



**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

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## 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, 2010, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented auxiliary organizations of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented auxiliary organizations, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements of the University are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2010, the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 24, 2011

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

## Management's Discussion and Analysis

June 30, 2010

This section of California State University, San Bernardino's (the University) annual financial report presents the University's discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

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

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

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

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

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

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

The 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, 2010

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

**Condensed Summary of Net Assets**

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
Assets:		
Current assets	\$ 72,323,409	68,377,537
Capital assets	371,976,277	351,056,186
Other noncurrent assets	16,479,351	25,754,429
Total assets	<u>460,779,037</u>	<u>445,188,152</u>
Liabilities:		
Current liabilities	31,956,866	65,912,056
Long-term debt obligations, net of current portion	118,835,131	115,887,775
Other noncurrent liabilities	13,208,941	13,324,414
Total liabilities	<u>164,000,938</u>	<u>195,124,245</u>
Net assets:		
Invested in capital assets, net of related debt	244,262,633	222,686,302
Restricted, expendable	13,582,466	16,117,547
Unrestricted	38,933,000	11,260,058
Total net assets	<u>\$ 296,778,099</u>	<u>250,063,907</u>

**Assets**

Total assets increased \$15.6 million from prior year due to a \$3.9 million increase in current assets, and a \$20.9 million increase in capital assets, offset by a \$9.2 million decrease in other noncurrent assets. Total current assets increased \$3.9 million primarily due to an increase in short-term investments of \$1.7 million, and an increase in accounts receivable, current, of \$2.2 million. The primary reason for the increase in short-term investments was due to the transfer of \$0.8 million from the Foundation for California State University, San Bernardino (Foundation) as it was determined that certain custodial trust accounts should be maintained by the University, and the return of \$0.8 million due to the closure of the Parking Dormitory Construction Fund. The increase in accounts receivable, current, was primarily due to a \$1.2 million increase in government grants and contracts receivable as a result of suspension of payments from the California Student Aid Commission (CSAC) due to a shortage in available funds for the Cal Grant Program. In addition, the increase in accounts receivable, current, was the result of a \$0.7 million increase in accounts receivable from auxiliary organizations due to increased billing to auxiliaries occurring in the month of June 2010.

Capital assets, net, increased \$20.9 million primarily due to \$40 million of current year additions, which were partially offset by \$18.7 million in current year depreciation expense and \$0.4 million in capital assets retirements, net of accumulated depreciation. Current year additions primarily related to three Palm Desert Campus buildings totaling \$30.1 million received from the Foundation as a gift-in-kind. Additional increases in the current year are related to construction work in progress for the following projects: \$4.2 million for the Health Center expansion, \$1.0 million for the Physical Education HVAC renovation, \$0.9 million for the Access

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Compliance Barrier Removal, \$0.5 million for the College of Education, and \$0.2 million for the Nursing Skills Lab.

Other noncurrent assets decreased \$9.2 million primarily due to a \$5.6 million decrease in other long-term investments and a \$3.4 million decrease in accounts receivable, noncurrent. The dollar decrease in other long-term investments is primarily due to a \$4 million spending of bond proceeds for the Health Center project and a \$0.8 million decrease resulting from the closure of the Parking Dormitory Construction Fund. The decrease in accounts receivable, noncurrent related to the spending of capital appropriations for the College of Education & Physical Sciences Building, Physical Education HVAC renovation, the ADA projects (Access Compliance Barrier Removal), and the Nursing Skills Laboratory.

***Liabilities***

Total current liabilities decreased \$34 million primarily due to the payment in 2010 of a one time \$27.4 million obligation recorded in the prior year in connection with the refund of state noncapital appropriation to the State based on the revised state budget and a \$5.6 million decrease in long-term debt obligations, current, primarily related to the payoff of the \$6 million Health Center bond anticipation notes.

***Net Assets***

Total net assets increased \$46.7 million from the prior year. A significant portion, \$244.3 million, of net assets at the end of the year is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt increased \$21.6 from prior year primarily due to three Palm Desert Campus buildings totaling \$30.1 million received from the Foundation as a gift-in-kind as mentioned above. \$13.6 million of net assets at the end of the year is restricted for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which decreased \$2.5 million from prior year as discussed below. \$38.9 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.

**Restricted Resources**

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

**Restricted Net Assets**

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
Expendable:		
Scholarships and fellowships	\$ 386,756	133,726
Loans	547,989	525,380
Capital projects	12,647,721	15,458,441
Total restricted net assets – expendable	\$ 13,582,466	16,117,547

Total restricted net assets – expendable decreased \$2.5 million. This is primarily due to a \$2.8 million decrease in net assets restricted for capital projects as a result of spending bond proceeds for the Physical Education HVAC

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Management's Discussion and Analysis

June 30, 2010

renovation and the Access Compliance Barrier Removal projects and equipment for the Physical Sciences building renovation and College of Education.

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

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

	<b>Year ended June 30</b>	
	<b>2010</b>	<b>2009</b>
Operating revenues:		
Student tuition and fees, net	\$ 66,167,439	58,885,867
Sales and services of auxiliary enterprises, net	13,667,140	13,752,594
Other operating revenues	3,717,282	3,562,529
Total operating revenues	<u>83,551,861</u>	<u>76,200,990</u>
Operating expenses	<u>(218,242,502)</u>	<u>(225,502,179)</u>
Operating loss	<u>(134,690,641)</u>	<u>(149,301,189)</u>
Nonoperating revenues (expenses):		
State appropriations, noncapital	83,932,034	75,923,976
Federal financial aid grants, noncapital	35,298,846	27,165,757
State financial aid grants, noncapital	13,382,121	10,868,649
Other federal nonoperating grants, noncapital	17,080,914	10,216,100
Gifts, noncapital	39,604	181,913
Investment income, net	236,085	1,472,115
Interest expense	(5,699,473)	(5,748,398)
Other nonoperating revenues, net	4,630,110	3,588,449
Total nonoperating revenues	<u>148,900,241</u>	<u>123,668,561</u>
Income (loss) before other additions	14,209,600	(25,632,628)
State appropriations, capital	2,374,315	12,600,601
Grants and gifts, capital	<u>30,130,277</u>	<u>—</u>
Increase (decrease) in net assets	46,714,192	(13,032,027)
Beginning net assets	<u>250,063,907</u>	<u>263,095,934</u>
Ending net assets	<u>\$ 296,778,099</u>	<u>250,063,907</u>

