,826,288	3,846	—	1,830,134
Deferred revenue	4,249,395	2,414	36,134	4,287,943
Capitalized lease obligations – current portion	223,618	325,000	—	548,618
Long-term debt obligations – current portion	1,613,503	395,000	—	2,008,503
Other liabilities	2,869,673	4,407,652	91,927	7,369,252
Total current liabilities	18,274,637	8,470,523	162,498	26,907,658
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	1,754,669	38,046	—	1,792,715
Capitalized lease obligations, net of current portion	1,211,017	139,098,165	—	140,309,182
Long-term debt obligations, net of current portion	273,014,259	68,720,000	—	341,734,259
Depository accounts	—	270,497	19,679	290,176
Other liabilities	—	316,351	—	316,351
Total noncurrent liabilities	275,979,945	208,443,059	19,679	484,442,683
Total liabilities	294,254,582	216,913,582	182,177	511,350,341
Net assets:				
Invested in capital assets, net of related debt	117,427,483	(10,090,241)	6,322	107,343,564
Restricted for:				
Nonexpendable – endowments	—	4,791,400	—	4,791,400
Expendable:				
Scholarships and fellowships	—	955,977	—	955,977
Research	—	35,259	—	35,259
Capital projects	6,806,157	37,954	—	6,844,111
Debt service	144,044	263,986	—	408,030
Other	—	10,253,477	—	10,253,477
Unrestricted	81,987,938	(66,255,530)	885,582	16,617,990
Total net assets	\$ 206,365,622	(60,007,718)	891,904	147,249,808

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

		Discretely presented component units			
	University	GASB Auxiliary Organizations	FASB Auxiliary Organizations	Eliminations	Total
Revenues:					
Operating revenues:					
Student tuition and fees (net of scholarship allowances of \$3,720,613)	\$ 16,846,814	—	970,402	—	17,817,216
Grants and contracts, noncapital:					
Federal	1,431,712	—	—	—	1,431,712
State	565,489	—	—	—	565,489
Local	114,667	—	—	—	114,667
Nongovernmental	365,192	100,000	—	—	465,192
Sales and services of educational activities	—	—	—	—	—
Sales and services of auxiliary enterprises (net of scholarship allowances of \$1,282,529)	6,766,369	—	113	—	6,766,482
Other operating revenues	—	10,130,083	3,178	—	10,133,261
Total operating revenues	<u>26,090,243</u>	<u>10,230,083</u>	<u>973,693</u>	<u>—</u>	<u>37,294,019</u>
Expenses:					
Operating expenses:					
Instruction	23,685,791	753,049	—	(139,399)	24,299,441
Research	655,472	—	—	—	655,472
Public service	15,773	413,000	—	—	428,773
Academic support	7,760,387	29,251	—	—	7,789,638
Student services	8,046,273	73,659	398,637	—	8,518,569
Institutional support	9,146,689	2,158,914	228,186	—	11,533,789
Operation and maintenance of plant	10,889,664	25,352	—	—	10,915,016
Student grants and scholarships	4,904,171	148,345	—	—	5,052,516
Auxiliary enterprise expenses	3,554,956	4,908,778	—	—	8,463,734
Depreciation and amortization	7,530,377	4,658,725	2,320	—	12,191,422
Total operating expenses	<u>76,189,553</u>	<u>13,169,073</u>	<u>629,143</u>	<u>(139,399)</u>	<u>89,848,370</u>
Operating income (loss)	<u>(50,099,310)</u>	<u>(2,938,990)</u>	<u>344,550</u>	<u>139,399</u>	<u>(52,554,351)</u>
Nonoperating revenues (expenses):					
State appropriations, noncapital	43,255,072	—	—	—	43,255,072
Federal financial aid grants, noncapital	4,631,647	—	—	—	4,631,647
State financial aid grants, noncapital	2,057,435	—	—	—	2,057,435
Local financial aid grants, noncapital	—	—	—	—	—
Nongovernmental and other financial aid grants, noncapital	—	—	—	—	—
Other federal nonoperating grants, noncapital	7,065,700	—	—	—	7,065,700
Gifts, noncapital	213,649	—	—	(139,399)	74,250
Investment income, net	10,097,661	2,783,242	5,674	—	12,886,577
Endowment income, net	—	944,428	1,454	—	945,882
Interest expense	(12,715,550)	(6,802,932)	—	—	(19,518,482)
Other nonoperating revenues	1,570,795	2,220,081	—	—	3,790,876
Net nonoperating revenues (expenses)	<u>56,176,409</u>	<u>(855,181)</u>	<u>7,128</u>	<u>(139,399)</u>	<u>55,188,957</u>
Income (loss) before other additions	<u>6,077,099</u>	<u>(3,794,171)</u>	<u>351,678</u>	<u>—</u>	<u>2,634,606</u>
State appropriations, capital	683,000	—	—	—	683,000
Grants and gifts, capital	—	8,144	—	—	8,144
Additions (reductions) to permanent endowments	—	221,766	—	—	221,766
Transfers from (to) other CSU campuses, net	—	—	—	—	—
Increase (decrease) in net assets	<u>6,760,099</u>	<u>(3,564,261)</u>	<u>351,678</u>	<u>—</u>	<u>3,547,516</u>
Net assets:					
Net assets at beginning of year, as previously reported	199,605,523	(56,443,457)	540,226	—	143,702,292
Restatements	—	—	—	—	—
Net assets at beginning of year, as restated	<u>199,605,523</u>	<u>(56,443,457)</u>	<u>540,226</u>	<u>—</u>	<u>143,702,292</u>
Net assets at end of year	<u>\$ 206,365,622</u>	<u>(60,007,718)</u>	<u>891,904</u>	<u>—</u>	<u>147,249,808</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Cash Flows

