



CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
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 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

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

We have audited the accompanying financial statements of California State University, San Bernardino (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the 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 of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008, the changes in their financial position, and, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

As discussed in notes 2 and 11 to the financial statements, effective July 1, 2007, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs.

Management's discussion and analysis on pages 3 through 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

March 23, 2009

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

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

Introduction to the Financial Statements

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

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

Analytical Overview

Summary

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

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

Condensed Summary of Net Assets

	June 30	
	2008	2007
Assets:		
Current assets	\$ 60,486,846	66,727,616
Capital assets	361,519,443	327,525,768
Other noncurrent assets	15,166,799	61,878,276
Total assets	<u>437,173,088</u>	<u>456,131,660</u>
Liabilities:		
Current liabilities	40,138,825	51,204,705
Long-term debt obligations, net of current portion	119,035,295	122,065,809
Other noncurrent liabilities	14,903,034	16,320,280
Total liabilities	<u>174,077,154</u>	<u>189,590,794</u>
Net assets:		
Invested in capital assets, net of related debt	228,648,547	203,857,756
Restricted, expendable	9,724,633	38,073,977
Unrestricted	24,722,754	24,609,133
Total net assets	<u>\$ 263,095,934</u>	<u>266,540,866</u>

Assets

Total assets decreased \$18.9 million due to a \$6.2 million decrease in current assets, a \$34.0 million increase in capital assets, and a \$46.7 million decrease in other noncurrent assets.

Total current assets decreased \$6.2 million primarily due to a decrease in cash and short-term investments of \$5.5 million and a decrease in accounts receivable, net of \$1.0 million. The primary reason for the decrease in cash and short-term investments was due to lower levels of unspent bond proceeds invested as funds were used to pay toward projects, debt service, and loan principal, such as for parking and energy projects. The decrease in accounts receivable, net is a result of improved billings and collections due to the implementation of a new billing and receivable module.

Capital assets, net increased \$34.0 million primarily due to \$52.2 million of current year additions, which were partially offset by \$17.2 million in current year depreciation expense. The \$52.2 million in current year additions are primarily related to the College of Education Building (\$20.5 million), Physical Sciences Building Renovation (\$9.7 million), Energy Conservation Project (\$5.5 million), and Parking Structures/Roadway System (\$11.7 million).

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Other noncurrent assets decreased \$46.7 million primarily due to a \$12.0 million decrease in other long-term investments and a \$34.5 million decrease in accounts receivable, noncurrent. The decrease in other long-term investments was due to the spending of bond proceeds primarily for the Parking Structure/Roadway System project as work was completed. The decrease in accounts receivable, noncurrent related to the spending of capital appropriations for the College of Education Building, Physical Sciences Building Renovation and Energy Conservation Project, offset by the receipt of new appropriations for Palm Desert Campus Phase II and Pfau Library Replacement Deck projects.

Liabilities

Total liabilities decreased \$15.5 million from prior year due to an \$11.1 million decrease in current liabilities and a \$4.4 million decrease in noncurrent liabilities.

Current liabilities decreased \$11.1 million primarily due to a \$12.2 million decrease in accounts payable accruals associated with the completion or near completion of the College of Education, Biology Building Renovation, and Parking Structures/Roadway System projects, as well as an accrual for flood damage restoration. These decreases were partially offset by: (1) a \$0.7 million increase in accrued salaries and benefits and accrued compensated absences as a result of compensation increases and (2) a \$0.4 million increase in long-term debt obligations, current portion which reflects an increase for principal payments due in fiscal year 2009.

Total noncurrent liabilities decreased \$4.4 million primarily due to current year principal payments. The decrease was partially offset by a \$0.4 million increase in noncurrent accrued compensated absences due to compensation increases.

Net Assets

Total net assets decreased \$3.4 million from the prior year. A significant portion of net assets at the end of the year is invested in capital assets, net of related debt, which increased \$24.8 million from prior year primarily due to construction work in progress related to the College of Education Building, Physical Sciences Building Renovation, and the Energy Conservation Project.

\$9.7 million of net assets is restricted for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which decreased \$28.3 million from prior year as discussed on the following page. \$24.7 million of net assets at the end of the year is unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

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	
	2008	2007
Expendable:		
Scholarships and fellowships	\$ 357,355	673,564
Loans	479,761	550,263
Capital projects	8,887,517	35,361,300
Debt service	—	1,488,850
Total restricted net assets – expendable	<u>\$ 9,724,633</u>	<u>38,073,977</u>

Total restricted net assets – expendable decreased \$28.3 million. This decrease is primarily due to a \$29.9 million decrease in net assets restricted for capital projects as a result of capital expenditures associated with the College of Education Building, Parking Structures/Roadway System, Physical Sciences Building Renovation, and the Energy Conservation Project. This was partially offset by a \$3.6 million increase in restricted net assets for new appropriations for the Palm Desert Campus Phase II construction and Pfau Library Replacement Deck project.

Restricted net assets – expendable for debt service decreased \$1.5 million from prior year due to a payment for interest expense from this restricted net asset.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

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

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

	Year ended June 30	
	2008	2007
Operating revenues:		
Student tuition and fees, net	\$ 52,108,650	48,100,699
Sales and services of auxiliary enterprises, net	12,585,123	12,381,306
Other operating revenues	1,961,617	2,742,868
Total operating revenues	66,655,390	63,224,873
Operating expenses	(213,900,246)	(205,548,853)
Operating loss	(147,244,856)	(142,323,980)
Nonoperating revenues (expenses):		
State appropriations, noncapital	108,070,284	99,629,001
Federal financial aid grants, noncapital	21,555,275	19,844,444
State and local financial aid grants, noncapital	10,332,568	9,735,065
Nongovernmental and other financial aid grants, noncapital	50,000	—
Gifts, noncapital	296,514	354,766
Investment income, net	2,163,604	2,732,651
Interest expense	(4,174,345)	(3,586,904)
Other nonoperating revenues (expenses), net	3,114,194	9,008,298
Net nonoperating revenues	141,408,094	137,717,321
Loss before other additions	(5,836,762)	(4,606,659)
State appropriations, capital	738,444	7,079,000
Grants and gifts, capital	1,653,386	—
Increase (decrease) in net assets	(3,444,932)	2,472,341
Beginning net assets	266,540,866	264,068,525
Ending net assets	\$ 263,095,934	266,540,866

