



CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Notes to Financial Statements	18



KPMG LLP
Suite 700
600 Anton Boulevard
Costa Mesa, CA 92626-7651

Independent Auditors' Report

Dr. Albert Karnig
President
California State University, San Bernardino:

We have audited the accompanying financial statements of the California State University, San Bernardino (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the three discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 1, 2006

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

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

Introduction to the Financial Statements

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

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

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

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

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

Analytical Overview

Summary

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

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

Condensed Summary of Net Assets

	June 30	
	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 48,476,210	73,707,782
Capital assets	270,827,679	255,077,855
Other noncurrent assets	75,511,925	66,467,062
Total assets	<u>394,815,814</u>	<u>395,252,699</u>
Liabilities:		
Current liabilities	32,298,010	27,223,655
Long-term debt obligations, net of current portion	93,280,401	88,594,886
Other noncurrent liabilities	5,168,878	4,765,925
Total liabilities	<u>130,747,289</u>	<u>120,584,466</u>
Net assets:		
Invested in capital assets, net of related debt	184,339,292	186,032,655
Restricted – expendable	62,095,193	68,852,446
Unrestricted	17,634,040	19,783,132
Total net assets	<u>\$ 264,068,525</u>	<u>274,668,233</u>

Assets

Total assets as of June 30, 2006 and 2005 were \$394.8 million and \$395.3 million, respectively, and are primarily comprised of cash and short-term investments, accounts receivable, and capital assets. The \$0.4 million decrease is primarily due to a decrease in prepaid expenses of \$3.1 million, as a result of the campus not prepaying the California State University Risk Management Authority (CSURMA) self-insurance bill as in the prior year, a decrease of \$0.4 million in student loans receivable, a decrease of \$5.1 million in cash and investments resulting from lower levels of unspent bond proceeds invested, and a decrease of \$7.6 million in accounts receivable resulting from the progress of building projects using state appropriated capital funds. The decreases are offset by an increase of \$15.7 million in capital assets.

At June 30, 2006, the University had \$270.8 million invested in capital assets, net of accumulated depreciation, as compared to \$255.1 million at June 30, 2005. The \$15.7 million net increase includes \$12.1 million in construction work in progress on the Student Recreation Center, the Biological and Physical Sciences Buildings renovation, the new College of Education, and new parking structures. Additions to completed projects totaling \$9.8 million are composed of the Student Union Expansion/Renovation and the Chemical Sciences Annex. Offsetting these additions are capital asset retirements and depreciation.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

Liabilities

Total liabilities at June 30, 2006 and 2005 were \$130.7 million and \$120.6 million, respectively. A significant factor in the \$5.1 million increase in current liabilities over the prior year is an increase in accounts payable of \$2.9 million, mainly the result of year-end financial aid accruals and the timing of disbursements. Remaining differences were comprised of increases in accrued salaries and benefits payable due to faculty salary raises, accrued compensated absences, and deferred revenue due to slightly higher enrollment. Long-term debt obligations, net of current portion, increased by \$4.7 million owing to two new capital leases representing \$6.8 million, offset by savings from a bond refunding.

Net Assets

The University's net assets totaled \$264.1 million and \$274.7 million at June 30, 2006 and 2005, respectively. A significant portion of net assets at the end of the year is invested in capital assets, net of related debt, which totaled \$184.3 million and \$186.0 million at June 30, 2006 and 2005, respectively. Restricted expendable net assets totaled \$62.1 million and \$68.9 million at June 30, 2006 and 2005, respectively. Unrestricted net assets totaled \$17.6 million and \$19.8 million at June 30, 2006 and 2005, respectively.

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

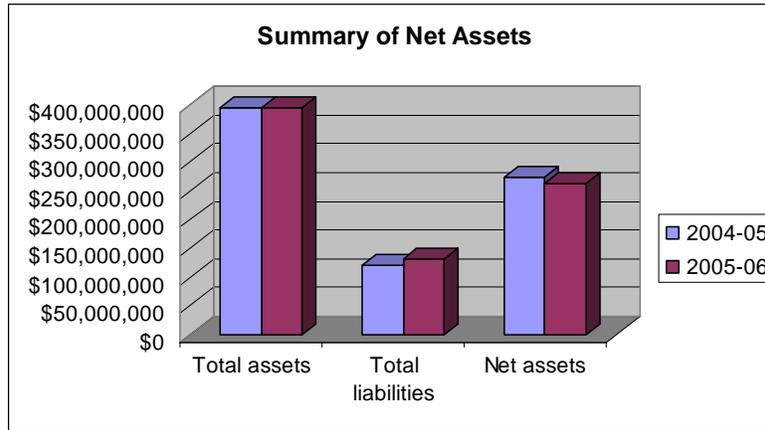
	June 30	
	2006	2005
Expendable:		
Scholarships and fellowships	\$ 627,201	479,029
Capital projects	60,931,303	67,865,062
Loans	536,689	508,355
Total restricted net assets – expendable	<u>\$ 62,095,193</u>	<u>68,852,446</u>

The \$6.8 million decrease in restricted net assets – expendable is primarily due to the progress of capital projects funded by state capital appropriations and bonds.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006