Certain reclassifications have been made to the 2009 condensed financial information to conform to the 2010 financial information presented. The changes primarily related to the transfer of expenses for athletics operations from the University Advancement division (Instruction program) to Student Affairs division (Student Services program) as part of the University's effort to reorganize divisions and consolidate common programs and functions. In addition, salaries and benefits of faculty members working for a grant were classified in programs that match the nature of work performed. There was no impact on the previously reported changes in net assets or total net assets of the University.

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Management's Discussion and Analysis

June 30, 2010

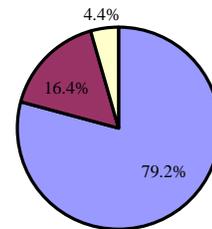
**Operating Revenues and Expenses**

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 \$7.4 million primarily due to a \$7.3 million increase in student tuition and fees, net. The state university fee increased 32% from the prior year for the regular session and 10% for the summer session. Student tuition and fees, net, increased \$7.3 million (12.4%) from prior year primarily due to the state university fee increase, offset by a 6% decrease in student enrollment and a \$10.6 million increase in scholarship allowances (tuition discount).

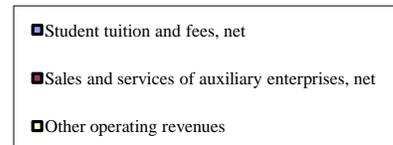
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2010 and 2009:



**Operating Revenues**

Year ended June 30, 2010

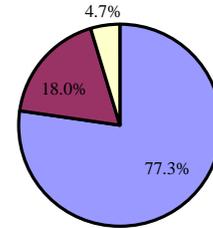
Student tuition and fees, net	\$ 66,167,439	79.2%
Sales and services of auxiliary enterprises, net	13,667,140	16.4
Other operating revenues	<u>3,717,282</u>	<u>4.4</u>
Total operating revenues	<u><u>\$ 83,551,861</u></u>	<u><u>100.0%</u></u>



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Management's Discussion and Analysis

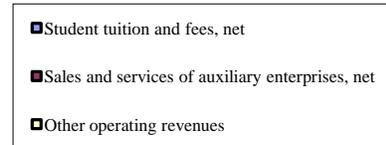
June 30, 2010



**Operating Revenues**

Year ended June 30, 2009

Student tuition and fees, net	\$ 58,885,867	77.3%
Sales and services of auxiliary enterprises, net	13,752,594	18.0
Other operating revenues	<u>3,562,529</u>	<u>4.7</u>
Total operating revenues	<u>\$ 76,200,990</u>	<u>100.0%</u>



***Operating Expenses***

Total operating expenses decreased by \$7.3 million, or 3.2%, primarily due to a \$10.3 million decrease in instruction, a \$5.0 million decrease in operation and maintenance of plant, a \$3.1 million decrease in institutional support, and a \$2.1 million decrease in academic support, offset by a \$12.1 million increase in student grants and scholarships and a \$1.3 million increase in depreciation. Salaries and benefits costs, within each of these functions, decreased by \$15.4 million due to furloughs, nonrenewal of contracts, layoffs, and vacancies brought about by budget cuts in the California State University System. Supplies and other services expense, within each of these functions, decreased by \$5.0 million due to a campus-wide travel and purchase restriction, which was caused by budget constraints. Additional contributors are a \$1.7 million decrease in equipment expenditures on the College of Education building, which was completed during the fiscal year, a \$0.9 million savings in utilities as a result of the Energy Conservation project and a onetime \$0.6 million roof repair during the prior year. The increase in student grants and scholarships was primarily due to the state university fee increase of 32% from prior year for the regular session and 10% for the summer session. Depreciation and amortization increased as a result of \$81.9 million in depreciable capital assets placed in service during the current year.

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Management's Discussion and Analysis

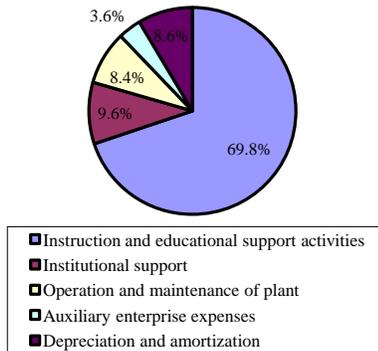
June 30, 2010

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

**Operating Expenses**

Year ended June 30, 2010

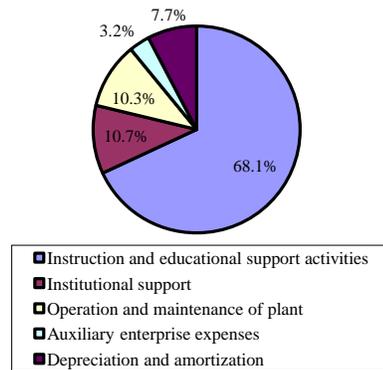
Instruction	\$ 69,479,188	31.8%
Research	599,609	0.3
Public service	1,046,525	0.5
Academic support	13,833,123	6.3
Student services	17,345,969	7.9
Student grants and scholarships	<u>50,222,700</u>	<u>23.0</u>
<b>Total instruction and educational support activities</b>	<b>152,527,114</b>	<b>69.8</b>
Institutional support	20,912,134	9.6
Operation and maintenance of plant	18,264,716	8.4
Auxiliary enterprises expenses	7,871,289	3.6
Depreciation and amortization	<u>18,667,249</u>	<u>8.6</u>
<b>Total operating expenses</b>	<b><u>\$ 218,242,502</u></b>	<b><u>100.0%</u></b>



