



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

Dr. Jolene Koester, President
California State University, Northridge:

We have audited the accompanying financial statements of California State University, Northridge (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the five discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008, the changes in their financial position, and, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Also, as discussed in note 2(c), the discretely presented component units' net assets at the beginning of the year have been restated.

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

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

Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 13, 2009

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

This section of California State University, Northridge's (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes to the financial statements.

Introduction to the Financial Statements

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

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

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

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

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

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Analytical Overview

Summary

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

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

	June 30	
	2008	2007
Assets:		
Current assets	\$ 127,776,382	112,980,134
Capital assets	337,505,773	294,385,624
Other noncurrent assets	138,416,932	123,133,725
Total assets	<u>\$ 603,699,087</u>	<u>530,499,483</u>
Liabilities:		
Current liabilities	\$ 63,496,562	42,173,619
Long-term debt obligations, net of current portion	132,757,500	97,972,798
Other noncurrent liabilities	11,911,893	11,419,450
Total liabilities	<u>\$ 208,165,955</u>	<u>151,565,867</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 236,156,349	208,106,831
Restricted, expendable	82,154,872	108,084,732
Unrestricted	77,221,911	62,742,053
Total net assets	<u>\$ 395,533,132</u>	<u>378,933,616</u>

Assets

Total assets increased \$73.2 million from prior year due to a \$14.8 million increase in current assets, a \$43.1 million increase in capital assets, and a \$15.3 million increase in other noncurrent assets. Total current assets increased \$14.8 million primarily due to the following: 1) an increase in short-term investments of \$7.7 million, and 2) an increase in accounts receivable, current, of \$7.0 million. The increase in short-term investments was due to the University investing daily excess cash and retaining only minimal balances with the State Treasury. The increase in accounts receivable, current, was primarily due to a \$2.8 million increase in student receivables as a result of a change in operations for fiscal year 2007 whereby registration for summer terms was postponed to July 2008 and an increase in fees charged to students of 10%. In addition, there was an increase of \$4.0 million due from the Office of the Chancellor for the return of surplus funds to the Student Union. During fiscal year 2008, the Student Union Revenue Bonds, Series B and Series C, were defeased and the funds held at the Office of the Chancellor, under the bond covenants, were owed back to the University.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Capital assets, net, increased \$43.1 million primarily due to construction on the following projects: housing, parking structure G3, student union, Science 1 Replacement building, and the Performing Arts Center.

Other noncurrent assets increased \$15.3 million primarily due to a \$37.0 million increase in other long-term investments for the following: 1) \$30.0 million of unspent bond proceeds for the housing, student union, and parking projects and 2) \$7.0 million for the Performing Arts Center. This was offset by a decrease of \$21.4 million in state appropriations receivable due to spending of capital appropriations on the Performing Arts Center.

Liabilities

Total liabilities increased \$56.6 million from prior year due to a \$21.3 million increase in current liabilities and a \$34.8 million increase in long-term debt obligations, net of current portion, as well as an increase of \$0.5 million in other noncurrent liabilities. Total current liabilities increased \$21.3 million primarily due to an \$11.2 million increase in accounts payable primarily associated with the construction work in progress for the following projects: parking structure G3, Science 1 Replacement building, Performing Arts Center, and the housing project. In addition, there was an increase of \$3.9 million in accrued compensated absences and benefits due to salary and benefit increases, a \$5.8 million increase in deferred revenue as a result of a change in operations for fiscal year 2007 whereby registration for summer terms was postponed to July, 2008 as well as an increase in fees charged to students of 10%.

Total long-term debt obligations, net of current portion, increased \$34.8 million due to the issuance of Systemwide Revenue Bonds Series 2008A in the amount of \$49.2 million related to the parking structure G3, student union, and housing projects. This increase was partially offset by a reduction of \$3.5 million due to current year principal payments, and \$11.1 million for the defeasance of the Student Union Revenue Bonds, Series B and Series C.