Year ended June 30, 2010

	<u>University</u>
Cash flows from operating activities:	
Tuition and fees	\$ 18,082,910
Federal grants and contracts	1,687,667
State grants and contracts	565,489
Local grants and contracts	114,667
Nongovernmental grants and contracts	365,192
Payments to suppliers	(14,210,763)
Payments to employees	(49,941,275)
Payments to students	(4,437,711)
Sales and services of educational activities	133,560
Sales and services of auxiliary enterprises	7,680,354
Other payments	(1,116,257)
Net cash used in operating activities	<u>(41,076,167)</u>
Cash flows from noncapital financing activities:	
State appropriations	32,165,072
Federal financial aid grants	4,721,987
State financial aid grants	2,057,435
Other federal nonoperating grants	7,065,700
Gifts and grants received for other than capital purposes	353,048
Monies disbursed on behalf of others	(84,061)
Other noncapital financing activities	1,695,579
Net cash provided by noncapital financing activities	<u>47,974,760</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	1,376,875
State appropriations	29,107,279
Proceeds from sale of capital assets	4,618
Acquisition of capital assets	(35,668,161)
Principal paid on capital debt and leases	(1,230,700)
Interest paid on capital debt and leases	(13,413,447)
Principal payments received on capital leases	200,000
Interest payments received on capital leases	5,058,198
Principal payments received on notes receivable	255,000
Interest payments received on notes receivable	1,332,135
Net cash used in capital and related financing activities	<u>(12,978,203)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	259,074,990
Purchases of investments	(251,461,449)
Investment income received	(71,632)
Net cash provided by investing activities	<u>7,541,909</u>
Net increase in cash and cash equivalents	1,462,299
Cash and cash equivalents at beginning of year	<u>15,075</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,477,374</u></u>