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Operating Revenues and Expenses

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

Operating Revenues

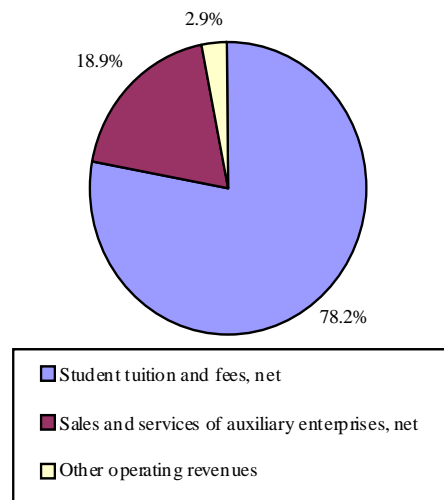
Total operating revenues increased \$3.4 million primarily due to a \$4.0 million increase in student tuition and fees, net, and a \$0.2 million increase in sales and services of auxiliary enterprises, net, offset by a decrease in other operating revenue. Student tuition and fees, net of scholarship allowances increased by \$4.0 million, or 8%, due primarily to a 10% California State University (CSU) student university fee increase. Sales and services of auxiliary enterprises, net, increased \$0.2 million from the prior year primarily due to a \$0.3 million increase in dormitory housing revenue primarily resulting from a 3% rate, offset slightly by lower occupancy in the current year. The decrease in other operating revenue is primarily due to a \$0.7 million reduction in project management costs as construction projects have declined.

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

Operating Revenues

Year ended June 30, 2008

Student tuition and fees, net	\$ 52,108,650	78.2%
Sales and services of auxiliary enterprises, net	12,585,123	18.9
Other operating revenues	<u>1,961,617</u>	<u>2.9</u>
Total operating revenues	<u>\$ 66,655,390</u>	<u>100.0%</u>



CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

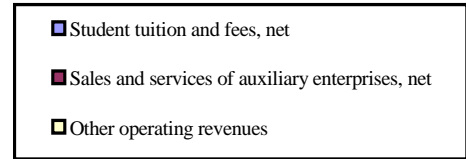
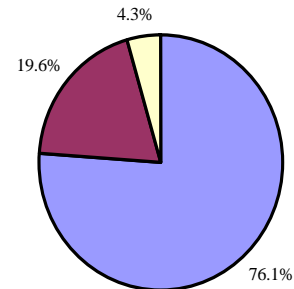
June 30, 2008

(Unaudited)

Operating Revenues

Year ended June 30, 2007

Student tuition and fees, net	\$ 48,100,699	76.1%
Sales and services of auxiliary enterprises, net	12,381,306	19.6
Other operating revenues	<u>2,742,868</u>	<u>4.3</u>
Total operating revenues	\$ <u><u>63,224,873</u></u>	<u><u>100.0%</u></u>



Operating Expenses

Total operating expenses increased by \$8.4 million, or 4.1%, primarily due to a \$6.3 million increase in instruction, a \$0.8 million increase in academic support, a \$1.9 million increase in student services, a \$1.8 million increase in institutional support, a \$2.9 million increase in student grants and scholarships, a \$0.5 million increase in auxiliary enterprises, and a \$0.7 million increase in depreciation offset by a decrease in operation and maintenance of plant of \$6.5 million. Salaries and benefit costs, within each of these functions, increased \$12.1 million primarily due to an average base salary rate increase of 3%, 1.7% increase for salary lag, and increase in health and retirement benefits due to increase in compensation. Supplies and other services expenses decreased \$7.3 million primarily due to the reduction in operation and maintenance of plant related to nonrecurring costs incurred in 2007 for flood damage and reduction in contractual services associated with the implementation of PeopleSoft Student Finance. The remaining decrease is a result of recognizing energy savings related to use of solar power and other energy initiatives. Offsetting these decreases was an increase in the student services function for related expenses as a result of implementing new Student Administration module including hardware, software, and modular furniture in the various student services areas. The increase in student grants and scholarships was primarily the result of more students qualifying for Pell Grants, Cal Grants, and State University Grants. The increase in depreciation and amortization expense of \$0.7 million relates to current year capital asset additions primarily due to parking structures and roadway projects.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