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

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

	Year ended June 30	
	2006	2005
Operating revenues:		
Student tuition and fees	\$ 31,522,168	29,671,719
Grants, contracts, and gifts	28,561,193	26,590,512
Sales and services of auxiliary enterprises, net	10,882,123	8,018,428
Other operating revenue	2,004,904	116,941
	<u>72,970,388</u>	<u>64,397,600</u>
Operating expenses	<u>(175,359,881)</u>	<u>(156,092,463)</u>
Nonoperating revenues (expenses):		
State appropriations	91,842,560	87,822,287
Investment income	1,374,395	1,214,528
Other nonoperating expenses	(2,588,170)	(2,082,728)
Total nonoperating revenues (expenses)	<u>90,628,785</u>	<u>86,954,087</u>
Other capital-related revenues:		
State appropriations, capital	1,161,000	53,350,000
Grants and gifts, capital	—	3,593,558
Increase (decrease) in net assets	<u>(10,599,708)</u>	<u>52,202,782</u>
Net assets at beginning of year	<u>274,668,233</u>	<u>222,465,451</u>
Net assets at end of year	<u>\$ 264,068,525</u>	<u>274,668,233</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

Operating Revenues and Expenses

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

Operating Revenues

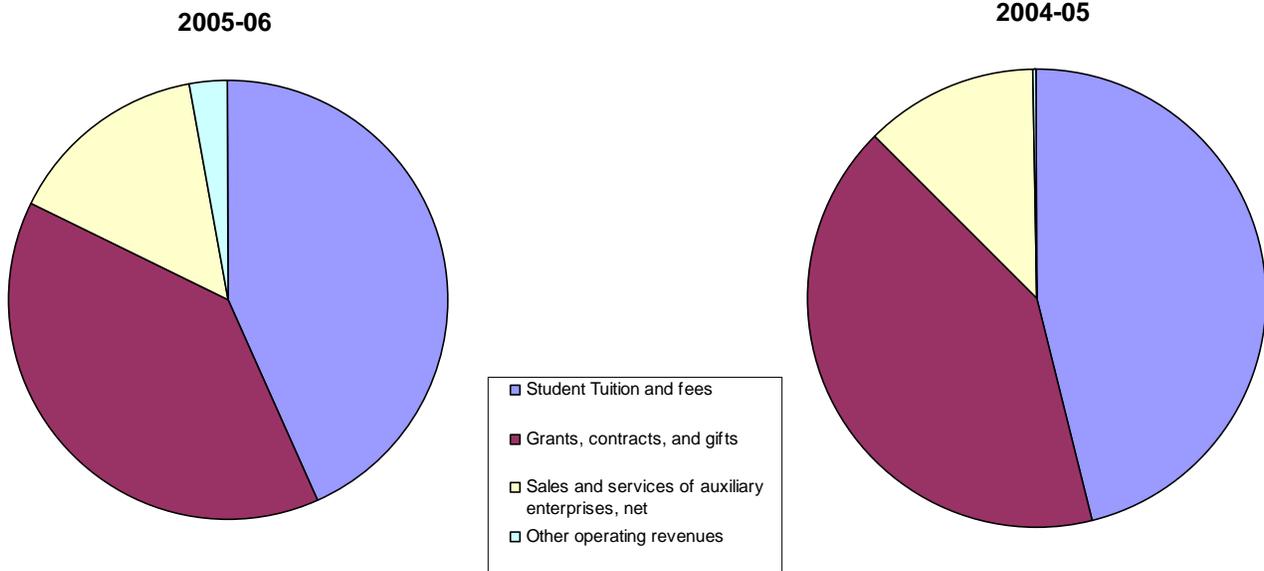
The University recognized \$73.0 million in operating revenues during this fiscal year, as compared to \$64.4 million in the prior year. This comprised 43% of total revenues for the year ended June 30, 2006, compared to 31% of total revenues for the year ended June 30, 2005. Student tuition and fees, net of scholarship allowances, increased by \$1.9 million, or 6.2%. This was due to the general increases in California State University (CSU) fees and an increase of 67 student full time equivalents (FTEs). Fee increases were implemented based upon action of the CSU board of trustees which increased the State University fee by 8% for undergraduates, 8% for post-baccalaureate/graduate students seeking teaching credentials, and 10% for all other post-baccalaureate/graduate students. Federal grants and contracts decreased by \$0.6 million from prior year while state grants increased by \$2.6 million, as a result of an increase in Cal Grants to support higher State University fees. In 2005/2006, an average 4,816 Cal Grant awards were offered and paid, in comparison to an average 4,303 awards offered and paid in 2004/2005. Sales and services of auxiliary enterprises increased by \$2.9 million. This was due to an increase of \$1.4 million in housing revenues as a result of higher room and occupancy rates, and an increase of \$1.5 million in parking revenues. In order to fund future new parking structures, the parking fee for students and unrepresented employees was increased to \$24 per month from \$12 per month effective July 1, 2005.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

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



Operating Expenses

The University's operating expenses consist of salaries and fringe benefits of \$117.2 million, supplies and services of \$27.7 million, scholarships and fellowships of \$14.4 million, and depreciation of \$16.1 million. Total operating expenses, excluding depreciation, increased by \$15.9 million over the prior year primarily due to changes in instruction, student services, institutional support, operation and maintenance of plant, and auxiliary enterprise expense.

Salaries costs increased in total by \$6.4 million due to general salary increases for both faculty and staff. Also noted was the expense associated with hiring replacement faculty and staff at higher salary rates, bonuses, reclassifications, and in-range progressions due to comparative market pressures. Benefits costs increased by \$2.3 million as a result of higher employer contributions to health and welfare benefits. Student grants and Scholarships increased by \$0.9 million, reflective of an increase in the State University grant allocation. The increase in depreciation expense of \$3.4 million is attributable to net depreciable capital asset additions of \$30.8 million in 2004-05 and \$49.0 million in 2005-06. Supplies and services expenses increased by \$6.3 million, reflecting an improvement in the budget from prior year when severe budget cuts imposed a sharp reduction in spending.