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Statement of Cash Flows

Year ended June 30, 2010

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (50,099,310)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	7,530,377
Change in assets and liabilities:	
Accounts receivable, net	985,657
Prepaid expenses and other assets	(121,731)
Accounts payable	(542,692)
Accrued salaries and benefits	(243,096)
Accrued compensated absences	510,865
Deferred revenue	1,797,173
Other liabilities	(893,410)
Net cash used in operating activities	<u>\$ (41,076,167)</u>
Supplemental schedule of noncash transactions:	
Change in accrued capital asset costs (purchased but unpaid at year-end)	\$ (2,767,961)
Gifts in-kind	139,399
Amortization of bond premium	96,728

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's three recognized auxiliary organizations and two public entities. 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 recognized auxiliary organizations are as follows:

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

The public entities are as follows:

- California State University Channel Islands Site Authority
- California State University Channel Islands Finance Authority

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

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

June 30, 2010	California State University, Foundation	Associated Students Inc. of California State University Channel Islands	CSUCI Financing Authority	CSU Channel Islands Site Authority	University Glen Corporation	Total
Current assets	\$ 2,277,579	1,067,759	224,845	11,045,986	797,324	15,413,493
Capital assets, net	—	6,322	—	129,325,549	7,375	129,339,246
Other noncurrent assets	13,227,206	—	—	—	—	13,227,206
Total assets	<u>\$ 15,504,785</u>	<u>1,074,081</u>	<u>224,845</u>	<u>140,371,535</u>	<u>804,699</u>	<u>157,979,945</u>
Current liabilities	\$ 73,116	162,498	224,845	7,645,038	527,524	8,633,021
Noncurrent liabilities	267,141	19,679	—	208,088,662	87,256	208,462,738
Total liabilities	<u>\$ 340,257</u>	<u>182,177</u>	<u>224,845</u>	<u>215,733,700</u>	<u>614,780</u>	<u>217,095,759</u>
Invested in capital assets, net of related debt	\$ —	6,322	—	(10,097,616)	7,375	(10,083,919)
Restricted	14,426,862	—	—	1,911,191	—	16,338,053
Unrestricted	737,666	885,582	—	(67,175,740)	182,544	(65,369,948)
Total net assets	<u>\$ 15,164,528</u>	<u>891,904</u>	<u>—</u>	<u>(75,362,165)</u>	<u>189,919</u>	<u>(59,115,814)</u>
Year ended June 30, 2010						
Operating revenues:						
Student tuition and fees, net	\$ —	970,402	—	—	—	970,402
Grants and contracts, noncapital	—	—	—	—	100,000	100,000
Sales and services of auxiliary enterprises, net	—	113	—	—	—	113
Other	136,296	3,178	—	8,894,359	1,099,428	10,133,261
Total operating revenues	<u>136,296</u>	<u>973,693</u>	<u>—</u>	<u>8,894,359</u>	<u>1,199,428</u>	<u>11,203,776</u>

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

Year ended June 30, 2010	California State University, Foundation	Associated Students Inc. of California State University Channel Islands	CSUCI Financing Authority	CSU Channel Islands Site Authority	University Glen Corporation	Total
Operating expenses:						
Instruction	\$ 753,049	—	—	—	—	753,049
Research	—	—	—	—	—	—
Public service	19,358	—	—	—	393,642	413,000
Academic support	29,251	—	—	—	—	29,251
Student services	73,659	398,637	—	—	—	472,296
Institutional support	434,382	228,186	6,180	—	1,718,352	2,387,100
Operation and maintenance of plant	131	—	—	—	25,221	25,352
Student grants and scholarships	148,345	—	—	—	—	148,345
Auxiliary enterprise expenses	—	—	—	4,908,778	—	4,908,778
Depreciation and amortization	—	2,320	—	4,658,631	94	4,661,045
Total operating expenses	1,458,175	629,143	6,180	9,567,409	2,137,309	13,798,216
Operating income (loss)	(1,321,879)	344,550	(6,180)	(673,050)	(937,881)	(2,594,440)
Net nonoperating revenues (expenses)	3,752,187	7,128	6,180	(5,741,348)	1,127,800	(848,053)
Income (loss) before other additions	2,430,308	351,678	—	(6,414,398)	189,919	(3,442,493)
Grants and gifts, capital	8,144	—	—	—	—	8,144
Additions to permanent endowments	221,766	—	—	—	—	221,766
Increase in net assets	2,660,218	351,678	—	(6,414,398)	189,919	(3,212,583)
Beginning net assets, July 1, 2009	12,504,310	540,226	—	(68,947,767)	—	(55,903,231)
Ending net assets, June 30, 2010	\$ 15,164,528	891,904	—	(75,362,165)	189,919	(59,115,814)