Net Assets

Total net assets increased \$16.6 million from the prior year. A significant portion of net assets at the end of the year is invested in capital assets, net of related debt and totaled \$236.2 million. Net assets invested in capital assets, net of related debt increased \$28.0 from prior year primarily due to construction work in progress related to the Performing Arts Center, the student union project, parking structure G3, the Science 1 Replacement building project, and the housing project. \$82.2 million of net assets at the end of the year is restricted for scholarships and fellowships, loans, capital projects, and debt service, which decreased \$25.9 million from prior year as discussed on the following page. \$77.2 million of net assets at the end of the year is unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Restricted Resources

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

Restricted Net Assets

	June 30	
	2008	2007
Expendable:		
Scholarships and fellowships	\$ 578,610	461,526
Loans	147,561	146,651
Capital projects	75,357,620	105,769,555
Debt service	6,071,081	1,707,000
Total restricted net assets – expendable	<u>\$ 82,154,872</u>	<u>108,084,732</u>

Total restricted net assets – expendable decreased \$25.9 million primarily due to a \$30.4 million decrease in net assets restricted for capital projects as a result of spending bond proceeds for the housing, parking, and student union projects. This was partially offset by a \$4.4 million increase in net assets restricted for debt service, which represents increased amounts needed to cover upcoming debt service payments.

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Management's Discussion and Analysis

June 30, 2008

(Unaudited)

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

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

	Year ended June 30	
	2008	2007
Operating revenues:		
Student tuition and fees, net	\$ 93,782,323	89,568,958
Sales and services of educational activities	1,234,727	855,484
Sales and services of auxiliary enterprises, net	25,055,577	22,756,228
Other operating revenues	7,596,781	4,939,135
Total operating revenues	127,669,408	118,119,805
Operating expenses	(380,375,510)	(352,002,397)
Operating loss	(252,706,102)	(233,882,592)
Nonoperating revenues (expenses):		
State appropriations, noncapital	195,832,161	185,803,292
Federal financial aid grants, noncapital	37,970,294	35,540,563
State and local financial aid grants, noncapital	19,209,344	17,866,910
Nongovernmental financial aid grants, noncapital	2,937,677	2,767,967
Investment income, net	7,391,099	5,494,222
Other nonoperating expenses, net	(172,305)	(3,592,762)
Total nonoperating revenues, net	263,168,270	243,880,192
Income before other additions	10,462,168	9,997,600
State appropriations, capital	3,340,155	60,977,000
Grants and gifts, capital	2,797,193	1,997,374
Increase in net assets	16,599,516	72,971,974
Beginning net assets	378,933,616	305,961,642
Ending net assets	\$ 395,533,132	378,933,616

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

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Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Operating Revenues and Expenses

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

Operating Revenues

Total operating revenues increased \$9.5 million primarily due to a \$4.2 million increase in student tuition and fees, net, a \$0.4 million increase in sales and services of educational activities, a \$2.3 million increase in sales and services of auxiliary enterprises, net, and a \$2.7 million increase in other operating revenues. Student tuition and fees, net, increased \$4.2 million, or 4.7%, from prior year primarily due to a 4.8% increase in full-time equivalent students and a 10.0% increase in the state university fee, which was offset by an increase of \$7.3 million, or 17.1%, in scholarship allowances provided to students. Sales and services of auxiliary enterprises, net, increased \$2.3 million from the prior year primarily due to a \$1.3 million increase in dormitory housing revenue as a result of a 5.0% rate increase and a \$1.2 million increase in parking permit sales as a result of a 14.0% rate increase.

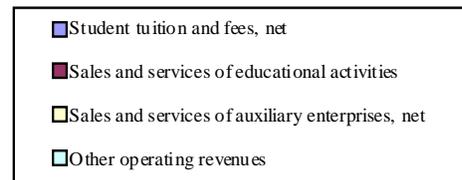
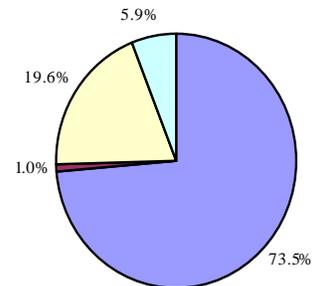
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2008 and 2007:

Fiscal Year Ended June 30, 2008

Operating Revenues

Year ended June 30, 2008

Student tuition and fees, net	\$ 93,782,323	73.5%
Sales and services of educational activities	1,234,727	1.0
Sales and services of auxiliary enterprises, net	25,055,577	19.6
Other operating revenues	<u>7,596,781</u>	<u>5.9</u>
Total operating revenues	<u>\$ 127,669,408</u>	<u>100.0%</u>