The instruction function increased by \$10.9 million because of general salary increases and increases in benefits costs, and other expenses were back in line with fiscal year 2003-04 totals after severe reining in of planned purchases in 2004-05. Student services expenses increased by \$2.5 million over prior year primarily due to a change in reporting Student Union expenses more appropriately here instead of as auxiliary enterprise expense. Auxiliary enterprise expenses reflected this comparable reclassification, though expenses increased overall by \$0.8 million due to higher salaries and benefits costs, Parking Services' contribution toward preparing for

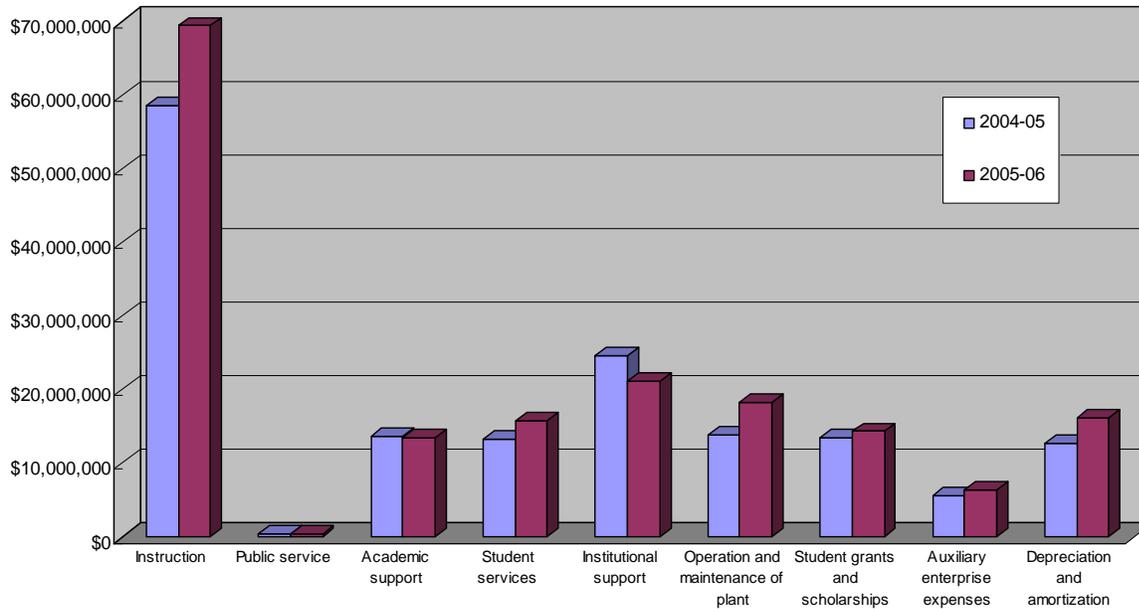
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

construction of new facilities, higher utility costs in the housing residences, and additional fee waiver expense. Institutional support expenses decreased by \$3.5 million. Of this, \$0.6 million was related to a capital lease purchase through Key Government Finance. The lease funded the campus' voice over internet protocol (VOIP) implementation. Other operating expenses of \$4.5 million in this category were for common management system (CMS) projects that were purchased through a capital lease, and thus not expensed as in prior years. Offsetting the reduction in supplies and other services was an increase of \$1.0 million in salaries and benefits expense. Operations and maintenance of plant expenses increased by \$4.4 million, mainly due to increases in the cost of utilities, various remodeling projects, and salary increases.

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



Nonoperating and Other Revenues (Expenses)

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

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$1.2 million for the fiscal year ended June 30, 2006, down from \$53.4 million for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled \$91.8 million, an increase of \$4.0 million from the prior year. Interest on capital-related debt increased by \$1.6 million due to a full year of interest payments on 2005A Housing, Student Union and Recreation Center system-wide revenue bonds which were new in fiscal year 2004-05.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

Capital Assets and Long-Term Debt Obligations

Capital Assets

Capital assets, net of accumulated depreciation are shown below:

	June 30	
	2006	2005
Land and land improvements	\$ 9,568,997	9,568,997
Works of art and historical treasures	120,000	120,000
Buildings and building improvements	211,003,875	178,787,183
Improvements, other than buildings	1,888,387	2,326,286
Infrastructure	14,386,608	15,451,761
Personal property	7,926,196	6,425,140
Intangible assets	6,587,042	3,755,861
Construction work in progress	19,346,574	38,642,627
Total capital assets, net of accumulated depreciation	<u>\$ 270,827,679</u>	<u>255,077,855</u>

At June 30, 2006 and 2005, the University had \$270.8 million and \$255.1 million, respectively, in capital assets, net of accumulated depreciation of \$159.7 million and \$145.8 million. Depreciation expense totaled \$16.1 million and \$12.8 million for the years ended June 30, 2006 and 2005, respectively.

Major capital projects completed during fiscal year 2006, and total project costs, are as follows:

- Student Union Expansion/Renovation, (\$19.6 million), funded by system-wide revenue bonds, student union contributions, and private donations
- Chemical Sciences Building, (\$26.2 million), funded by state appropriations

The first of these projects renovated 22,000 square feet of space in the existing Santos Manuel Student Union and constructed an additional 40,000 square feet. Renovation included functional modifications as well as code upgrades. The additional space included a second story, lounge/study areas, a 200-seat theater, meeting rooms, club and organization workspace, retail space, a radio station, and office space. The project received a "Gold Nugget Award of Merit".

The completion of the Chemical Sciences Building enabled the Biological and Physical Sciences Buildings to be vacated for renovation.