The auxiliary organizations and public entities are presented in the accompanying financial statements as discretely presented 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.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

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 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 or the California State University System as of June 30, 2010 and the changes in their financial position, or, 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 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), Associated Students Incorporated of California State University Channel Islands, while California State University Channel Islands Foundation, California State University Channel Islands Site Authority, California State University Channel Islands Finance Authority, and the University Glenn Corporation apply the accounting and reporting standards promulgated by the GASB.

(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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

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 and public entities.

(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 used for current operations are classified as short-term investments. Investments that are restricted for withdrawal or use for other than current operations, designated or restricted for the acquisition or construction of noncurrent assets, designated or restricted for the liquidation of the noncurrent portion of long-term debt, and restricted as to the liquidity of the investments are classified as other long-term investments.

(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 and intangible assets, 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. 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, construction work in progress, and certain intangible assets, are depreciated or amortized 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 and amortization expense is shown separately in the statement of revenues, expenses, and changes in net assets rather than being allocated among other categories of operating expenses.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

Capitalized interest, net of related investment income at June 30, 2010 is as follows:

Interest expense capitalized for construction projects	\$	618,407
Investment income related to unspent bond proceeds for construction		<u>(51,507)</u>
Capitalized interest, net of related investment income	\$	<u><u>566,900</u></u>

(h) Deferred Revenue

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

(i) Compensated Absences

Compensated absences are recognized when the risk to receive the compensation is earned by employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1st of the current year to calculate the liability for accrued compensated absences. The University employee pay rates are based on years 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.

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. Moreover, the Office of the Chancellor administers and charges campuses for centralized expenses

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

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 in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital and noncapital appropriations from the State, financial aid and ARRA grants, net investment income, noncapital gifts, interest expense, and capital gifts and grants.

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.

In fiscal year 2010, the State received Federal education grants that were passed on to school districts and the state's universities to restore state appropriations. The Governor had filed an application with the federal government to receive California's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The Federal education grants have been appropriated to the System by the State and reported separately under other federal nonoperating grants, noncapital in nonoperating revenues and expenses, in the accompanying statement of revenues, expenses, and changes in net assets.

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 service 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 services activities to University departments have been eliminated in 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

The System was established under the State of California Education Code as an agency of the State. 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.

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

(n) *New Accounting Pronouncements*

On July 1, 2009, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. To provide governments with better accounting guidance and consistency, GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. This statement also fosters greater comparability and results in a more faithful representation of the service capacity of intangible assets – and, therefore, the financial position of governments – and of the periodic cost associated with the usage of such service capacity in governmental financial statements. The provisions of this statement generally are required to be applied retroactively. The retroactive reporting of these intangible assets did not have a material impact on the University's financial statements.

On July 1, 2009, the University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires governments to measure derivative instruments not specifically excluded by its scope provisions, at fair value in their economic resources measurement focus financial statements, and to provide disclosures of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The adoption of the statement did not have a material impact on the University's financial statements.

(o) *Eliminations*

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

(p) *Use of Estimates*

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

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

The University's cash and cash equivalents and investments as of June 30, 2010 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 1,477,374
Short-term investments	25,560,017
Other long-term investments	<u>1,584,080</u>
Total investments	<u>27,144,097</u>
Total cash, cash equivalents and investments	<u>\$ 28,621,471</u>

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

(a) Cash and Cash Equivalents

At June 30, 2010, cash and cash equivalents consisted of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$1.5 million had a corresponding carrying balance with the State Treasury and commercial banks of \$1.3 million at June 30, 2010. 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, 2010, 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, separate accounting in maintained as to the amounts allocable to the various funds and programs.