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2008

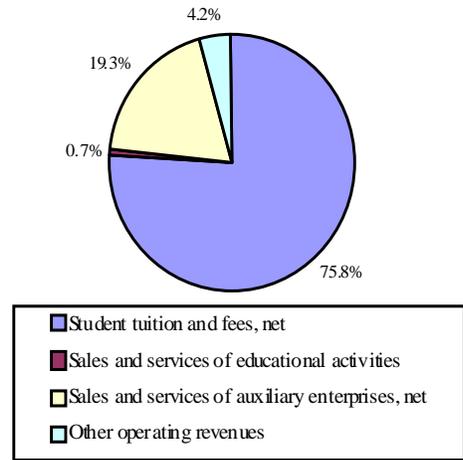
(Unaudited)

Fiscal Year Ended June 30, 2007

Operating Revenues

Year ended June 30, 2007

Student tuition and fees, net	\$ 89,568,958	75.8%
Sales and services of educational activities	855,484	0.7
Sales and services of auxiliary enterprises, net	22,756,228	19.3
Other operating revenues	4,939,135	4.2
	<u>\$ 118,119,805</u>	<u>100.0%</u>



Operating Expenses

Total operating expenses increased by \$28.4 million, or 8.1%, primarily due to a \$14.5 million increase in instruction, a \$5.2 million increase in student services, a \$4.0 million increase in institutional support, a \$3.2 million increase in auxiliary enterprise expense, and a \$2.5 million increase in academic support, offset by a \$0.7 million decrease in student grants and scholarships. Salaries and benefits costs, within each of these functions, increased by \$24.0 million primarily due to overall salary rate increases of approximately 5.5%, and an 8.0% health and retirement benefit increase for all employees primarily due to increases in health premiums. Supplies and other services expense, within each of these functions, increased by \$5.2 million primarily due to miscellaneous repairs in labs and classrooms of \$0.7 million, \$1.6 million of noncapitalizable equipment and repairs and deferred maintenance in housing facilities, and \$1.3 million increase in Extended Learning contracts for International Students and other institutions providing classroom space for their classes and programs. Student grants and scholarships decreased by \$0.7 million. The percentage of students receiving aid decreased from 57.3% to 53.9% in the fiscal year ended June 30, 2008; however, enrollment increased by 13.0%. The instruction function increased \$14.5 million primarily due to higher salaries and benefits costs as discussed above and the increase in Extended Learning Contracts as noted above. The student services function increased by \$5.2 million as a result of the salary and benefits increases noted above, and the hiring of additional staff. Institutional support increased \$4.0 million primarily related to general salary increases, filling vacant positions, and increased information technology support. Auxiliary enterprise expenses increased \$3.2 million primarily as a result of noncapitalizable renovations of student housing facilities. The academic support function increased \$2.5 million due to the higher salaries and benefits costs discussed above.