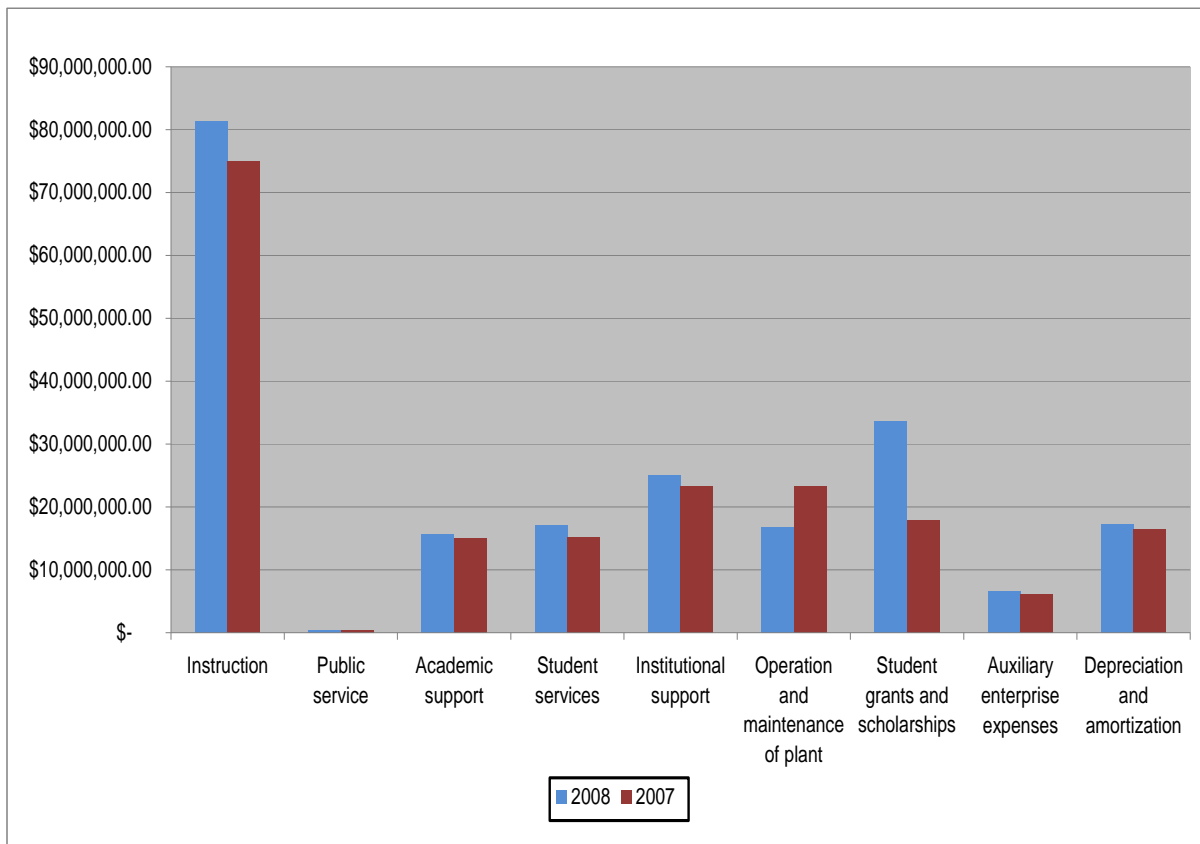
Management’s Discussion and Analysis

June 30, 2008

(Unaudited)

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

Comparative Distribution of Resources for Fiscal Years Ended 2008 and 2007



Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) come from sources that are not part of the University’s primary business functions. Included in this classification are categories such as state appropriations, certain financial aid grants, noncapital, grants and gifts, capital, 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. State appropriations, noncapital were \$108.1 million and \$99.6 million at June 30, 2008 and 2007, respectively. The \$8.5 million increase is due to new funding for compensation increases, enrollment growth, and enrollment enhancement funding for nursing.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Federal financial aid grants, noncapital totaled \$21.6 million for the fiscal year ended June 30, 2008, up from \$19.8 million for the year ended June 30, 2007. This \$1.8 million increase is primarily due to increased Pell grants due to the increase in recipients from 6,463 to 6,722 for the year ended June 30, 2008. For the fiscal years ended June 30, 2008 and 2007, State and local financial aid grant, noncapital, totaled \$10.3 million and \$9.7 million, respectively. This \$0.6 million increase is primarily due to increase in CAL grants due to the increase in number of recipients, coupled with the increase in amount of award per recipient. Investment income, net for the University was \$2.2 million and \$2.7 million for the fiscal years ended June 30, 2008 and 2007, respectively. The \$0.5 million decrease is primarily due to smaller balances as funds appropriated for capital projects were expended when projects were completed. Other nonoperating revenues (expenses), net, decreased \$5.9 million primarily due to a \$4.9 million adjustment to correct accounts receivable from CO recorded in fiscal year 2007, and a \$1.3 million adjustment primarily to correct interest expense and investment income allocated by CO to the University, which was also recorded in fiscal year 2007.

State appropriations, capital decreased \$6.3 million primarily due to the de-allocation, of \$4.4 million for an appropriation for the College of Education Building. This project was not yet completed, however the funds were reverted to the University at June 30, 2008. These funds have since been re-appropriated for the fiscal year 2009 for the completion of the College of Education Building. Projects that were appropriated for the current year totaled \$5.1 million for Palm Desert Campus Phase II construction and the Pfau Library Replacement Deck project.

Grants and gifts, capital increased \$1.7 million due to Federal Emergency Management Agency grant funds that were received in the current year for the purpose of seismic improvements.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2008	2007
Land and land improvements	\$ 9,568,997	9,568,997
Works of art and historical treasures	380,978	120,000
Buildings and building improvements	248,048,668	233,781,628
Improvements, other than buildings	1,126,904	1,450,488
Infrastructure	17,585,278	13,321,455
Personal property	7,350,271	7,603,055
Intangible assets	1,210,992	3,719,030
Construction work in progress	76,247,355	57,961,115
Total capital assets, net of accumulated depreciation	<u>\$ 361,519,443</u>	<u>327,525,768</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Capital assets increased \$34.0 million primarily due to \$52.2 million of current year additions, which was partially offset by \$17.2 million in current year depreciation and amortization expense. The \$52.2 million increase in current year additions is primarily due to the College of Education Building (\$20.5 million), Physical Sciences Building Renovation (\$9.7 million), Energy Conservation Project (\$5.5 million), and the Parking Structures/Roadway System (\$11.7 million), offset by current year depreciation and amortization expense.

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

Long-Term Debt Obligations

Debt outstanding at June 30, 2008 and 2007 is summarized below by type of debt instrument:

	June 30	
	2008	2007
Systemwide Revenue Bonds:		
Series 2002A	\$ 17,765,000	18,215,000
Series 2005A	54,260,000	55,225,000
Series 2005C	11,395,000	11,655,000
Series 2007A	26,865,000	26,865,000
Other – Energy Conservation Project	8,549,192	9,428,501
Total	118,834,192	121,388,501
Unamortized bond premium	3,509,593	3,648,925
Unamortized loss on refunding	(687,368)	(716,827)
Total long-term debt	121,656,417	124,320,599
Less current portion	(2,621,122)	(2,254,790)
Long-term debt, net of current portion	\$ 119,035,295	122,065,809

Bond Ratings

Moody's Investors Service currently provides intrinsic ratings of Aa3, with a "stable outlook," for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides intrinsic ratings of A+, with a "positive outlook," for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, and Series 2008A, all Systemwide Revenue Bonds are insured. At the time of issuance, all providers of insurance for Systemwide Revenue Bonds were rated Aaa/AAA by Moody's Investors Service and Standard & Poor's Rating Service, respectively. During fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds were downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the same rating as the Systemwide Revenue Bonds, which are Aa3 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 10 to the financial statements for further information on long-term debt obligations.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2009. The allocation provided to the University is \$106.0 million, a decrease of \$1.0 million from fiscal year 2008. Soon after the state budget was enacted, the State reduced California State University's appropriation by \$97.6 million. The University's share of this decrease amounted to \$3.6 million. Additional mid-year reductions may be enacted, the amount of which is unclear at this time.