Investment Policy

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

CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS

Notes to Financial Statements

June 30, 2010

that the callable investments will not be called. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2010 is presented in the table below.

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 allocated share of the California State University Investment Pool and the State of California SMIF as of June 30, 2010:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 54,283		\$ 54,283	—	—	—	—
Commercial paper	3,590,017	0.066	—	—	3,590,017	—	—
Certificates of deposit	1,972,758	0.052	—	—	1,972,758	—	—
Repurchase Agreements	3,123,880	0.003	—	—	3,123,880	—	—
U.S. agency securities	10,724,550	0.163	1,187,154	—	9,195,121	—	342,275
Corporate and fixed income securities:	3,770,726	1.089	2,887,383	461,785	321,286	100,272	—
U.S. Treasury securities	32,404	0.126	—	—	—	—	32,404
State of California Surplus Money Investment Fund	3,592,452	0.560	—	—	—	—	—
Mortgage-backed securities	283,027	8.740	254,569	28,458	—	—	—
Total	27,144,097		\$ 4,383,389	490,243	18,203,062	100,272	374,679
Total investments	\$ 27,144,097						

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, 2010, 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: Freddie Mac notes guaranteed by the Federal government \$3.7 million (16%), Federal Home Loan Bank government bonds and notes \$3.5 million (15%), and Fannie Mae notes guaranteed by the Federal government \$3.2 million (14%).

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 net assets.

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The University, through the California State University Investment Pool, 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 values, 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 their separately issued financial statements.

(4) Accounts Receivable

Accounts receivable at June 30, 2010 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	8,956,906	8,956,906
Auxiliary organizations	161,901	—	161,901
Student accounts	601,338	—	601,338
Government grants and contracts	332,165	—	332,165
Other	4,984,289	—	4,984,289
	<u>6,079,693</u>	<u>8,956,906</u>	<u>15,036,599</u>
Less allowance for doubtful accounts	<u>(86,147)</u>	<u>—</u>	<u>(86,147)</u>
Total	\$ <u><u>5,993,546</u></u>	<u><u>8,956,906</u></u>	<u><u>14,950,452</u></u>

(5) Lease Receivable

The University has entered into capital lease agreement with 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 student housing. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2007A was used to finance such facilities. The lease receivable bears an interest ranging from 4.0% to 5.0% and is due in fiscal year 2037. Lease payments are due twice a year on May 1 and November 1.

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Lease payments are due to the University as follows:

Fiscal year ending:	
2011	\$ 7,129,506
2012	7,317,406
2013	7,531,406
2014	7,784,806
2015	8,056,005
Thereafter	<u>234,726,752</u>
Total minimum lease payments to be received	272,545,881
Less amounts representing interest	<u>(133,275,881)</u>
Present values of future minimum note payments to be received	139,270,000
Less current portion	<u>(325,000)</u>
Long-term lease receivable, net of current portion	<u><u>\$ 138,945,000</u></u>

(6) Note Receivable

During fiscal year 2005, the University entered into an agreement with 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 an 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.

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

Fiscal year ending:	
2011	\$ 3,559,412
2012	3,587,388
2013	3,686,238
2014	3,784,988
2015	3,886,988
Thereafter	<u>103,208,984</u>
Total minimum note payments to be received	121,713,998
Less amounts representing interest	<u>(57,423,998)</u>
Present value of futures minimum note payments to be received	64,290,000
Less current portion	<u>(395,000)</u>
Long-term note receivable, net of current portion	<u><u>\$ 63,895,000</u></u>

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(7) Capital Assets

Capital assets activity for the year ended June 30, 2010 consisted of the following:

	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2010</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 32,749,578	—	—	—	32,749,578
Works of art and historical treasures	411,760	—	—	—	411,760
Construction work in progress	30,031,056	25,415,753	(297,129)	(7,653,264)	47,496,416
Intangible assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total nondepreciable/ nonamortizable capital assets	<u>63,192,394</u>	<u>25,415,753</u>	<u>(297,129)</u>	<u>(7,653,264)</u>	<u>80,657,754</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	168,271,464	6,617,109	—	7,565,143	182,453,716
Improvements, other than buildings	1,184,260	274,127	—	—	1,458,387
Infrastructure	6,861,653	488,767	—	88,121	7,438,541
Personal property:					
Equipment	10,615,024	585,593	(36,725)	5,400	11,169,292
Library books and materials	3,966,926	69,751	—	—	4,036,677
Intangible assets	<u>566,714</u>	<u>16,000</u>	<u>—</u>	<u>—</u>	<u>582,714</u>
Total depreciable/ amortizable capital assets	<u>191,466,041</u>	<u>8,051,347</u>	<u>(36,725)</u>	<u>7,658,664</u>	<u>207,139,327</u>
Total cost	\$ <u>254,658,435</u>	<u>33,467,100</u>	<u>(333,854)</u>	<u>5,400</u>	<u>287,797,081</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	\$ (17,412,056)	(5,748,427)	—	—	(23,160,483)
Improvements, other than buildings	(628,804)	(81,032)	—	—	(709,836)
Infrastructure	(2,312,005)	(131,909)	128	—	(2,443,786)
Personal property:					
Equipment	(4,475,140)	(1,096,682)	19,807	(5,400)	(5,557,415)
Library books and materials	(2,068,514)	(400,180)	—	—	(2,468,694)
Intangible assets	<u>(346,545)</u>	<u>(72,147)</u>	<u>—</u>	<u>—</u>	<u>(418,692)</u>
Total accumulated depreciation/ amortization	<u>(27,243,064)</u>	<u>(7,530,377)</u>	<u>19,935</u>	<u>(5,400)</u>	<u>(34,758,906)</u>
Net capital assets	\$ <u>227,415,371</u>	<u>25,936,723</u>	<u>(313,919)</u>	<u>—</u>	<u>253,038,175</u>

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For information regarding the capital assets of the individual discretely presented auxiliary organizations and public entities, refer to their separately issued financial statements.

(8) 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 \$2.1 million at June 30, 2010. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.32% to 5.56% and have terms expiring in various years through 2017.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2013. 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:

	Capital leases	Operating leases
Year ending June 30:		
2011	\$ 299,977	169,727
2012	240,139	64,373
2013	240,139	6,306
2014	240,138	—
2015	240,138	—
2016 – 2020	480,276	—
Total minimum lease payments	1,740,807	\$ 240,406
Less amount representing interest	(306,172)	
Present value of future minimum lease payments	1,434,635	
Less current portion	(223,618)	
Capital lease obligations, net of current portion	\$ 1,211,017	

Rent expense under operating leases for the year ended June 30, 2010 totaled \$423,324.

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, 2010 totaled \$842,607,000.

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(9) 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 California State University 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 \$2,751,972,000 as of June 30, 2010.

(b) *Revenue Bond Programs*

The Revenue Bond Act of 1947 provides the Trustees with the ability to issue revenue bonds to fund specific self-supporting programs. 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 and from 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 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 from 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 and can be transferred to a campus auxiliary organization that would have a contract 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 from 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 from interest income. Funds are used for current operating expenses, maintenance and repair,

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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 from 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.

Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay 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 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 University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2010 was \$274 million, 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 \$3,621,493,000 in Systemwide Revenue Bonds issued through fiscal year 2010. 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 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 \$6,275,454,000. In fiscal year 2010, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$201,371,000 and \$249,822,000, respectively.