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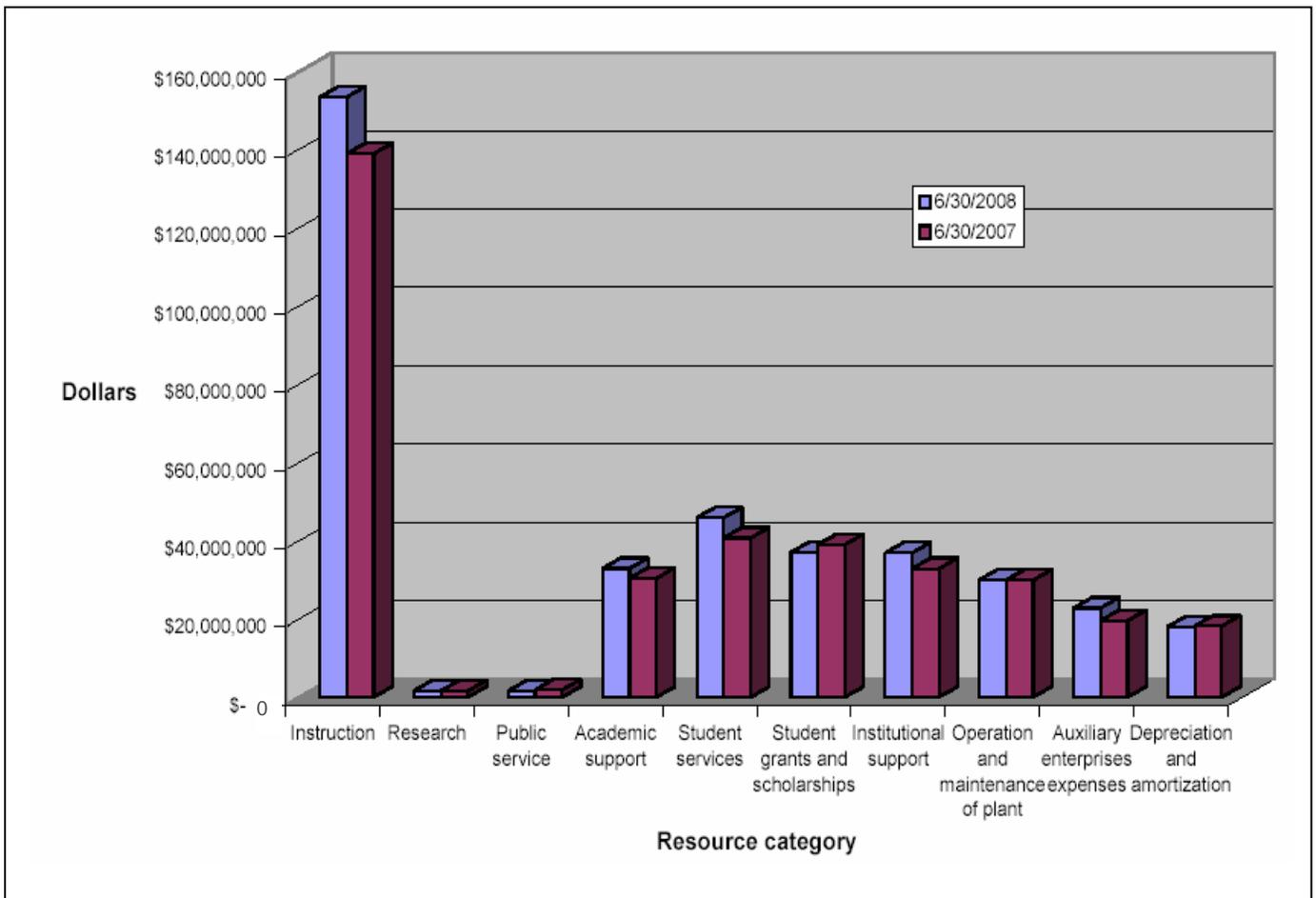
Management's Discussion and Analysis

June 30, 2008

(Unaudited)

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

Comparative Distribution of Resources for fiscal years ended 2008 and 2007



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2008

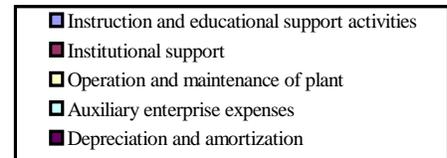
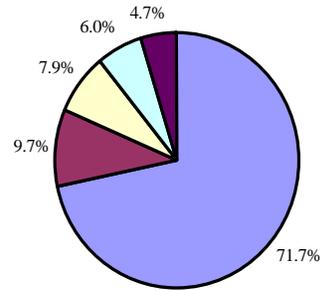
(Unaudited)

The following charts present the distribution of resources in support of the University's mission for fiscal years ended 2008 and 2007:

Operating Expenses

Year ended June 30, 2008

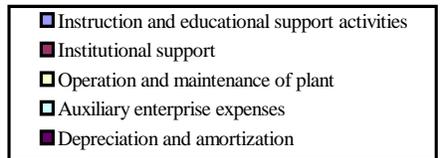
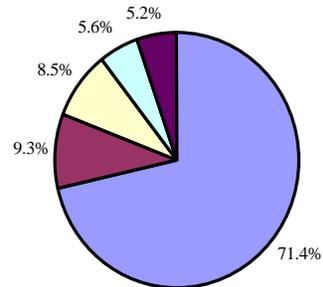
Instruction	\$ 153,372,183	40.3%
Research	1,674,531	0.4
Public service	1,668,457	0.4
Academic support	32,919,011	8.7
Student services	45,891,810	12.1
Student grants and scholarships	<u>37,075,542</u>	<u>9.8</u>
Total instruction and educational support activities	272,601,534	71.7
Institutional support	36,911,016	9.7
Operation and maintenance of plant	30,003,794	7.9
Auxiliary enterprises expenses	22,814,516	6.0
Depreciation and amortization	<u>18,044,650</u>	<u>4.7</u>
Total operating expenses	<u>\$ 380,375,510</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2007