**Operating Expenses**

Year ended June 30, 2009

Instruction	\$ 79,780,243	35.4%
Research	616,141	0.3
Public service	732,984	0.3
Academic support	15,783,619	7.0
Student services	18,535,401	8.2
Student grants and scholarships	<u>38,144,491</u>	<u>16.9</u>
<b>Total instruction and educational support activities</b>	<b>153,592,879</b>	<b>68.1</b>
Institutional support	23,997,477	10.7
Operation and maintenance of plant	23,249,203	10.3
Auxiliary enterprises expenses	7,303,726	3.2
Depreciation and amortization	<u>17,358,894</u>	<u>7.7</u>
<b>Total operating expenses</b>	<b><u>\$ 225,502,179</u></b>	<b><u>100.0%</u></b>



***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, federal grants, certain financial aid grants, noncapital, grants and gifts, capital, investment income, and interest expense.

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$2.4 million for the fiscal year ended June 30, 2010, down from \$12.6 million for the fiscal year ended June 30, 2009. Capital state appropriations in the prior year included onetime appropriations of \$10.6 million for the Access Compliance Barrier Removal project. General

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

## Management's Discussion and Analysis

June 30, 2010

(noncapital) appropriation revenues totaled \$83.9 million, an increase of \$8 million from the prior year due to an increase in the state budget allocation. Federal financial aid grants, noncapital increased by \$8.1 million due to an 11.6% increase in Pell grant recipients, along with a 19.5% increase in grant award per recipient. State financial aid grants, noncapital increased by \$2.5 million as a result of increases in Cal Grant A and Cal Grant B fee awards by the California Student Aid Commission to match the CSU State University fee increase. Other federal nonoperating grants, noncapital increased by \$6.9 million due to an increase in funds received from the American Recovery & Reinvestment Act (ARRA) grant. Investment income decreased by \$1.2 million primarily relating to lower interest received from Systemwide Investment Fund Trust (SWIFT) and California State University's strategy of keeping investment maturities shorter than normal. Other nonoperating revenues (expenses), net, increased by \$1 million primarily related to the Foundation's \$0.8 million transfer of custodial trust accounts. Grants and gifts, capital, increased by \$30.1 million due to three Palm Desert Campus buildings received from the Foundation as a gift-in-kind.

### Capital Assets and Long-Term Debt Obligations

#### *Capital Assets*

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

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
Land and land improvements	\$ 9,568,997	9,568,997
Works of art and historical treasures	380,978	380,978
Buildings and building improvements	315,682,470	249,111,286
Improvements, other than buildings	1,040,340	1,018,434
Infrastructure	29,175,759	29,787,624
Personal property	5,484,794	6,576,551
Intangible assets	3,035,890	5,106,848
Construction work in progress	7,607,049	49,505,468
Total capital assets, net of accumulated depreciation	<u>\$ 371,976,277</u>	<u>351,056,186</u>

Capital assets increased by \$20.9 million primarily due to \$40 million of current year additions, which was partially offset by \$18.7 million in current year depreciation and amortization expense. Current year additions are primarily related to three Palm Desert Campus buildings received from the Foundation as a gift-in-kind. Other capital projects were funded through capital state appropriations, and Systemwide Revenue Bonds.

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June 30, 2010

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

Palm Desert Campus Buildings	\$	30.1
Health Center Building Expansion		4.2
Infrastructure Terminal Resources		1.2
Physical Education Building		
HVAC Renovation		1.0
Access Compliance Barrier Removal		0.9
Fire Alarm Upgrade/Replacement		0.6
College of Education Building		0.5

Capital assets commitments at June 30, 2010 totaled \$3.4 million.

***Long-Term Debt Obligations***

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

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
Systemwide Revenue Bonds:		
Series 2002A	\$ 16,800,000	17,295,000
Series 2005A	52,250,000	53,270,000
Series 2005C	10,845,000	11,125,000
Series 2007A	25,670,000	26,280,000
Series 2010A	2,040,000	—
Series 2010B	4,035,000	—
Revenue bond anticipation note	—	6,006,000
Other – Energy conservation project	7,610,426	7,930,197
Total	119,250,426	121,906,197
Unamortized bond premium	3,379,007	3,370,259
Unamortized loss on refunding	(628,451)	(657,910)
Total long-term debt	122,000,982	124,618,546
Less current portion	(3,165,851)	(8,730,771)
Long-term debt, net of current portion	\$ 118,835,131	115,887,775

During fiscal year 2010, the University issued Systemwide Revenue Bonds Series 2010A&B in the amounts of \$2 million and \$4 million, respectively. Series 2010A&B were issued to fund the Health Center Building Expansion project.

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June 30, 2010

#### ***Bond Ratings***

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, Series 2008A, Series 2009A, and all maturities of Series 2010A and 2010B, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 9 to the financial statements for further information on long-term debt obligations.

#### **Factors Impacting Future Periods**

The University's state noncapital appropriations budget enacted for fiscal year 2011 approved by the legislative process is \$89.6 million. This increase of \$6.5 million over the fiscal year 2010 funding level of \$83.9 million marks the first partial restoration of state funding since 2007. However, it is still below the fiscal year 2008 funding level of \$107.4 million. Moreover, the University will receive \$4.5 million of ARRA funds in fiscal year 2011.