(c) Revenue Bond Anticipation Notes

Revenue Bond Anticipation Notes (BANs) are authorized and issued by the Trustees and purchased by the California State University Institute (the Institute), an auxiliary organization of the System, to provide short-term financing to the System for construction projects. They are generally issued for

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periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. BANs were not issued for the University during 2010.

Long-term debt obligations of the University as of June 30, 2010 consist of the following:

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding at June 30
Systemwide revenue bonds:				
SRB 2004A Housing	2.50 – 5.25%	2034/2035	\$ 18,490,000	16,820,000
SRB 2005A Aux Org	3.25 – 5.00%	2037/2038	57,385,000	57,245,000
SRB 2005A Aux Org	3.25 – 5.00%	2037/2038	7,270,000	7,045,000
SRB 2007A Housing	4.00 – 5.00%	2037/2038	36,725,000	36,785,000
SRB 2009A Union	2.50 – 5.75%	2039/2040	14,115,000	14,115,000
SRB 2007A Site Authority	4.00 – 5.00%	2031/2032	43,935,000	43,935,000
SRB 2007A Site Authority	4.00 – 5.00%	2044/2045	48,810,000	48,810,000
SRB 2007A Site Authority	4.00 – 5.00%	2031/2032	42,690,000	42,290,000
SRB 2007B Site Authority	5.545%	2037/2038	4,235,000	4,235,000
Other:				
Camrosa Water District	5.50%	2020/2021	938,020	<u>723,735</u>
Total				272,003,735
Unamortized bond premium (discount)				<u>2,624,027</u>
Total long-term debt				274,627,762
Less current portion				<u>(1,613,503)</u>
Long-term debt, net of current portion				<u>\$ 273,014,259</u>

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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:			
2011	\$ 1,613,503	13,326,282	14,939,785
2012	2,081,521	13,255,889	15,337,410
2013	2,714,709	13,162,814	15,877,523
2014	3,208,077	13,036,609	16,244,686
2015	3,731,635	12,887,363	16,618,998
2016 – 2020	27,708,982	60,901,628	88,610,610
2021 – 2025	44,155,308	51,982,307	96,137,615
2026 – 2030	64,860,000	38,409,920	103,269,920
2031 – 2035	62,170,000	21,186,578	83,356,578
2036 – 2040	39,640,000	8,495,844	48,135,844
2041 – 2045	20,120,000	2,344,950	22,464,950
	<u>\$ 272,003,735</u>	<u>248,990,184</u>	<u>520,993,919</u>

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

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(10) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2010 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 3,070,092	2,200,200	(1,689,335)	3,580,957	1,826,288
Capitalized lease obligations (note 8):					
Gross balance	118,460	1,376,875	(60,700)	1,434,635	223,618
Unamortized premium (discount) on capitalized lease obligations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total capitalized lease obligations	<u>118,460</u>	<u>1,376,875</u>	<u>(60,700)</u>	<u>1,434,635</u>	<u>223,618</u>
Long-term debt obligations (note 9):					
Systemwide Revenue Bonds	272,450,000	—	(1,170,000)	271,280,000	1,560,000
Revenue Bond Anticipation Notes				—	
Other	<u>774,381</u>	<u>—</u>	<u>(50,646)</u>	<u>723,735</u>	<u>53,503</u>
Total	<u>273,224,381</u>	<u>—</u>	<u>(1,220,646)</u>	<u>272,003,735</u>	<u>1,613,503</u>
Unamortized bond premium (discount)	<u>2,720,755</u>	<u>—</u>	<u>(96,728)</u>	<u>2,624,027</u>	<u>—</u>
Total long-term debt obligations	<u>275,945,136</u>	<u>—</u>	<u>(1,317,374)</u>	<u>274,627,762</u>	<u>1,613,503</u>
Total long-term liabilities	<u>\$ 279,133,688</u>	<u>3,577,075</u>	<u>(3,067,409)</u>	<u>279,643,354</u>	<u>3,663,409</u>

(11) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

The University, as an agency of the State, contributes to the CalPERS. The State's plan with CalPERS is an agent multiple-employer defined benefit pension 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. The plan also provides survivor, death, and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits.