Expenditures were initiated during fiscal year 2006 on the following major capital projects (in millions):

- Biological and Physical Sciences Buildings Renovation, funded by state appropriations \$26.3
- College of Education, funded by state appropriations 51.0
- Student Recreation Center, funded by system-wide revenue bonds and student union contributions 13.1
- Parking structures, funded by system-wide revenue bonds and parking fees 26.9

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

The Biological and Physical Sciences Buildings Renovation will upgrade the building systems to meet current code requirements and contemporary laboratory design guidelines. Due for completion in the fall of 2007, the College of Education signature facility will become the largest and most technologically advanced building on the University's campus, providing 128,945 of gross square feet. In 2001, the University's students passed a fee referendum to provide funds to build a recreational and multipurpose facility to enhance student life. The 34,400 square feet building will include a climbing wall, a weight room, cardiovascular area, gym/athletic court, group fitness room, locker rooms, as well as administrative and staff offices. Completion is anticipated in December 2006. To better serve the campus community, Parking Services will construct two 750 space parking structures, a new administrative building, and a perimeter roadway improving access to the north side of the campus.

See note 5 of the notes to the financial statements for further information on capital assets.

Long-Term Debt Obligations

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

	June 30	
	2006	2005
System-wide revenue bonds	\$ 86,710,000	87,875,000
Capital leases	7,005,164	305,000
Total	93,715,164	88,180,000
Unamortized bond premium	2,176,761	1,764,886
Unamortized loss on refunding	(746,286)	—
Total long-term debt	95,145,639	89,944,886
Less current portion	1,865,238	1,350,000
Long-term debt, net of current portion	\$ 93,280,401	88,594,886

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

At June 30, 2006 and 2005, the University had \$95.1 million and \$89.9 million, respectively, in debt outstanding. During the current fiscal year, Housing series AZ revenue bonds were replaced with new system-wide revenue bonds. Two additional capital leases provided for the purchase of a VOIP telecommunication system from SBC DataComm, and the implementation of new CMS systems such as the PeopleSoft student module through the CSU Institute.

Bond Ratings

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

See notes 6 through 9 of the notes to the financial statements for further information on long-term debt obligations.

Factors Impacting Future Periods

The 2006-07 State budget, approved on schedule, provided the CSU with \$226 million in new revenue, which represented a 7.8% increase over 2005-06 appropriations. Included in the budget was \$54.4 million to eliminate a proposed increase to the State University fee.

As stipulated in the Higher Education Compact, the CSU received a 3.0% general fund increase (\$75.8 million) and \$61.3 million for a 2.5% enrollment growth (roughly 11,000 additional students). The budget also included permanent outreach funding of \$7.0 million, \$2.4 million to support nursing education, and \$1.1 million for teacher training in math and science.

The CSU allocated \$77.4 million to fund a 3.0% compensation pool for all employees. An additional \$16.6 million is to be used to pay for the first year of the salary lag plan. The budget allocated \$33.6 million for mandatory cuts (e.g., health benefits, new space, energy) and \$10.0 million for technology, libraries, deferred maintenance, and instructional equipment.

With regard to the campus, the \$146.0 million general fund budget represents an increase of \$7.7 million from prior year. Among the highlights of the budget are:

- No changes to State University Fee rates.
- AB1802 passed effective July 1, 2006, which permitted the deposit and maintenance of higher education fees in the State University Trust Fund.
- Campus "assessed" \$200,640 for interest lost by the State as a result of the CSU implementation of AB1802.
- Graduate unit load for FTE reduced to 12 units per term.
- Campus budget reduced by \$18,200 to support additional System-wide auditors and the Whistleblower program.
- New enrollment (409 FTEs) funded at a marginal cost rate of \$8,247 per FTE.
- Funding for outreach (\$271,900) returned to the campus.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2006

Specific funding changes for the campus included:

PERS Retirement	(\$815,000)
Employer contribution to PERS decreased from 17.022% to 15.942% in FY 2005-2006.	
State University Grant (SUG)	\$178,300
Increased funding for SUG resulted from enrollment growth.	
Health Insurance	\$743,000
Funds were provided to pay for increase in health insurance premiums.	
Service-based Salary Increases (SSI)	\$158,100
Covers the SSIs included in the CSU Employee Union 2005-2006 bargaining agreement.	
Energy Costs	\$176,500
The System-wide budget plan provided funding to cover half of the projected increase in utility costs.	
Compensation	\$3,461,000
Funded an average 3.0% salary increase and 0.64% for the first of a 5 year system-wide plan to address faculty and staff salary lags.	
Outreach	\$271,900
Reimbursed campus for a reduction in outreach funding that took place in 2004-2005.	
Deferred Maintenance	\$102,250
Assisted campus with backlog in deferred maintenance.	
Utilities	\$327,000
Campus funding was required to pay for the increased cost for electricity, water and natural gas.	
Risk Management Insurance	\$131,000
Campus funded an increase for insurance premiums.	

Additionally, the campus will borrow \$5 million to pay for the continued implementation of the PeopleSoft student module and the conversion of the Foundation Human Resources to PeopleSoft.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Net Assets