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Statement of Net Assets

June 30, 2010

Assets	University	Discretely presented component units		Total
		GASB Auxiliary Organizations	FASB Auxiliary Organizations	
<b>Current assets:</b>				
Cash and cash equivalents	\$ 121,511	47,929	7,821,138	7,990,578
Short-term investments	67,244,554	3,161,780	5,915,358	76,321,692
Accounts receivable, net	3,854,739	59,053	5,568,991	9,482,783
Prepaid expenses and other assets	1,102,605	5,778	39,084	1,147,467
<b>Total current assets</b>	<b>72,323,409</b>	<b>3,274,540</b>	<b>19,344,571</b>	<b>94,942,520</b>
<b>Noncurrent assets:</b>				
Accounts receivable, net	12,083,235	—	—	12,083,235
Student loans receivable, net	1,363,302	—	—	1,363,302
Pledges receivable, net	—	—	2,742,507	2,742,507
Endowment investments	—	—	16,426,507	16,426,507
Other long-term investments	3,032,814	—	5,298,661	8,331,475
Capital assets, net	371,976,277	425,393	4,802,925	377,204,595
<b>Total noncurrent assets</b>	<b>388,455,628</b>	<b>425,393</b>	<b>29,270,600</b>	<b>418,151,621</b>
<b>Total assets</b>	<b>460,779,037</b>	<b>3,699,933</b>	<b>48,615,171</b>	<b>513,094,141</b>
<b>Liabilities and Net Assets</b>				
<b>Current liabilities:</b>				
Accounts payable	6,164,919	137,365	1,365,405	7,667,689
Accrued salaries and benefits payable	7,669,617	26,933	625,545	8,322,095
Accrued compensated absences – current portion	4,714,624	54,724	229,115	4,998,463
Deferred revenue	5,751,711	—	358,251	6,109,962
Capitalized lease obligations – current portion	1,676,284	—	—	1,676,284
Long-term debt obligations – current portion	3,165,851	—	—	3,165,851
Other liabilities	2,813,860	—	1,046,151	3,860,011
<b>Total current liabilities</b>	<b>31,956,866</b>	<b>219,022</b>	<b>3,624,467</b>	<b>35,800,355</b>
<b>Noncurrent liabilities:</b>				
Accrued compensated absences, net of current portion	4,456,252	—	59,162	4,515,414
Grants refundable	1,831,983	—	—	1,831,983
Capitalized lease obligations, net of current portion	5,784,000	—	—	5,784,000
Long-term debt obligations, net of current portion	118,835,131	—	—	118,835,131
Depository accounts	14,601	—	—	14,601
Other postemployment benefits obligation	1,122,105	371,444	4,641,333	6,134,882
Other liabilities	—	—	1,758,731	1,758,731
<b>Total noncurrent liabilities</b>	<b>132,044,072</b>	<b>371,444</b>	<b>6,459,226</b>	<b>138,874,742</b>
<b>Total liabilities</b>	<b>164,000,938</b>	<b>590,466</b>	<b>10,083,693</b>	<b>174,675,097</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	244,262,633	425,393	4,802,925	249,490,951
Restricted for:				
Nonexpendable – endowments	—	—	15,202,213	15,202,213
Expendable:				
Scholarships and fellowships	386,756	—	2,294,582	2,681,338
Loans	547,989	—	—	547,989
Capital projects	12,647,721	—	2,736,080	15,383,801
Other	—	2,684,074	11,665,827	14,349,901
Unrestricted	38,933,000	—	1,829,851	40,762,851
<b>Total net assets</b>	<b>\$ 296,778,099</b>	<b>3,109,467</b>	<b>38,531,478</b>	<b>338,419,044</b>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

	University	Discretely presented component units		Eliminations	Total
		GASB Auxiliary Organizations	FASB Auxiliary Organizations		
<b>Revenues:</b>					
Operating revenues:					
Student tuition and fees (net of scholarship allowances of \$28,107,305)	\$ 66,167,439	—	1,105,313	—	67,272,752
Grants and contracts, noncapital:					
Federal	—	—	19,415,169	—	19,415,169
State	—	—	3,897,761	—	3,897,761
Nongovernmental	—	—	3,856,577	—	3,856,577
Sales and services of auxiliary enterprises (net of scholarship allowances of \$0)	13,667,140	4,345,048	194,312	—	18,206,500
Other operating revenues	3,717,282	—	5,826,162	—	9,543,444
<b>Total operating revenues</b>	<b>83,551,861</b>	<b>4,345,048</b>	<b>34,295,294</b>	<b>—</b>	<b>122,192,203</b>
<b>Expenses:</b>					
Operating expenses:					
Instruction	69,479,188	—	426,003	—	69,905,191
Research	599,609	—	4,626,387	—	5,225,996
Public service	1,046,525	—	15,285,416	—	16,331,941
Academic support	13,833,123	—	632,654	—	14,465,777
Student services	17,345,969	1,834,161	7,738,934	(8,000)	26,911,064
Institutional support	20,912,134	—	22,227,317	(13,557,366)	29,582,085
Operation and maintenance of plant	18,264,716	—	—	—	18,264,716
Student grants and scholarships	50,222,700	—	1,500,233	(7,000)	51,715,933
Auxiliary enterprise expenses	7,871,289	1,926,950	173,641	—	9,971,880
Depreciation and amortization	18,667,249	114,047	1,040,087	—	19,821,383
<b>Total operating expenses</b>	<b>218,242,502</b>	<b>3,875,158</b>	<b>53,650,672</b>	<b>(13,572,366)</b>	<b>262,195,966</b>
<b>Operating income (loss)</b>	<b>(134,690,641)</b>	<b>469,890</b>	<b>(19,355,378)</b>	<b>13,572,366</b>	<b>(140,003,763)</b>
<b>Nonoperating revenues (expenses):</b>					
State appropriations, noncapital	83,932,034	—	—	—	83,932,034
Federal financial aid grants, noncapital	35,298,846	—	—	—	35,298,846
State financial aid grants, noncapital	13,382,121	—	—	—	13,382,121
Other federal nonoperating grants, noncapital	17,080,914	—	—	—	17,080,914
Gifts, noncapital	39,604	—	2,731,390	(7,000)	2,763,994
Investment income, net	236,085	22,163	2,978,049	—	3,236,297
Interest expense	(5,699,473)	—	—	—	(5,699,473)
Other nonoperating revenues (expenses), net	4,630,110	(670)	(16,229,903)	16,564,911	4,964,448
<b>Net nonoperating revenues (expenses)</b>	<b>148,900,241</b>	<b>21,493</b>	<b>(10,520,464)</b>	<b>16,557,911</b>	<b>154,959,181</b>
<b>Income (loss) before other additions</b>	<b>14,209,600</b>	<b>491,383</b>	<b>(29,875,842)</b>	<b>30,130,277</b>	<b>14,955,418</b>
State appropriations, capital	2,374,315	—	—	—	2,374,315
Grants and gifts, capital	30,130,277	—	—	(30,130,277)	—
Additions to permanent endowments	—	—	392,596	—	392,596
<b>Increase (decrease) in net assets</b>	<b>46,714,192</b>	<b>491,383</b>	<b>(29,483,246)</b>	<b>—</b>	<b>17,722,329</b>
<b>Net assets:</b>					
Net assets at beginning of year	250,063,907	2,618,084	68,014,724	—	320,696,715
Net assets at end of year	\$ 296,778,099	3,109,467	38,531,478	—	338,419,044