Instruction	\$ 138,903,880	39.5%
Research	1,671,370	0.5
Public service	1,900,960	0.5
Academic support	30,440,677	8.6
Student services	40,718,472	11.6
Student grants and scholarships	<u>37,787,016</u>	<u>10.7</u>
Total instruction and educational support activities	251,422,375	71.4
Institutional support	32,887,076	9.3
Operation and maintenance of plant	29,943,312	8.5
Auxiliary enterprises expenses	19,565,854	5.6
Depreciation and amortization	<u>18,183,780</u>	<u>5.2</u>
Total operating expenses	<u>\$ 352,002,397</u>	<u>100.0%</u>



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Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Nonoperating Revenues (Expenses)

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

As the University is part of the California State University System, which is an agency of the State of California (the State), the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$3.3 million for the fiscal year ended June 30, 2008, down from \$61.0 million for the fiscal year ended June 30, 2007. Capital state appropriations in the prior year included one-time appropriations of \$56.5 million for the Performing Art Center project and \$2.9 million for the HVAC and Electrical renewal projects in Sierra and Nordhoff halls. Capital state appropriations in the current year were for two capital renovation and improvement projects, Fuel Cell Satellite improvements, the Eucalyptus Hall improvements, and minor capital outlay projects. General (noncapital) appropriation revenues totaled \$195.8 million, an increase of \$10.0 million from the prior year due to appropriations to cover the salary and benefits increases noted earlier. Investment income, net was \$7.4 million, an increase of \$1.9 million from prior year primarily due to the improved investment strategy of utilizing investment managers to invest the University's excess funds on a daily basis and the increase in investments held during the year of \$44.7 million. Other nonoperating revenues (expenses), net increased \$3.4 million primarily due to the receipt of \$2.8 million for one-time energy conservation incentives. Grants and gifts, capital, increased \$0.8 million primarily due to a \$2.5 million grant from Los Angeles County for the Performing Arts Center project, which was offset by a decrease of \$1.9 million due to the campus receiving the final payment from FEMA for earthquake related expenses.

Capital Assets and Long-Term Debt Obligations

Capital Assets

Capital assets, net of accumulated depreciation are shown below:

	June 30	
	2008	2007
Land and land improvements	\$ 6,113,511	6,113,511
Buildings and building improvements	236,738,591	248,235,357
Improvements, other than buildings	3,042,244	2,924,009
Infrastructure	7,238,890	6,408,457
Personal property	15,038,308	13,025,094
Intangible assets	1,263,324	1,243,533
Construction work in progress	68,070,905	16,435,663
Total capital assets, net of accumulated depreciation	<u>\$ 337,505,773</u>	<u>294,385,624</u>

At June 30, 2008 and 2007, the University had \$643.3 million and \$583.2 million, in capital assets, with accumulated depreciation of \$305.8 million and \$288.8 million, respectively. Depreciation and amortization expense totaled \$18.0 million and \$18.2 million for the years ended June 30, 2008 and 2007, respectively.

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Major capital projects additions during fiscal year 2008 are as follows (in millions):

Housing	\$	9.2
Student union		1.0
Parking structure G3		10.9
Performing Arts Center		11.8
Science 1 Replacement building		17.5

These projects were funded primarily through Systemwide Revenue Bond proceeds and state appropriations. Contractual commitments for construction projects unexpended as of June 30, 2008 totaled approximately \$112 million. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds. See note 6 to the financial statements for further information on capital assets.