Budgeted full-time equivalent enrollment targets for fiscal years 2009 are 14,415, representing no change from fiscal year 2008.

In the area of capital outlay funding, the University received \$10.5 million in fiscal year 2009 for the Access Compliance Barrier Removal Project.

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 85% in the California State University's Investment Pool and 14% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the programs shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the programs have not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Net Assets

June 30, 2008

	University	Discretely presented component units		Total
		GASB Auxiliary Organization	FASB Auxiliary Organizations	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 10,695	50,556	6,882,197	6,943,448
Short-term investments	56,207,076	2,528,473	7,110,851	65,846,400
Accounts receivable, net	3,106,758	76,576	7,095,430	10,278,764
Prepaid expenses and other assets	1,162,317	11,699	1,263,320	2,437,336
Total current assets	60,486,846	2,667,304	22,351,798	85,505,948
Noncurrent assets:				
Accounts receivable, net	9,454,743	—	—	9,454,743
Student loans receivable, net	1,934,583	—	—	1,934,583
Pledges receivable, net	—	—	3,399,252	3,399,252
Endowment investments	—	—	14,189,699	14,189,699
Other long-term investments	3,777,473	—	4,279,495	8,056,968
Capital assets, net	361,519,443	565,275	32,395,154	394,479,872
Other assets	—	—	1,317,012	1,317,012
Total noncurrent assets	376,686,242	565,275	55,580,612	432,832,129
Total assets	437,173,088	3,232,579	77,932,410	518,338,077
Liabilities:				
Current liabilities:				
Accounts payable	14,801,549	201,539	1,941,213	16,944,301
Accrued salaries and benefits payable	8,225,525	24,850	668,376	8,918,751
Accrued compensated absences – current portion	5,003,611	35,363	214,485	5,253,459
Deferred revenue	5,504,843	—	87,028	5,591,871
Capitalized lease obligations – current portion	1,809,269	—	—	1,809,269
Long-term debt obligations – current portion	2,621,122	—	—	2,621,122
Other liabilities	2,172,906	—	1,419,962	3,592,868
Total current liabilities	40,138,825	261,752	4,331,064	44,731,641
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	3,621,322	—	156,035	3,777,357
Grants refundable	1,900,225	—	—	1,900,225
Capitalized lease obligations, net of current portion	9,347,129	—	—	9,347,129
Long-term debt obligations, net of current portion	119,035,295	—	—	119,035,295
Depository accounts	34,358	—	4,251,000	4,285,358
Other liabilities	—	124,708	2,255,012	2,379,720
Total noncurrent liabilities	133,938,329	124,708	6,662,047	140,725,084
Total liabilities	174,077,154	386,460	10,993,111	185,456,725
Net assets:				
Invested in capital assets, net of related debt	228,648,547	565,275	32,395,154	261,608,976
Restricted for:				
Nonexpendable – endowments	—	—	11,118,937	11,118,937
Expendable:				
Scholarships and fellowships	357,355	—	360,924	718,279
Loans	479,761	—	—	479,761
Capital projects	8,887,517	—	12,919,973	21,807,490
Other	—	2,260,179	4,847,658	7,107,837
Unrestricted	24,722,754	20,665	5,296,653	30,040,072
Total net assets	\$ 263,095,934	2,846,119	66,939,299	332,881,352