June 30, 2006

Assets	University	Discretely presented component units		Total
		GASB auxiliary organization	FASB auxiliary organizations	
Current assets:				
Cash and cash equivalents	\$ 14,770,141	213,201	2,939,926	17,923,268
Short-term investments	26,658,323	2,293,120	11,444,348	40,395,791
Accounts receivable, net	6,012,301	20,510	8,393,432	14,426,243
Prepaid expenses and other assets	1,035,445	24,116	1,784,245	2,843,806
Total current assets	48,476,210	2,550,947	24,561,951	75,589,108
Noncurrent assets:				
Accounts receivable, net	64,636,816	—	—	64,636,816
Student loans receivable, net	1,606,062	—	—	1,606,062
Pledges receivable, net	—	—	5,516,336	5,516,336
Other long-term investments	9,269,047	—	13,136,942	22,405,989
Capital assets, net	270,827,679	182,272	23,377,114	294,387,065
Other assets	—	—	1,317,012	1,317,012
Total noncurrent assets	346,339,604	182,272	43,347,404	389,869,280
Total assets	394,815,814	2,733,219	67,909,355	465,458,388
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	9,507,934	77,817	1,304,670	10,890,421
Accrued salaries and benefits payable	7,566,025	—	351,571	7,917,596
Accrued compensated absences – current portion	4,219,722	36,018	160,906	4,416,646
Deferred revenue	6,031,990	—	69,486	6,101,476
Capitalized lease obligations – current portion	250,238	—	—	250,238
Long-term debt obligations – current portion	1,615,000	—	—	1,615,000
Self-insurance claims liability – current portion	221,000	—	—	221,000
Other liabilities	2,886,101	—	4,979,956	7,866,057
Total current liabilities	32,298,010	113,835	6,866,589	39,278,434
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	3,131,332	—	120,280	3,251,612
Grants refundable	2,037,546	—	—	2,037,546
Capitalized lease obligations, net of current portion	6,754,926	—	—	6,754,926
Long-term debt obligations, net of current portion	86,525,475	—	—	86,525,475
Other liabilities	—	—	720,579	720,579
Total noncurrent liabilities	98,449,279	—	840,859	99,290,138
Total liabilities	130,747,289	113,835	7,707,448	138,568,572
Net assets:				
Invested in capital assets, net of related debt	184,339,292	182,272	23,377,114	207,898,678
Restricted for:				
Nonexpendable – endowments	—	—	7,813,958	7,813,958
Expendable:				
Scholarships and fellowships	627,201	—	1,148,703	1,775,904
Loans	536,689	—	—	536,689
Capital projects	60,931,303	—	21,590,634	82,521,937
Other	—	—	2,884,800	2,884,800
Unrestricted	17,634,040	2,437,112	3,386,698	23,457,850
Total net assets	\$ 264,068,525	2,619,384	60,201,907	326,889,816

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

	<u>University</u>	<u>Discretely presented component units</u>		<u>Eliminations</u>	<u>Total</u>
		<u>GASB auxiliary organization</u>	<u>FASB auxiliary organizations</u>		
Revenues:					
Operating revenues:					
Student tuition and fees ,net of scholarship allowances of \$28,435,093	\$ 31,522,168	—	824,253	(80,251)	32,266,170
Grants and contracts, noncapital:					
Federal	18,722,613	—	10,598,626	—	29,321,239
State and local	9,838,580	—	8,061,295	(118,049)	17,781,826
Nongovernmental	—	—	7,465,212	—	7,465,212
Sales and services of auxiliary enterprises, net of scholarship allowances of \$0	10,882,123	3,150,162	11,317,576	(24,996)	25,324,865
Other operating revenues	2,004,904	—	5,559,461	—	7,564,365
Total operating revenues	<u>72,970,388</u>	<u>3,150,162</u>	<u>43,826,423</u>	<u>(223,296)</u>	<u>119,723,677</u>
Expenses:					
Operating expenses:					
Instruction	69,489,181	—	2,319,347	—	71,808,528
Research	—	—	756,379	—	756,379
Public service	465,604	—	12,068,724	—	12,534,328
Academic support	13,484,052	—	6,294,682	—	19,778,734
Student services	15,761,786	834,960	6,270,825	(223,296)	22,644,275
Institutional support	21,102,948	—	749,157	—	21,852,105
Operation and maintenance of plant	18,211,690	—	—	—	18,211,690
Student grants and scholarships	14,353,015	—	2,196,428	—	16,549,443
Auxiliary enterprise expenses	6,369,894	1,110,501	10,744,873	—	18,225,268
Depreciation	16,121,711	32,106	1,193,755	—	17,347,572
Total operating expenses	<u>175,359,881</u>	<u>1,977,567</u>	<u>42,594,170</u>	<u>(223,296)</u>	<u>219,708,322</u>
Operating income (loss)	<u>(102,389,493)</u>	<u>1,172,595</u>	<u>1,232,253</u>	<u>—</u>	<u>(99,984,645)</u>
Nonoperating revenues (expenses):					
State appropriations, noncapital	91,842,560	—	—	—	91,842,560
Gifts, noncapital	341,221	—	12,629,653	—	12,970,874
Investment income, net	1,374,395	100,638	1,048,742	—	2,523,775
Endowment income	—	—	643,036	—	643,036
Interest on capital-related debt	(4,447,088)	—	—	—	(4,447,088)
Other nonoperating revenues (expenses), net	1,517,697	(6,652)	(753,470)	—	757,575
Net nonoperating revenues	<u>90,628,785</u>	<u>93,986</u>	<u>13,567,961</u>	<u>—</u>	<u>104,290,732</u>
Income (loss) before other additions	<u>(11,760,708)</u>	<u>1,266,581</u>	<u>14,800,214</u>	<u>—</u>	<u>4,306,087</u>
State appropriations, capital	1,161,000	—	—	—	1,161,000
Increase (decrease) in net assets	<u>(10,599,708)</u>	<u>1,266,581</u>	<u>14,800,214</u>	<u>—</u>	<u>5,467,087</u>
Net assets:					
Net assets at beginning of year	274,668,233	1,352,803	45,401,693	—	321,422,729
Net assets at end of year	<u>\$ 264,068,525</u>	<u>2,619,384</u>	<u>60,201,907</u>	<u>—</u>	<u>326,889,816</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Cash Flows