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Statement of Cash Flows

Year ended June 30, 2010

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 66,911,503
Payments to suppliers	(19,917,175)
Payments to employees	(127,544,108)
Payments to students	(50,222,701)
Collections of student loans	41,839
Sales and services of auxiliary enterprises	13,531,288
Other receipts	3,105,455
	<hr/>
Net cash used in operating activities	(114,093,899)
Cash flows from noncapital financing activities:	
State appropriations	56,550,234
Federal financial aid grants	34,034,228
State financial aid grants	13,382,121
Other federal nonoperating grants	17,080,914
Gifts and grants received for other than capital purposes	39,603
Federal loan program receipts	214,173
Other	3,814,814
	<hr/>
Net cash provided by noncapital financing activities	125,116,087
Cash flows from capital and related financing activities:	
Proceeds from capital debt	6,243,192
State appropriations	5,784,621
Acquisition of capital assets	(10,534,328)
Principal paid on capital debt and leases	(10,635,113)
Interest paid on capital debt and leases	(5,905,311)
	<hr/>
Net cash used in capital and related financing activities	(15,046,939)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	157,907,518
Purchases of investments	(154,076,439)
Investment income received	304,538
	<hr/>
Net cash provided by investing activities	4,135,617
Net increase in cash and cash equivalents	110,866
Cash and cash equivalents at beginning of year	<hr/> 10,645
Cash and cash equivalents at end of year	\$ <u><u>121,511</u></u>

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Statement of Cash Flows

Year ended June 30, 2010

	<b>University</b>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (134,690,641)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	18,667,249
Change in assets and liabilities:	
Accounts receivable, net	(964,494)
Student loans receivable, net	41,839
Prepaid expenses and other assets	97,860
Accounts payable	1,806,414
Accrued salaries and benefits	(1,207,624)
Accrued compensated absences	631,455
Deferred revenue	894,422
Other postemployment benefits obligation	432,963
Other liabilities	196,658
Net cash used in operating activities	\$ (114,093,899)
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 30,130,277
Change in accrued capital asset costs (purchased but unpaid at year-end)	(1,958,617)
Amortization of bond premium	141,947
Amortization of loss on refunding	29,459
Capital assets acquired from the Office of the Chancellor	1,185,454

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

## Notes to Financial Statements

June 30, 2010

### (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 recognized auxiliary organizations are as follows:

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

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Notes to Financial Statements

June 30, 2010

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

<b>June 30, 2010</b>	<b>Foundation</b>	<b>Associated Students</b>	<b>Student Union</b>	<b>Total</b>
Current assets	\$ 17,518,628	1,825,943	3,274,540	22,619,111
Capital assets, net	4,789,174	13,751	425,393	5,228,318
Other noncurrent assets	24,467,675	—	—	24,467,675
Total assets	46,775,477	1,839,694	3,699,933	52,315,104
Current liabilities	3,212,080	412,387	219,022	3,843,489
Noncurrent liabilities	6,123,403	335,823	371,444	6,830,670
Total liabilities	9,335,483	748,210	590,466	10,674,159
Invested in capital assets, net of related debt	4,789,174	13,751	425,393	5,228,318
Restricted	31,363,705	534,997	2,684,074	34,582,776
Unrestricted	1,287,115	542,736	—	1,829,851
Total net assets	\$ 37,439,994	1,091,484	3,109,467	41,640,945

<b>Year ended June 30, 2010</b>	<b>Foundation</b>	<b>Associated Students</b>	<b>Student Union</b>	<b>Total</b>
Operating revenues:				
Student tuition and fees, net	\$ —	1,105,313	—	1,105,313
Grants and contracts, noncapital	27,169,507	—	—	27,169,507
Sales and services of auxiliary enterprises, net	12,522	181,790	4,345,048	4,539,360
Other	5,826,162	—	—	5,826,162
Total operating revenues	33,008,191	1,287,103	4,345,048	38,640,342

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Notes to Financial Statements