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

	Discretely presented component units				Total
	University	GASB		Eliminations	
		Auxiliary Organization	FASB Auxiliary Organizations		
Revenues:					
Operating revenues:					
Student tuition and fees (net of scholarship allowances of \$17,684,565)	\$ 52,108,650	—	1,102,218	—	53,210,868
Grants and contracts, noncapital:					
Federal	—	—	15,205,085	—	15,205,085
State	—	—	9,454,336	—	9,454,336
Nongovernmental	—	—	7,896,340	—	7,896,340
Sales and services of auxiliary enterprises	12,585,123	3,138,870	12,198,937	—	27,922,930
Other operating revenues	1,961,617	—	5,943,812	—	7,905,429
Total operating revenues	<u>66,655,390</u>	<u>3,138,870</u>	<u>51,800,728</u>	<u>—</u>	<u>121,594,988</u>
Expenses:					
Operating expenses:					
Instruction	81,290,606	—	873,584	—	82,164,190
Research	—	—	2,285,179	—	2,285,179
Public service	364,661	—	16,296,592	—	16,661,253
Academic support	15,719,575	—	4,873,924	—	20,593,499
Student services	17,146,343	1,733,341	8,567,751	—	27,447,435
Institutional support	25,115,490	—	3,916,691	—	29,032,181
Operation and maintenance of plant	16,753,025	—	—	—	16,753,025
Student grants and scholarships	33,659,147	—	1,543,741	(7,000)	35,195,888
Auxiliary enterprise expenses	6,644,471	1,563,095	12,219,889	—	20,427,455
Depreciation and amortization	17,206,928	104,798	1,060,099	—	18,371,825
Total operating expenses	<u>213,900,246</u>	<u>3,401,234</u>	<u>51,637,450</u>	<u>(7,000)</u>	<u>268,931,930</u>
Operating income (loss)	<u>(147,244,856)</u>	<u>(262,364)</u>	<u>163,278</u>	<u>7,000</u>	<u>(147,336,942)</u>
Nonoperating revenues (expenses):					
State appropriations, noncapital	108,070,284	—	—	—	108,070,284
Federal financial aid grants, noncapital	21,555,275	—	—	—	21,555,275
State and local financial aid grants, noncapital	10,332,568	—	—	—	10,332,568
Nongovernmental and other financial aid grants, noncapital	50,000	—	—	—	50,000
Gifts, noncapital	296,514	—	4,505,839	(7,000)	4,795,353
Investment income (loss), net	2,163,604	128,432	(138,110)	—	2,153,926
Interest expense	(4,174,345)	—	—	—	(4,174,345)
Other nonoperating revenues (expenses), net	3,114,194	—	(6,423,069)	—	(3,308,875)
Net nonoperating revenues (expenses)	<u>141,408,094</u>	<u>128,432</u>	<u>(2,055,340)</u>	<u>(7,000)</u>	<u>139,474,186</u>
Loss before other additions	<u>(5,836,762)</u>	<u>(133,932)</u>	<u>(1,892,062)</u>	<u>—</u>	<u>(7,862,756)</u>
State appropriations, capital	738,444	—	—	—	738,444
Grants and gifts, capital	1,653,386	—	—	—	1,653,386
Additions to permanent endowments	—	—	3,272,472	—	3,272,472
Increase (decrease) in net assets	<u>(3,444,932)</u>	<u>(133,932)</u>	<u>1,380,410</u>	<u>—</u>	<u>(2,198,454)</u>
Net assets:					
Net assets at beginning of year, as restated (note 2)	266,540,866	2,980,051	65,558,889	—	335,079,806
Net assets at end of year	\$ <u>263,095,934</u>	<u>2,846,119</u>	<u>66,939,299</u>	<u>—</u>	<u>332,881,352</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Cash Flows

Year ended June 30, 2008

	University
Cash flows from operating activities:	
Student tuition and fees	\$ 52,209,347
Payments to suppliers	(31,589,468)
Payments to employees	(136,107,073)
Payments to students	(34,054,395)
Collections of student loans	621,383
Sales and services of auxiliary enterprises	12,474,011
Other receipts	3,065,695
Net cash used in operating activities	(133,380,500)
Cash flows from noncapital financing activities:	
State appropriations	108,065,147
Federal financial aid grants	21,423,440
State and local financial aid grants	10,332,568
Nongovernmental and other financial aid grants	50,000
Gifts and grants received for other than capital purposes	296,514
Federal loan program receipts	142,587
Federal loan program disbursements	(274,343)
Other	3,771,369
Net cash provided by noncapital financing activities	143,807,282
Cash flows from capital and related financing activities:	
State appropriations	35,243,956
Capital grants and gifts	1,653,385
Acquisition of capital assets	(58,086,522)
Principal paid on capital debt and capital leases	(3,379,837)
Interest paid on capital debt and capital leases	(6,218,034)
Net cash used in capital and related financing activities	(30,787,052)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	152,873,523
Purchases of investments	(137,339,541)
Investment income received	2,919,879
Net cash provided by investing activities	18,453,861
Net decrease in cash and cash equivalents	(1,906,409)
Cash and cash equivalents at beginning of year	1,917,104
Cash and cash equivalents at end of year	\$ 10,695

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Statement of Cash Flows

Year ended June 30, 2008

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (147,244,856)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	17,206,928
Change in assets and liabilities:	
Accounts receivable, net	1,100,199
Student loans receivable, net	226,134
Prepaid expenses and other assets	(67,992)
Accounts payable	(4,844,465)
Accrued salaries and benefits payable	338,909
Accrued compensated absences	809,869
Deferred revenue	(6,538)
Other liabilities	(898,688)
Net cash used in operating activities	<u>\$ (133,380,500)</u>
Supplemental schedule of noncash transactions:	
Construction work in progress acquired from the Office of the Chancellor	\$ 355,234
Change in accrued capital asset costs (purchased but unpaid at year-end)	(7,389,962)
Amortization of bond premium	139,332
Amortization of loss on refunding	29,459

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(1) Organization

California State University, San Bernardino (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. 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:

- Associated Students Incorporated, California State University, San Bernardino (Associated Students)
- The Foundation for the California State University, San Bernardino (Foundation)
- Santos Manuel Student Union of California State University, San Bernardino (Student Union).

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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

June 30, 2008	Associated Students	Foundation	Student Union	Total
Current assets	\$ 1,202,029	21,149,769	2,667,304	25,019,102
Capital assets, net	20,249	32,374,905	565,275	32,960,429
Other noncurrent assets	—	23,185,458	—	23,185,458
Total assets	<u>1,222,278</u>	<u>76,710,132</u>	<u>3,232,579</u>	<u>81,164,989</u>
Current liabilities	142,769	4,188,295	261,752	4,592,816
Noncurrent liabilities	281,486	6,380,561	124,708	6,786,755
Total liabilities	<u>424,255</u>	<u>10,568,856</u>	<u>386,460</u>	<u>11,379,571</u>
Invested in capital assets, net of related debt	20,249	32,374,905	565,275	32,960,429
Restricted	—	29,247,492	2,260,179	31,507,671
Unrestricted	777,774	4,518,879	20,665	5,317,318
Total net assets	<u>\$ 798,023</u>	<u>66,141,276</u>	<u>2,846,119</u>	<u>69,785,418</u>
<u>Year ended June 30, 2008</u>				
Operating revenues:				
Student tuition and fees, net	\$ 1,102,218	—	—	1,102,218
Grants and contracts, noncapital	—	32,555,761	—	32,555,761
Sales and services of auxiliary enterprises, net	283,695	11,915,242	3,138,870	15,337,807
Other	14,821	5,928,991	—	5,943,812
Total operating revenues	<u>1,400,734</u>	<u>50,399,994</u>	<u>3,138,870</u>	<u>54,939,598</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