Year ended June 30, 2006

	University
Cash flows from operating activities:	
Student tuition and fees	\$ 31,753,185
Federal grants and contracts	18,803,246
State and local grants and contracts	9,891,915
Payments to suppliers	(22,165,768)
Payments to employees	(115,925,369)
Payments to students	(14,353,015)
Collections of student loans	358,142
Sales and services of auxiliary enterprises	11,141,718
Other receipts	12,049,943
Net cash used in operating activities	(68,446,003)
Cash flows from noncapital financing activities:	
State appropriations	89,283,693
Gifts and grants received for other-than-capital purposes	341,221
Federal loan program receipts	374,898
Federal loan program disbursements	(379,750)
Other	1,581,659
Net cash provided by noncapital financing activities	91,201,721
Cash flows from capital and related financing activities:	
Proceeds from capital debt	12,388,236
State appropriations	19,319,361
Acquisition of capital assets	(24,626,229)
Transfers to escrow agent	(13,007,186)
Principal paid on capital debt and leases	(2,093,912)
Interest paid on capital debt and leases	(4,456,048)
Net cash used in capital and related financing activities	(12,475,778)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	11,000,000
Purchases of investments	(27,865,748)
Investment income received	(114,166)
Net cash used in investing activities	(16,979,914)
Net decrease in cash and cash equivalents	(6,699,974)
Cash and cash equivalents at beginning of year	21,470,115
Cash and cash equivalents at end of year	\$ 14,770,141

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (102,389,493)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	16,121,711
Change in assets and liabilities:	
Accounts receivable, net	10,109,777
Student loans receivable, net	358,141
Prepaid expenses and other assets	3,078,998
Accounts payable	3,527,438
Accrued salaries and benefits	736,753
Accrued compensated absences	558,075
Deferred revenue	506,507
Due to California State University Risk Management Authority	(1,141,000)
Other liabilities	87,090
Net cash used in operating activities	<u>\$ (68,446,003)</u>
Supplemental schedule of noncash transactions:	
Acquisition of capital asset through capital lease	\$ 7,964,076
Accrued capital asset costs (purchased but unpaid at year end)	(654,294)
Capital asset transferred from the Office of the Chancellor	5,064

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

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

The discretely presented auxiliary organizations are as follows:

- Santos Manual Student Union of California State University, San Bernardino (Student Union) (a GASB auxiliary organization)
- Associated Students Incorporated, California State University, San Bernardino (Associated Students) (a Financial Accounting Standards Board (FASB) auxiliary organization)
- The Foundation for the California State University, San Bernardino (Foundation) (a FASB auxiliary organization).

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

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

<u>June 30, 2006</u>	<u>Associated Students</u>	<u>Foundation</u>	<u>Student Union</u>	<u>Total</u>
Current assets	\$ 1,044,755	23,517,196	2,550,947	27,112,898
Capital assets, net	5,140	23,371,974	182,272	23,559,386
Other noncurrent assets	—	19,970,290	—	19,970,290
Total assets	<u>1,049,895</u>	<u>66,859,460</u>	<u>2,733,219</u>	<u>70,642,574</u>
Current liabilities	170,880	6,695,709	113,835	6,980,424
Noncurrent liabilities	—	840,859	—	840,859
Total liabilities	<u>170,880</u>	<u>7,536,568</u>	<u>113,835</u>	<u>7,821,283</u>
Invested in capital assets, net of related debt	5,140	23,371,974	182,272	23,559,386
Restricted	—	33,438,095	—	33,438,095
Unrestricted	873,875	2,512,823	2,437,112	5,823,810
Total net assets	\$ <u><u>879,015</u></u>	<u><u>59,322,892</u></u>	<u><u>2,619,384</u></u>	<u><u>62,821,291</u></u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

<u>June 30, 2006</u>	<u>Associated Students</u>	<u>Foundation</u>	<u>Student Union</u>	<u>Total</u>
Operating revenues:				
Student tuition and fees	\$ 824,253	—	—	824,253
Grants and contracts, noncapital	—	26,125,133	—	26,125,133
Sales and services of auxiliary enterprises, net	215,512	11,102,064	3,150,162	14,467,738
Other	4,365	5,555,096	—	5,559,461
Total operating revenues	<u>1,044,130</u>	<u>42,782,293</u>	<u>3,150,162</u>	<u>46,976,585</u>
Operating expenses:				
Instruction	—	2,319,347	—	2,319,347
Research	—	756,379	—	756,379
Public service	—	12,068,724	—	12,068,724
Academic support	—	6,294,682	—	6,294,682
Student services	610,952	5,659,873	834,960	7,105,785
Institutional support	—	749,157	—	749,157
Student grants and scholarships	135,382	2,061,046	—	2,196,428
Auxiliary enterprise expenses	237,297	10,507,576	1,110,501	11,855,374
Depreciation	6,080	1,187,675	32,106	1,225,861
Total operating expenses	<u>989,711</u>	<u>41,604,459</u>	<u>1,977,567</u>	<u>44,571,737</u>
Operating income	54,419	1,177,834	1,172,595	2,404,848
Net nonoperating revenues	<u>13,382</u>	<u>13,554,579</u>	<u>93,986</u>	<u>13,661,947</u>
Increase in net assets	67,801	14,732,413	1,266,581	16,066,795
Net assets at beginning of year	<u>811,214</u>	<u>44,590,479</u>	<u>1,352,803</u>	<u>46,754,496</u>
Net assets at end of year	<u>\$ 879,015</u>	<u>59,322,892</u>	<u>2,619,384</u>	<u>62,821,291</u>

The auxiliary organizations are presented in the accompanying financial statements as component units due to the nature and significance of their relationships 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, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the System as of June 30, 2006 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

(b) *Basis of Presentation*

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

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

The Foundation and Associated Students, Inc. auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the FASB. The Student Union applies the accounting and reporting standards promulgated by the GASB.