June 30, 2010

<u>Year ended June 30, 2010</u>	<u>Foundation</u>	<u>Associated Students</u>	<u>Student Union</u>	<u>Total</u>
Operating expenses:				
Instruction	\$ 426,003	—	—	426,003
Research	4,626,387	—	—	4,626,387
Public service	15,285,416	—	—	15,285,416
Academic support	632,654	—	—	632,654
Student services	6,855,376	883,558	1,834,161	9,573,095
Institutional support	22,227,317			22,227,317
Student grants and scholarships	1,381,083	119,150	—	1,500,233
Auxiliary enterprise expenses		173,641	1,926,950	2,100,591
Depreciation and amortization	1,033,631	6,456	114,047	1,154,134
Total operating expenses	<u>52,467,867</u>	<u>1,182,805</u>	<u>3,875,158</u>	<u>57,525,830</u>
Operating income (loss)	(19,459,676)	104,298	469,890	(18,885,488)
Net nonoperating revenues (expenses)	<u>(10,529,126)</u>	<u>8,662</u>	<u>21,493</u>	<u>(10,498,971)</u>
Income (loss) before other additions	(29,988,802)	112,960	491,383	(29,384,459)
Additions to permanent endowments	<u>392,596</u>	<u>—</u>	<u>—</u>	<u>392,596</u>
Increase (decrease) in net assets	(29,596,206)	112,960	491,383	(28,991,863)
Beginning net assets, July 1, 2009	<u>67,036,200</u>	<u>978,524</u>	<u>2,618,084</u>	<u>70,632,808</u>
Ending net assets, June 30, 2010	<u>\$ 37,439,994</u>	<u>1,091,484</u>	<u>3,109,467</u>	<u>41,640,945</u>

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

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

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

## Notes to Financial Statements

June 30, 2010

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, 2010 and the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

**(b) *Basis of Presentation***

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

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

The Foundation and Associated Students auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB), while the Student Union applies the accounting and reporting standards promulgated by the GASB.

**(c) *Election of Applicable FASB Statements***

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

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

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

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

Notes to Financial Statements

June 30, 2010

**(e) Cash and Cash Equivalents**

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

**(f) Investments**

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

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

**(g) Capital Assets**

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

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

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

Interest expense capitalized for construction projects	\$ 93,350
Investment income related to unspent bond proceeds for construction	<u>(27,294)</u>
Capitalized interest, net of related investment income	<u><u>\$ 66,056</u></u>

## CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

### Notes to Financial Statements

June 30, 2010

**(h) *Deferred Revenue***

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

**(i) *Compensated Absences***

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

**(j) *Grants Refundable***

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

**(k) *Net Assets***

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

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

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

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

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

**(l) *Classification of Revenues and Expenses***

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

## Notes to Financial Statements

June 30, 2010

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

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

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

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

**(m) Internal Services Activities**

Certain institutional internal service providers offer goods and services to University departments, as well as to their external customers. These include activities such as copy centers, postal services, and telecommunications. All internal services activities to University departments have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the internal service sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

**(n) Income Taxes**

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

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Notes to Financial Statements

June 30, 2010

(o) *New Accounting Pronouncements*

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

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

(p) *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.

(q) *Use of Estimates*

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

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

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

Cash and cash equivalents	\$ <u>121,511</u>
Short-term investments	67,244,554
Other long-term investments	<u>3,032,814</u>
Total investments	<u>70,277,368</u>
Total cash, cash equivalents and investments	\$ <u><u>70,398,879</u></u>

# CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

## Notes to Financial Statements

June 30, 2010

(a) ***Cash and Cash Equivalents***

At June 30, 2010, cash and cash equivalents consisted of demand deposits held at commercial banks and petty cash. Total cash and cash equivalents of \$121,511 had a corresponding carrying balance with the commercial banks of \$664,321 at June 30, 2010. The differences related primarily to deposits in transit and outstanding checks.

**Custodial Credit Risk for Deposits**

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

(b) ***Investments***

At June 30, 2010, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

**Investment Policy**

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

**Interest Rate Risk**

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

## CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

### Notes to Financial Statements

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

#### Credit Risk

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

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's allocated share of the California State University Investment Pool and the State of California SMIF as of June 30, 2010:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end					Not rated
			AAA	AA	A	BBB		
Money market	\$ 142,588	—	\$ 142,588	—	—	—	—	—
Commercial paper	9,430,139	0.066	—	—	9,430,139	—	—	—
Certificates of deposit	5,181,975	0.052	—	—	5,181,975	—	—	—
Repurchase agreements	8,205,704	0.003	—	—	8,205,704	—	—	—
U.S. agency securities	28,170,894	0.163	3,118,377	—	24,153,441	—	—	899,076
Corporate and fixed income securities:	9,904,819	1.089	7,584,482	1,213,002	843,945	263,390	—	—
U.S. Treasury securities	85,118	0.126	—	—	—	—	—	85,118
State of California SMIF	8,412,684	0.560	—	—	—	—	—	8,412,684
Mortgage-backed securities	743,447	8.740	668,694	74,753	—	—	—	—
Total investments	\$ 70,277,368		\$ 11,514,141	1,287,755	47,815,204	263,390	—	9,396,878

#### Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2010, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Freddie Mac notes guaranteed by the federal government \$9,836,854 (14.0%), Federal Home Loan Bank bonds and notes \$9,194,690 (13.1%), and Fannie Mae notes guaranteed by the federal government \$8,487,233 (12.1%).

#### 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, through the California State University Investment Pool, invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions,

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

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including real estate values, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

For information regarding the investments of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

**(4) Accounts Receivable**

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	12,083,235	12,083,235
Auxiliary organizations	1,237,804	—	1,237,804
Student accounts	1,639,905	—	1,639,905
Government grants and contracts	1,445,974	—	1,445,974
Other	692,672	—	692,672
	<u>5,016,355</u>	<u>12,083,235</u>	<u>17,099,590</u>
Less allowance for doubtful accounts	<u>(1,161,616)</u>	—	<u>(1,161,616)</u>
Total	<u>\$ 3,854,739</u>	<u>12,083,235</u>	<u>15,937,974</u>

**(5) Student Loans Receivable**

Student loans receivable, net at June 30, 2010 consisted of the following:

Perkins loans	\$ <u>1,567,749</u>
Total student loans receivable, gross	1,567,749
Less allowance for doubtful accounts	<u>(204,447)</u>
Total student loans receivable, net	\$ <u><u>1,363,302</u></u>