June 30, 2008	Associated Students	Foundation	Student Union	Total
Operating expenses:				
Instruction	\$ —	873,584	—	873,584
Research	—	2,285,179	—	2,285,179
Public service	—	16,296,592	—	16,296,592
Academic support	—	4,873,924	—	4,873,924
Student services	891,897	7,675,854	1,733,341	10,301,092
Institutional support	—	3,916,691	—	3,916,691
Student grants and scholarships	117,428	1,426,313	—	1,543,741
Auxiliary enterprise expenses	278,068	11,941,821	1,563,095	13,782,984
Depreciation and amortization	6,034	1,054,065	104,798	1,164,897
Total operating expenses	<u>1,293,427</u>	<u>50,344,023</u>	<u>3,401,234</u>	<u>55,038,684</u>
Operating income (loss)	107,307	55,971	(262,364)	(99,086)
Net nonoperating revenues (expenses)	<u>69,773</u>	<u>(2,125,113)</u>	<u>128,432</u>	<u>(1,926,908)</u>
Income (loss) before other additions	177,080	(2,069,142)	(133,932)	(2,025,994)
Additions to permanent endowments	<u>—</u>	<u>3,272,472</u>	<u>—</u>	<u>3,272,472</u>
Increase (decrease) in net assets	177,080	1,203,330	(133,932)	1,246,478
Beginning net assets, July 1, 2007, as restated (note 2(c))	<u>620,943</u>	<u>64,937,946</u>	<u>2,980,051</u>	<u>68,538,940</u>
Ending net assets, June 30, 2008	<u>\$ 798,023</u>	<u>66,141,276</u>	<u>2,846,119</u>	<u>69,785,418</u>

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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 System as of June 30, 2008 and the changes in their financial position, and, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

(b) Basis of Presentation

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

The financial statements required by GASB Statement Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. As a public institution, the University is considered a special-purpose government under the 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 auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standard Board (FASB). The Student Union applies the accounting and reporting standards promulgated by the GASB.

(c) Auxiliary Organizations Restatement

The beginning net assets of the auxiliary organizations have been restated due to the correction of an error reported in the separately audited financial statements of Associated Students. A summary of the restatement to net assets at July 1, 2007 related to Associated Students is as follows:

	<u>Associated Students</u>	<u>Total</u>
Net assets as of June 30, 2007, as previously reported	\$ 907,380	335,366,243
Restatement for OPEB liability	<u>(286,437)</u>	<u>(286,437)</u>
Net assets at July 1, 2007, as restated	<u>\$ 620,943</u>	<u>335,079,806</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(d) 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.

(e) Classification of Current and Noncurrent Assets (Other than Investments) and Liabilities

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

(f) 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.

(g) Investments

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

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

(h) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such costs include, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the State. 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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

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

Interest expense capitalized for construction projects	\$ 1,883,560
Investment income related to unspent bond proceeds for construction	<u>(722,342)</u>
Capitalized interest, net of related investment income	<u>\$ 1,161,218</u>

(i) *Deferred Revenue*

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

(j) *Compensated Absences*

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

(k) *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.

(l) *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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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.

(m) *Classification of Revenues and Expenses*

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Moreover, the Office of the Chancellor administers and charges campuses for centralized expenses such as State pro rata and management of capital projects and pooled investments, which are included in operating expenses by function in the accompanying statement of revenues, expenses, and changes in net assets.

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

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

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

(n) *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 service 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.

(o) *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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(p) *New Accounting Pronouncements*

On July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs. The University participates in a postretirement healthcare program sponsored by the State administered by the California Public Employees' Retirement System (CalPERS). The State provides medical and prescription drug (healthcare benefits) to retired statewide employees, including retirees from the University (OPEB Plan). Currently, the majority of the University's retiree premium payments are paid by the State and not reflected within the University's financial statements. The Other Postemployment Benefits (OPEB) liability and expense related to GASB Statement No. 45 for the System has been reported in the System's consolidated financial statements. Since breakdown by campus information is not available, the OPEB liability and expense are not reflected within the University's financial statements. See note 11 for a description of the OPEB plan.

On July 1, 2007 the University adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets*, which requires additional disclosures related to pledged future revenues. The University has pledged future housing, parking, and student union revenues, net of specified operating expenses, to repay system revenue bonds. The bonds are payable solely from housing, parking, and student union gross revenues. See note 8(b) for further details.

(q) *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.

(r) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(3) Cash and Cash Equivalents and Investments

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

Cash and cash equivalents	\$ 10,695
Short-term investments	56,207,076
Other long-term investments	3,777,473
Total investments	<u>59,984,549</u>
Total cash, cash equivalents and investments	<u>\$ 59,995,244</u>

(a) Cash and Cash Equivalents

At June 30, 2008, cash and cash equivalents consisted of demand deposits held at Wells Fargo bank and petty cash. Total cash and cash equivalents of \$10,695 had a corresponding carrying value balance with the bank of \$93,745 at June 30, 2008. 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, 2008, the University's investment portfolio consists primarily of investments in the State of California SMIF and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the University's various funds and programs.

Investment Policy

State law and regulations require that surplus moneys of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an 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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2008 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 investment portfolio as of June 30, 2008:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 305,941	0.11	\$ 305,941	—	—	—	—
Commercial paper	12,988,021	0.05	—	—	12,988,021	—	—
Certificates of deposit	11,034,220	0.13	—	—	11,034,220	—	—
Repurchase agreements	1,216,295	0.50	—	—	1,216,295	—	—
U.S. agency securities	6,350,754	1.17	5,379,900	—	970,854	—	—
Corporate and fixed income securities	17,698,615	1.68	5,457,803	5,835,204	5,985,713	147,666	272,229
State of California SMIF	8,564,747	0.58	—	—	—	—	8,564,747
Mortgage-backed securities	1,704,425	11.97	1,704,425	—	—	—	—
Total	59,863,018		<u>\$ 12,848,069</u>	<u>5,835,204</u>	<u>32,195,103</u>	<u>147,666</u>	<u>8,836,976</u>
Not subject to ratings:							
U.S. Treasury securities	<u>121,531</u>	1.68					
Total investments	<u>\$ 59,984,549</u>						

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2008, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank bonds and mortgage-backed securities \$3,583,381 (6.0%) and Freddie Mac debts guaranteed by the federal government \$3,004,989 (5.0%).