(c) *Election of Applicable FASB Statements*

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

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

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

(e) *Cash and Cash Equivalents*

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(f) Investments

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

(g) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of 1 year or more are capitalized. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

(h) Deferred Revenue

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

(i) Compensated Absences

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

(j) Grants Refundable

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(k) Net Assets

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

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

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

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

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

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

(l) Classification of Revenues and Expenses

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

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

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(m) Income Taxes

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

(n) Eliminations

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

(o) 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, 2006 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 14,770,141
Short-term investments	26,658,323
Other long-term investments	<u>9,269,047</u>
Total cash and cash equivalents and investments	<u>\$ 50,697,511</u>

(a) Cash and Cash Equivalents

At June 30, 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$14,770,141 had a corresponding carrying value balance with the State Treasury of \$690,582 at June 30, 2006. The difference related primarily to deposits in transit and outstanding checks.

(b) Investments

At June 30, 2006, the University's investment portfolio consisted primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

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 California Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

Interest Rate Risk

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2006:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 20,671	0.01	\$ —	—	—	20,671
Certificates of deposit	122,609	1.41	—	45,974	76,635	—
Commercial paper	50,016	0.01	—	—	—	50,016
U.S. agency securities	395,312	1.46	395,312	—	—	—
Mortgage-backed securities	128,960	10.57	128,960	—	—	—
Corporate and fixed-income securities	346,301	1.74	26,944	98,733	220,624	—
State of California Surplus Money Investment Fund	20,173,807	0.42	—	—	—	20,173,807
State of California Local Agency Investment Fund	14,547,803	0.42	—	—	—	14,547,803
Total	35,785,479		\$ 551,216	144,707	297,259	34,792,297
Not subject to ratings:						
U.S. Treasury securities	141,891	1.85				
Total investments	\$ 35,927,370					

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, 2006, there were no investments representing 5% or more of the University's investment portfolio.

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

(4) Accounts Receivable

Accounts receivable at June 30, 2006 consisted of the following:

	Current	Noncurrent	Total
State appropriations	\$ 2,518,803	64,636,816	67,155,619
Auxiliary organizations	1,063,794	—	1,063,794
Student accounts	1,178,985	—	1,178,985
Government grants and contracts	261,187	—	261,187
Other	1,688,563	—	1,688,563
	6,711,332	64,636,816	71,348,148
Less allowance for doubtful accounts	(699,031)	—	(699,031)
Total	\$ 6,012,301	64,636,816	70,649,117

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(5) Capital Assets

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

	Balance, June 30, 2005	Additions	Retirements	Transfers	Balance, June 30, 2006
Nondepreciable capital assets:					
Land and land improvements	\$ 9,568,997	—	—	—	9,568,997
Works of art and historical treasures	120,000	—	—	—	120,000
Construction work in progress	38,642,627	12,103,909	—	(31,399,962)	19,346,574
Total nondepreciable capital assets	48,331,624	12,103,909	—	(31,399,962)	29,035,571
Depreciable capital assets:					
Buildings and building improvements	262,684,327	9,799,972	—	31,399,962	303,884,261
Improvements, other than buildings	25,462,172	—	—	—	25,462,172
Infrastructure	22,776,297	—	—	—	22,776,297
Personal property:					
Equipment	17,877,645	4,071,387	(1,106,075)	—	20,842,957
Library books and materials	12,819,790	520,906	(1,312)	—	13,339,384
Intangible assets	10,948,655	5,465,157	(1,195,200)	—	15,218,612
Total depreciable capital assets	352,568,886	19,857,422	(2,302,587)	31,399,962	401,523,683
Total cost	400,900,510	31,961,331	(2,302,587)	—	430,559,254
Less accumulated depreciation:					
Buildings and building improvements	(83,897,144)	(8,983,242)	—	—	(92,880,386)
Improvements, other than buildings	(23,135,886)	(437,899)	—	—	(23,573,785)
Infrastructure	(7,324,536)	(1,065,153)	—	—	(8,389,689)
Personal property:					
Equipment	(13,869,318)	(2,549,035)	1,016,410	—	(15,401,943)
Library books and materials	(10,402,977)	(452,406)	1,181	—	(10,854,202)
Intangible assets	(7,192,794)	(2,633,976)	1,195,200	—	(8,631,570)
Total accumulated depreciation	(145,822,655)	(16,121,711)	2,212,791	—	(159,731,575)
Net capital assets	\$ 255,077,855	15,839,620	(89,796)	—	270,827,679

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(6) 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 \$5,601,371 at June 30, 2006. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.98% to 4.40% and have terms expiring in various years through 2015.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2011. The leases can be canceled if the state does not provide adequate funding.

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2007	\$ 293,006	52,645
2008	805,871	8,713
2009	1,396,195	8,713
2010	1,395,783	8,713
2011	1,103,157	3,336
2012 – 2016	<u>3,038,819</u>	<u>—</u>
Total minimum lease payments	8,032,831	\$ <u><u>82,120</u></u>
Less amount representing interest	<u>(1,027,667)</u>	
Present value of future minimum lease payments	\$ <u><u>7,005,164</u></u>	

Rent expense under operating leases for the year ended June 30, 2006 totaled \$79,585.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2006 totaled \$554,748,000.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(7) Long-term Debt Obligations

(a) *General Obligation Bond Program*

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

(b) *Revenue Bond Programs*

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

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

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

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for construction, repair and maintenance, and 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.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

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

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

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

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue-producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$1,982,433,000 at June 30, 2006. The University's portion of the total outstanding balance under this program was \$86,710,000 at June 30, 2006.