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

Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 19.9% of annual covered payroll. The contribution requirements of the

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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:

2008	\$	5,416,263
2009		5,819,979
2010		5,572,112

(b) Postretirement Healthcare Plan

The GASB has 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 will need 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 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

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

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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.

Actuarial Methods and Assumptions and Plan Funding Information

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 Controller's Office (SCO) and allocated to the system. The System allocates the ARC to the University, which only includes the health benefit portion for the billable accounts. The dental benefit portion is not allocated to the University because the System centrally funds the cost of dental benefits for all retirees for the system.

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2009 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2010 and 9.00% in 2011, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

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's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010.

(12) 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, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. 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 have not been reported. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. Although considerable

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variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2010.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2010 are as follows:

Liability at June 30, 2008	\$ 103,997,000
Incurred claims and changes in estimates	17,019,000
Claim payments	(50,268,000)
Liability at June 30, 2009	70,748,000
Incurred claims and changes in estimates	43,097,000
Claim payments	(26,536,000)
Long-term liability at June 30, 2010	87,309,000
Less current portion	(14,032,000)
Long-term liability at June 30, 2010, net of current portion	\$ 73,277,000

For the year ended June 30, 2010, the CSURMA purchased excess insurance to protect the Members from catastrophic losses. The CSURMA previously 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 purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of the \$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 incurred prior to July 1, 2004.

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, 2010 was \$0. 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, 2010. 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.

(13) 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

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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.

Authorized but unexpended expenditures for construction projects as of June 30, 2010 totaled \$8.3 million. These expenditures will be funded primarily from State Appropriations and Capital and Revenue Bonds.

(14) 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, 2010, operating expenses by natural classification consisted of the following:

	<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	\$ 15,098,812	5,326,627	—	3,260,352	—	23,685,791
Research	287,363	93,818	—	274,291	—	655,472
Public service	14,059	1,714	—	—	—	15,773
Academic support	4,685,135	1,613,004	—	1,462,248	—	7,760,387
Student services	4,390,095	1,746,095	—	1,910,083	—	8,046,273
Institutional support	4,912,628	2,392,877	—	1,841,184	—	9,146,689
Operation and maintenance of plant	5,998,718	2,005,635	—	2,885,311	—	10,889,664
Student grants and scholarships	—	—	4,904,171	—	—	4,904,171
Auxiliary enterprise expenses	1,280,160	362,304	—	1,912,492	—	3,554,956
Depreciation and amortization	—	—	—	—	7,530,377	7,530,377
Total	<u>\$ 36,666,970</u>	<u>13,542,074</u>	<u>4,904,171</u>	<u>13,545,961</u>	<u>7,530,377</u>	<u>76,189,553</u>

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.

(15) Transactions with Related Entities

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$44 million for the year ended June 30, 2010.

Moreover, the State recovers statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from the System. 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.

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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 8 and 9, the University has recorded capital assets that have been financed by System or State obligations. These obligations are not reflected in the accompanying financial statements. For the year ended June 30, 2010, \$33.4 million of such additions of capital assets are included in the accompanying financial statements.

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other public entities as of and for the year ended June 30, 2010:

Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	469,362
Payments from recognized auxiliary organizations for other than salaries of University employees		147,576
Payments to recognized auxiliary organizations for services, office space rental, and programs		100,000
Gifts-in-kind to the University from recognized auxiliary organizations		139,399
Payments to the Office of the Chancellor for State pro rata charges		12,780
Amounts receivable from the Office of the Chancellor		64,669
Amounts receivable from recognized auxiliary organizations		161,901
Other receivable from recognized auxiliary organizations and public entities		3,634,428
Other payable to recognized auxiliary organizations		(659,475)
State lottery appropriations received		145,520