Risk and Uncertainties

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

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

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

(4) Accounts Receivable

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 5,136	9,454,743	9,459,879
Auxiliary organizations	1,233,289	—	1,233,289
Student accounts	2,704,039	—	2,704,039
Government grants and contracts	199,159	—	199,159
Other	393,830	—	393,830
	<u>4,535,453</u>	<u>9,454,743</u>	<u>13,990,196</u>
Less allowance for doubtful accounts	<u>(1,428,695)</u>	<u>—</u>	<u>(1,428,695)</u>
Total	<u>\$ 3,106,758</u>	<u>9,454,743</u>	<u>12,561,501</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(5) Student Loans Receivable

Student loans receivable, net at June 30, 2008 consisted of the following:

Perkins loans	\$	2,091,073
Other loans		<u>106,932</u>
Total student loans receivable, gross		2,198,005
Less allowance for doubtful accounts		<u>(263,422)</u>
Total student loans receivable, net	\$	<u><u>1,934,583</u></u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(6) Capital Assets

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

	<u>Balance, June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2008</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 9,568,997	—	—	—	9,568,997
Works of art and historical treasures	120,000	—	—	260,978	380,978
Construction work in progress	<u>57,961,115</u>	<u>49,046,914</u>	<u>(15,013)</u>	<u>(30,745,661)</u>	<u>76,247,355</u>
Total nondepreciable capital assets	<u>67,650,112</u>	<u>49,046,914</u>	<u>(15,013)</u>	<u>(30,484,683)</u>	<u>86,197,330</u>
Depreciable capital assets:					
Buildings and building improvements	336,865,944	—	—	25,321,033	362,186,977
Improvements, other than buildings	25,462,172	—	—	—	25,462,172
Infrastructure	22,776,297	—	—	5,424,628	28,200,925
Personal property:					
Equipment	21,480,125	2,568,908	(817,488)	(1,511)	23,230,034
Library books and materials	13,767,321	427,347	(104,623)	(260,978)	13,829,067
Intangible assets	<u>15,339,877</u>	<u>167,639</u>	<u>—</u>	<u>1,511</u>	<u>15,509,027</u>
Total depreciable capital assets	<u>435,691,736</u>	<u>3,163,894</u>	<u>(922,111)</u>	<u>30,484,683</u>	<u>468,418,202</u>
Total cost	<u>503,341,848</u>	<u>52,210,808</u>	<u>(937,124)</u>	<u>—</u>	<u>554,615,532</u>
Less accumulated depreciation:					
Buildings and building improvements	(103,084,316)	(11,053,993)	—	—	(114,138,309)
Improvements, other than buildings	(24,011,684)	(323,584)	—	—	(24,335,268)
Infrastructure	(9,454,842)	(1,160,805)	—	—	(10,615,647)
Personal property:					
Equipment	(16,340,211)	(2,389,692)	600,963	87,346	(18,041,594)
Library books and materials	(11,304,180)	(467,679)	104,623	—	(11,667,236)
Intangible assets	<u>(11,620,847)</u>	<u>(2,589,842)</u>	<u>—</u>	<u>(87,346)</u>	<u>(14,298,035)</u>
Total accumulated depreciation	<u>(175,816,080)</u>	<u>(17,985,595)</u>	<u>705,586</u>	<u>—</u>	<u>(193,096,089)</u>
Net capital assets	<u>\$ 327,525,768</u>	<u>34,225,213</u>	<u>(231,538)</u>	<u>—</u>	<u>361,519,443</u>

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(7) Lease Obligations

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$6,427,805 at June 30, 2008. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 3.98% to 4.50% 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 2010. The leases can be canceled if the State does not provide adequate funding.

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2009	\$ 2,277,597	5,377
2010	2,275,413	2,689
2011	1,981,603	—
2012	1,687,649	—
2013	1,685,672	—
2014 – 2018	<u>2,945,238</u>	<u>—</u>
Total minimum lease payments	12,853,172	\$ <u><u>8,066</u></u>
Less amount representing interest	<u>(1,696,774)</u>	
Present value of future minimum lease payments	11,156,398	
Less current portion	<u>(1,809,269)</u>	
Capital lease obligations, net of current portion	\$ <u><u>9,347,129</u></u>	

Rent expense under operating leases for the year ended June 30, 2008 totaled \$5,377.

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(8) Long-Term Debt Obligations

(a) *General Obligation Bond Program*

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

(b) *Revenue Bond Programs*

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

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

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

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for construction, repair and maintenance, and 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, 2008

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

The University participates in the SRB program and its allocated share of outstanding SRB debt as of June 30, 2008 is \$110,285,000, which has been used to finance certain projects.

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

Long-term debt obligations of the University as of June 30, 2008 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding at June 30</u>
Systemwide revenue bonds:				
Student Union Series 2002A	4.00% – 5.50%	2021/22	2,905,000	\$ 2,360,000
Student Union Series 2005A Expansion	2.75% – 5.00%	2035/36	16,750,000	16,205,000
Student Union Series 2005A Recreation Center	2.75% – 5.00%	2035/36	11,250,000	10,885,000
Housing Series 2002A	4.00% – 5.50%	2031/32	17,035,000	15,405,000
Housing Series 2005A	2.75% – 5.00%	2034/35	28,575,000	27,170,000
Housing Series 2005C	3.00% – 5.25%	2031/32	11,905,000	11,395,000
Parking Series 2007A	4.00% – 5.00%	2032/33	26,865,000	26,865,000
Other:				
Energy Conservation Project	4.41%	2019/20	9,782,919	8,549,192
Total				118,834,192
Unamortized bond premium				3,509,593
Unamortized loss on refunding				(687,368)
Total long-term debt				121,656,417
Less current portion				(2,621,122)
Long-term debt, net of current portion				<u>\$ 119,035,295</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 2,621,122	5,526,206	8,147,328
2010	3,037,644	5,609,531	8,647,175
2011	3,165,852	5,481,120	8,646,972
2012	3,295,316	5,346,183	8,641,499
2013	3,441,094	5,208,434	8,649,528
2014 – 2018	19,797,380	23,413,435	43,210,815
2019 – 2023	21,325,784	17,062,314	38,388,098
2024 – 2028	24,360,000	13,740,007	38,100,007
2029 – 2033	29,310,000	5,744,250	35,054,250
2034 – 2038	8,480,000	559,500	9,039,500
	<u>\$ 118,834,192</u>	<u>87,690,980</u>	<u>206,525,172</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(9) Advance Refundings