Senior to the System-wide Revenue Bonds are the Student Union System-wide Revenue Bonds Series A, B, and C. At June 30, 2006, the System's outstanding balance for these senior bonds totaled \$70,820,000. The University had no outstanding balances for these senior bonds at June 30, 2006.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

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

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Systemwide Revenue Bonds:				
Student Union Series 2002A	3.0% – 5.5%	2021/2022	\$ 2,905,000	2,570,000
Student Union Series 2005A	2.5 – 5.5	2035/2036	16,750,000	16,750,000
Student Union Series 2005A Expansion	2.5 – 5.5	2035/2036	11,250,000	11,250,000
Housing Series 2002A	3.0 – 5.5	2031/2032	17,035,000	16,070,000
Housing Series 2005A	2.5 – 5.0	2034/2035	28,575,000	28,165,000
Housing Series 2005C	3.0 – 5.5	2031/2032	11,905,000	11,905,000
Total				86,710,000
Unamortized bond premium				2,176,761
Unamortized loss on refunding				(746,286)
Total long-term debt				88,140,475
Less current portion				(1,615,000)
Long-term debt, net of current portion				<u>\$ 86,525,475</u>

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2007	\$ 1,615,000	4,158,177
2008	1,675,000	4,106,758
2009	1,730,000	4,052,546
2010	1,795,000	3,991,660
2011	1,870,000	3,916,357
2012 – 2016	10,665,000	18,244,818
2017 – 2021	13,695,000	15,220,803
2022 – 2026	16,450,000	11,428,912
2027 – 2031	20,805,000	6,807,144
2032 – 2036	16,410,000	1,761,750
	<u>\$ 86,710,000</u>	<u>73,688,925</u>

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(8) Advance Refundings

(a) Current-year Refundings

In October 2005, the University defeased (refunded bonds) Housing System-wide Revenue Bonds Series AZ by placing a portion of the proceeds from the issuance of the System-wide Revenue Bonds Series 2005C refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2005C refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. This transaction will reduce the University's total debt service payments by \$1,490,618 over the life of the bonds. The economic gain from this transaction was \$580,441. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the University's defeased bonds outstanding as of June 30, 2006 totaled \$12,025,000.

(9) Long-term Liabilities Activity

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 6,792,978	7,351,054	(6,792,978)	7,351,054	4,219,722
Capitalized lease obligations	305,000	7,964,076	(1,263,912)	7,005,164	250,238
Long-term debt obligations:					
Systemwide Revenue Bonds – Student Union	30,675,000	—	(105,000)	30,570,000	550,000
Systemwide Revenue Bonds – Housing	57,200,000	11,905,000	(12,965,000)	56,140,000	1,065,000
Total	87,875,000	11,905,000	(13,070,000)	86,710,000	1,615,000
Unamortized bond premium	1,764,886	483,236	(71,361)	2,176,761	—
Unamortized loss on refunding	—	(767,187)	20,901	(746,286)	—
Total long-term debt obligations	89,639,886	11,621,049	(13,120,460)	88,140,475	1,615,000
Total long-term liabilities	\$ 96,737,864	26,936,179	(21,177,350)	102,496,693	6,084,960

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(10) Pension Plan and Postretirement Benefits

(a) Plan Description

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

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

(b) Funding Policy

University personnel are required to contribute 5.0% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 15.9% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2004	\$	11,008,279
2005		12,323,969
2006		12,155,800

(11) Self-Insurance Program

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

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

Liability at June 30, 2004	\$ 118,711,000
Incurred claims and changes in estimates	33,419,000
Claim payments	<u>(34,491,000)</u>
Liability at June 30, 2005	117,639,000
Incurred claims and changes in estimates	23,938,000
Claim payments	<u>(29,201,000)</u>
Liability at June 30, 2006	112,376,000
Less current portion	<u>(27,441,000)</u>
Long-term liability at June 30, 2006, net of current portion	<u>\$ 84,935,000</u>

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

The University's allocation of the System's total self-insurance claims liability as of June 30, 2006 was approximately 3.5%, or \$3,980,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2006. The University funded all but \$221,000 of this liability, which is recorded as a component of current liabilities in the accompanying financial statements.

Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2006 totaled \$20,961,289. These expenditures will be funded primarily from state appropriations and System-wide Revenue Bonds.

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

(12) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2006, operating expenses by natural classification consisted of the following:

<u>2006</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 48,348,041	15,741,524	—	5,399,616	—	69,489,181
Public service	403,341	40,707	—	21,556	—	465,604
Academic support	8,429,292	2,951,091	—	2,103,669	—	13,484,052
Student services	8,257,540	2,610,189	—	4,894,057	—	15,761,786
Institutional support	12,820,532	4,802,670	—	3,479,746	—	21,102,948
Operation and maintenance of plant	6,898,386	3,072,448	—	8,240,856	—	18,211,690
Student grants and scholarships	—	—	14,353,015	—	—	14,353,015
Auxiliary enterprise expenses	1,920,061	924,375	—	3,525,458	—	6,369,894
Depreciation	—	—	—	—	16,121,711	16,121,711
Total	\$ <u>87,077,193</u>	<u>30,143,004</u>	<u>14,353,015</u>	<u>27,664,958</u>	<u>16,121,711</u>	<u>175,359,881</u>

(13) Transactions with Related Entities

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$93,003,560 for the year ended June 30, 2006. State appropriations receivable aggregated \$67,155,619 at June 30, 2006. The University also received lottery fund distributions from the State of California in the amount of \$1,112,000 for the year ended June 30, 2006, which is included in other nonoperating revenues and expenses.

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

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2006

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2006:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	2,241,079
Reimbursements from Auxiliary Organizations for other than salaries of University personnel		896,182
Payments to recognized auxiliary organizations for services, office space rental, and programs		1,192,376
Amounts receivable from recognized auxiliary organizations		1,063,794
Amounts payable to recognized auxiliary organizations		(165,528)