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**(6) Capital Assets**

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

	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2010</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements \$	9,568,997	—	—	—	9,568,997
Works of art and historical treasures	380,978	—	—	—	380,978
Construction work in progress	49,505,468	7,013,192	—	(48,911,611)	7,607,049
Total nondepreciable/ nonamortizable capital assets	59,455,443	7,013,192	—	(48,911,611)	17,557,024
Depreciable/amortizable capital assets:					
Buildings and building improvements	374,941,482	30,772,268	—	48,911,611	454,625,361
Improvements, other than buildings	25,568,276	254,509	—	—	25,822,785
Infrastructure	41,870,887	1,185,453	—	—	43,056,340
Personal property:					
Equipment	21,120,874	542,100	(1,827,054)	—	19,835,920
Library books and materials	14,109,928	117,215	(22,995)	—	14,204,148
Intangible assets	21,475,198	72,761	(162,189)	—	21,385,770
Total depreciable/ amortizable capital assets	499,086,645	32,944,306	(2,012,238)	48,911,611	578,930,324
Total cost	558,542,088	39,957,498	(2,012,238)	—	596,487,348
Less accumulated depreciation/ amortization:					
Buildings and building improvements	(125,830,196)	(13,112,695)	—	—	(138,942,891)
Improvements, other than buildings	(24,549,842)	(232,603)	—	—	(24,782,445)
Infrastructure	(12,083,263)	(1,797,318)	—	—	(13,880,581)

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	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2010</u>
Personal property:					
Equipment	\$ (16,558,885)	(1,036,276)	1,499,819	—	(16,095,342)
Library books and materials	(12,095,366)	(387,561)	22,995	—	(12,459,932)
Intangible assets	<u>(16,368,350)</u>	<u>(2,100,796)</u>	<u>119,266</u>	<u>—</u>	<u>(18,349,880)</u>
Total accumulated depreciation/ amortization	<u>(207,485,902)</u>	<u>(18,667,249)</u>	<u>1,642,080</u>	<u>—</u>	<u>(224,511,071)</u>
Net capital assets	\$ <u>351,056,186</u>	<u>21,290,249</u>	<u>(370,158)</u>	<u>—</u>	<u>371,976,277</u>

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

**(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 \$2,688,248 at June 30, 2010. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.6% to 4.5% 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 2013. The leases can be canceled if the State does not provide adequate funding.

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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:		
2011	\$ 1,895,043	132,586
2012	1,677,131	132,586
2013	1,681,902	46,360
2014	1,683,317	—
2015	<u>1,261,891</u>	<u>—</u>
Total minimum lease payments	8,199,284	\$ <u><u>311,532</u></u>
Less amount representing interest	<u>(739,000)</u>	
Present value of future minimum lease payments	7,460,284	
Less current portion	<u>(1,676,284)</u>	
Capital lease obligations, net of current portion	\$ <u><u>5,784,000</u></u>	

Rent expense under operating leases for the year ended June 30, 2010 totaled \$202,359.

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the State in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2010 totaled \$842,607,000.

**(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 \$2,751,972,000 as of June 30, 2010.

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## Notes to Financial Statements

June 30, 2010

**(b) Revenue Bond Programs**

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

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

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

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

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

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

Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay principal and interest payments on outstanding bonds. Available

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balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

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

The University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2010 was \$111,640,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,621,493,000 in Systemwide Revenue Bonds issued through fiscal year 2010. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$6,275,454,000. In fiscal year 2010, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$201,371,000 and \$249,822,000, respectively.

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Long-term debt obligations of the University as of June 30, 2010 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	4.10% – 5.50%	2010/22	\$ 2,905,000	2,120,000
Student Union Series 2005A Expansion	3.25% – 5.00%	2035/36	16,750,000	15,625,000
Student Union Series 2005A Recreation Center	3.25% – 5.00%	2035/36	11,250,000	10,500,000
Housing Series 2002A	4.10% – 5.50%	2031/32	17,035,000	14,680,000
Housing Series 2005A	3.25% – 5.00%	2034/35	28,575,000	26,125,000
Housing Series 2005C	3.25% – 5.25%	2031/32	11,905,000	10,845,000
Parking Series 2007A	4.00% – 5.00%	2032/33	26,865,000	25,670,000
Health Center Series 2010A	1.00% – 5.000%	2025/26	2,040,000	2,040,000
Health Center Series 2010B	5.70% – 6.48%	2040/41	4,035,000	4,035,000
Other:				
Energy Conservation Project	4.41%	2019/20	9,782,919	<u>7,610,426</u>
Total				119,250,426
Unamortized bond premium				3,379,007
Unamortized loss on refunding				<u>(628,451)</u>
Total long-term debt				122,000,982
Less current portion				<u>(3,165,851)</u>
Long-term debt, net of current portion				<u>\$ 118,835,131</u>

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June 30, 2010

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2011	\$ 3,165,851	5,861,185	9,027,036
2012	3,395,316	5,700,070	9,095,386
2013	3,546,094	5,559,447	9,105,541
2014	3,693,245	5,400,142	9,093,387
2015	3,861,830	5,223,672	9,085,502
2016 – 2020	21,988,090	23,013,438	45,001,528
2021 – 2025	22,265,000	17,500,255	39,765,255
2026 – 2030	27,950,000	11,252,983	39,202,983
2031 – 2035	25,720,000	3,885,238	29,605,238
2036 – 2040	3,310,000	420,471	3,730,471
2041 – 2045	355,000	11,509	366,509
	<u>\$ 119,250,426</u>	<u>83,828,410</u>	<u>203,078,836</u>