Prior Years' Refundings

In prior years, the University defeased certain Housing Revenue Bonds by placing a portion of the proceeds from the issuance of the Systemwide 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 federal, state, and local 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. 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 prior year defeased bonds outstanding as of June 30, 2008 totaled \$11,550,000.

(10) Long-Term Liabilities Activity

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 7,815,065	8,624,933	(7,815,065)	8,624,933	5,003,611
Capitalized lease obligations (note 7)	11,981,926	—	(825,528)	11,156,398	1,809,269
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds – Student Union	30,020,000	—	(570,000)	29,450,000	590,000
Systemwide Revenue Bonds – Housing	55,075,000	—	(1,105,000)	53,970,000	1,140,000
Systemwide Revenue Bonds – Parking	26,865,000	—	—	26,865,000	585,000
Energy Conservation Project	9,428,501	—	(879,309)	8,549,192	306,122
Total	121,388,501	—	(2,554,309)	118,834,192	2,621,122
Unamortized bond premium	3,648,925	—	(139,332)	3,509,593	—
Unamortized loss on refunding	(716,827)	—	29,459	(687,368)	—
Total long-term debt obligations	124,320,599	—	(2,664,182)	121,656,417	2,621,122
Total long-term liabilities	\$ <u>144,117,590</u>	<u>8,624,933</u>	<u>(11,304,775)</u>	<u>141,437,748</u>	<u>9,434,002</u>

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(11) Pension Plan and Postretirement Benefits

(a) *Pension Plan*

Plan Description

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

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

All University retirees that retire within 120 days of their separation from employment, have been eligible for enrollment in a CalPERS medical plan on their date of separation, and receive a retirement allowance from CalPERS are eligible for retirement health benefits through CalPERS, which include medical and dental coverage. The retiree's family members can also be covered by the plan and eligible dependents include his or her spouse, domestic partner, children under age 23 and never married, and disabled children over age 23. The monthly out-of-pocket enrollment cost to the retiree for medical coverage will depend on which plan and the level of coverage the retiree chooses.

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

Funding Policy

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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

2006	\$	12,155,800
2007		13,842,065
2008		14,639,831

(b) *Postretirement Healthcare Plan*

The GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, relating to 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 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.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

(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, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2008.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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

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

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

Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF. The CSURMA remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. For the years ended June 30, 2008 and 2007, this assessment totaled \$19,834,000 and \$17,509,000, respectively.

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2008 was approximately 4%, or \$3,972,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2008. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

(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 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.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

Contractual commitments for construction projects unexpended as of June 30, 2008 totaled \$8,390,410. These expenditures will be funded primarily from state appropriations (see note 16).

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.

(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, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2008, operating expenses by natural classification consisted of the following:

<u>2008</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 56,571,929	18,054,505	—	6,664,172	—	81,290,606
Public service	275,743	45,453	—	43,465	—	364,661
Academic support	9,966,276	3,632,470	—	2,120,829	—	15,719,575
Student services	9,209,497	3,172,230	—	4,764,616	—	17,146,343
Institutional support	15,226,684	5,854,999	—	4,033,807	—	25,115,490
Operation and maintenance of plant	8,236,047	3,846,020	—	4,670,958	—	16,753,025
Student grants and scholarships	—	—	33,659,147	—	—	33,659,147
Auxiliary enterprise expenses	2,088,844	1,075,153	—	3,480,474	—	6,644,471
Depreciation and amortization	—	—	—	—	17,206,928	17,206,928
Total	\$ <u>101,575,020</u>	<u>35,680,830</u>	<u>33,659,147</u>	<u>25,778,321</u>	<u>17,206,928</u>	<u>213,900,246</u>

As discussed in note 2(n), 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

The System is an agency of the State and receives more than half of its total revenues through state appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$108,808,728 for the year ended June 30, 2008. State appropriations receivable aggregated \$9,459,879 at June 30, 2008. The University also received lottery fund distributions from the State in the amount of \$1,306,655 for the year ended June 30, 2008, which is included in other nonoperating revenues (expenses), net in the accompanying statement of revenues, expenses, and changes in net assets.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

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

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

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

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

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	2,993,999
Reimbursements from recognized auxiliary organizations for other than salaries of University employees		2,947,059
Payments to recognized auxiliary organizations for services, office space rental, and programs		174,387
Payments to the Office of the Chancellor for administrative activities		148,114
Payments to the Office of the Chancellor for State pro rata charges		495,879
Amounts payable to the Office of the Chancellor		(485,712)
Amounts receivable from recognized auxiliary organizations		1,233,289
Amounts payable to recognized auxiliary organizations		(117,427)
State lottery appropriations received		1,306,655

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2008

(16) Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 85% in the California State University's Investment Pool and 14% in the State of California's SMIF. Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the programs shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the programs have not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

American Institute of Certified Public Accountants Governmental Audit Quality Center issued alert #91 indicating that effective September 29, 2008, the liquidity in the Common Fund Short Term Fund (Fund) is substantially restricted. The Foundation has investments in the Fund. The amount in the Fund as of June 30, 2008 is \$5,265,017. This restriction on liquidity has had no significant impact on operations.

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