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

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

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June 30, 2010

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

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 8,539,421	9,170,876	(8,539,421)	9,170,876	4,714,624
Capitalized lease obligations (note 7)	9,347,129	—	(1,886,845)	7,460,284	1,676,284
Long-term debt obligations (note 8):					
Systemwide Revenue					
Bonds – Student Union	28,860,000	—	(615,000)	28,245,000	640,000
Systemwide Revenue					
Bonds – Housing	52,830,000	—	(1,180,000)	51,650,000	1,230,000
Systemwide Revenue					
Bonds – Parking	26,280,000	—	(610,000)	25,670,000	635,000
Systemwide Revenue					
Bonds – Health Center	—	6,075,000	—	6,075,000	—
Revenue Bond Anticipation					
Notes:					
Health Center	6,006,000	17,497	(6,023,497)	—	—
Energy Conservation Project	7,930,197	—	(319,771)	7,610,426	660,851
Total	121,906,197	6,092,497	(8,748,268)	119,250,426	3,165,851
Unamortized bond premium	3,370,259	150,695	(141,947)	3,379,007	—
Unamortized loss on refunding	(657,910)	—	29,459	(628,451)	—
Total long-term debt obligations	124,618,546	6,243,192	(8,860,756)	122,000,982	3,165,851
Total long-term liabilities	\$ 142,505,096	15,414,068	(19,287,022)	138,632,142	9,556,759

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

**(a) Pension Plan**

**Plan Description**

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

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report

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may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, CA 95814.

**Funding Policy**

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 19.9% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2008	\$	14,639,831
2009		15,038,740
2010		13,837,075

**(b) Postretirement Healthcare Plan**

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

**Plan Description**

The State provides retiree healthcare benefits to statewide employees including University employees through the programs administered by CalPERS. The State's substantive plan represents a single-employer defined benefit OPEB plan, which includes medical and prescription drug benefits (collectively, healthcare benefits) to the retired University employees. The System provides dental benefits to eligible University's retirees. Eligible retirees receive healthcare and dental benefits upon retirement at age 50 with five years of service credit.

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

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

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**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.

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**

The following table shows the total annual required contribution (ARC) for the University’s allocated portion of the postretirement healthcare plan, net of dental benefit portion, the amount contributed to the plan by the University, and changes in the University’s net OPEB obligation (NOO) for billable accounts for the fiscal year ended 2010:

Billable accounts only:	
Annual required contribution (ARC)	\$ 681,371
Contributions during the year	<u>(248,408)</u>
Increase in net OPEB obligation (NOO)	432,963
NOO – beginning of year	<u>689,142</u>
NOO – end of year	<u>\$ 1,122,105</u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2010	36%

**Actuarial Methods and Assumptions and Plan Funding Information**

As an agency of the State, the University was included in the State’s OPEB actuarial study. The analysis of the statewide ARC by accounts is performed by the State Controller’s Office (SCO) and allocated to the System. The System allocates the ARC to the University, which only includes the health benefit portion for the billable accounts. The dental benefit portion is not allocated to the

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University because the System centrally funds the cost of dental benefits for all retirees for the System.

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2009 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2010 and 9% in 2011, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status refer to the State's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010.

**(11) Self-Insurance Program**

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2010.

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

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

For the year ended June 30, 2010, the CSURMA purchased excess insurance to protect the Members from catastrophic losses. The CSURMA previously maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a joint powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of the \$2,500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

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

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2010 was approximately 3%, or \$2,786,000. 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, 2010. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

There is no amount due to or from CSURMA as of June 30, 2010.

**(12) Commitments and Contingencies**

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

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Authorized but unexpended expenditures for construction projects as of June 30, 2010 totaled \$3,439,264. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

As of June 30, 2010, in order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Services (DGS) and Shell Energy North America (Shell), respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$1,126,942 and \$5,981,061 of natural gas and electricity at fixed prices through June 2017 and March 2014, respectively. The University estimates that the special purchase contracts in place represent approximately 30.1% and 46.3% of its total annual natural gas and electricity expenses, respectively.

**(13) Classification of Operating Expenses**

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2010, operating expenses by natural classification consisted of the following:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 48,376,810	17,127,556	—	3,974,822	—	69,479,188
Research	521,660	77,949	—	—	—	599,609
Public service	915,421	121,127	—	9,977	—	1,046,525
Academic support	8,865,459	3,643,360	—	1,324,304	—	13,833,123
Student services	11,081,429	4,058,519	—	2,206,021	—	17,345,969
Institutional support	12,607,249	5,359,892	—	2,944,993	—	20,912,134
Operation and maintenance of plant	7,270,291	3,835,128	—	7,159,297	—	18,264,716
Student grants and scholarships	—	—	50,222,700	—	—	50,222,700
Auxiliary enterprise expenses	2,023,461	1,415,305	—	4,432,523	—	7,871,289
Depreciation and amortization	—	—	—	—	18,667,249	18,667,249
Total	\$ <u>91,661,780</u>	<u>35,638,836</u>	<u>50,222,700</u>	<u>22,051,937</u>	<u>18,667,249</u>	<u>218,242,502</u>

**(14) Transactions with Related Entities**

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$86,306,349 for the year ended June 30, 2010. The University also received lottery fund distributions from the State in the amount of \$1,300,000 for the year ended June 30, 2010, which is included in other nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net assets.

As discussed in notes 7 and 8, the University has recorded capital assets that have been financed by System or State obligations. These obligations are not reflected in the accompanying financial statements. For the year ended June 30, 2010, no such additions of capital assets are included in the accompanying financial statements.

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

Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	4,188,622
Payments from recognized auxiliary organizations for other than salaries of University employees		2,840,270
Payments to recognized auxiliary organizations for services, office space rental, and programs		1,066,813
Gifts (cash or assets) to the University from recognized auxiliary organizations		30,164,777
Payments to the Office of the Chancellor for administrative activities		109,415
Payments to the Office of the Chancellor for State pro rata charges		285,641
Amounts receivable from the Office of the Chancellor		852
Amounts receivable from recognized auxiliary organizations		1,231,789
Amounts payable to recognized auxiliary organizations		(217,352)
State lottery appropriations received		1,300,000