Long-Term Debt Obligations

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

	June 30	
	2008	2007
Student Union Revenue Bonds	\$ —	11,130,000
Systemwide Revenue Bonds	136,258,000	90,559,958
Total	136,258,000	101,689,958
Unamortized bond premium	2,276,168	1,639,660
Unamortized loss on refunding	(1,646,668)	(1,429,862)
Total long-term debt	136,887,500	101,899,756
Less current portion	(4,130,000)	(3,926,958)
Long-term debt, net of current portion	\$ 132,757,500	97,972,798

During fiscal year 2008, the University issued Systemwide Revenue Bonds Series 2007C and 2008A in the amounts of \$10.2 million and \$39.0 million, respectively. Series 2007C Bonds were issued to refinance existing debt on the student union building, and Series 2008A Bonds were issued to fund construction of the new housing and parking structure G3.

Bond Ratings

Moody's Investors Service currently provides intrinsic ratings of Aa3, with a "stable outlook," for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides intrinsic ratings of A+, with a "positive outlook," for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, and Series 2008A, all Systemwide Revenue Bonds are insured. At the time of issuance, all providers of insurance for Systemwide Revenue Bonds were rated Aaa/AAA by Moody's Investors Service and Standard & Poor's Rating Service, respectively. During fiscal year 2008, some providers of

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(Unaudited)

insurance for Systemwide Revenue Bonds were downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the same rating as the Systemwide Revenue Bonds, which are Aa3 from Moody's Investors Service and A+ from Standard & Poor's Rating Service. See notes 8 and 10 to the financial statements for further information on long-term debt obligations.

Factors Impacting Future Periods

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2008/2009. The allocation provided to the University is \$194.0 million, a decrease of \$1.8 million over fiscal year 2007/2008. The decrease is a result of statewide budget cuts. In fiscal year 2009, the University had to reduce spending by an additional \$2.2 million.

Budgeted full-time equivalent enrollment targets for fiscal years 2008/2009 are 25,733, representing no increase from last year.

The California State University Board of Trustees recently approved a student housing project for the University. The project includes 400 apartment-style units. The total cost of the project is projected to be approximately \$30.0 million and will be funded through issuance of revenue bonds and housing revenues. The project is scheduled for completion in June 2009.

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 73% in the California State University's Investment Pool and 27% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of the investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Net Assets

June 30, 2008

Assets	University	Discretely presented component units Auxiliary organizations	Total
	Current assets:		
Cash and cash equivalents	\$ 19,960	13,872,458	13,892,418
Short-term investments	114,311,612	33,744,058	148,055,670
Accounts receivable, net	11,197,206	4,781,063	15,978,269
Leases receivable, current portion	275,000	—	275,000
Pledges receivable, net	—	1,732,170	1,732,170
Prepaid expenses and other assets	1,972,604	587,554	2,560,158
Total current assets	127,776,382	54,717,303	182,493,685
Noncurrent assets:			
Restricted cash and cash equivalents	—	278,047	278,047
Accounts receivable, net	84,523,751	1,977,180	86,500,931
Leases receivable, net of current portion	9,985,000	—	9,985,000
Student loans receivable, net	3,260,406	—	3,260,406
Pledges receivable, net	—	10,027,010	10,027,010
Endowment investments	—	43,958,804	43,958,804
Other long-term investments	40,647,775	25,535,972	66,183,747
Capital assets, net	337,505,773	23,959,012	361,464,785
Other assets	—	23,076,957	23,076,957
Total noncurrent assets	475,922,705	128,812,982	604,735,687
Total assets	603,699,087	183,530,285	787,229,372
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	23,458,245	2,029,799	25,488,044
Accrued salaries and benefits payable	15,502,813	1,481,152	16,983,965
Accrued compensated absences – current portion	7,879,419	395,994	8,275,413
Deferred revenue	11,036,130	2,504,038	13,540,168
Capitalized lease obligations – current portion	—	275,000	275,000
Long-term debt obligations – current portion	4,130,000	120,160	4,250,160
Other liabilities	1,489,955	110,201	1,600,156
Total current liabilities	63,496,562	6,916,344	70,412,906
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	6,394,890	139,206	6,534,096
Deferred revenue	—	312,500	312,500
Grants refundable	4,232,162	16,000	4,248,162
Capitalized lease obligations, net of current portion	—	10,191,925	10,191,925
Long-term debt obligations, net of current portion	132,757,500	3,235,218	135,992,718
Depository accounts	1,284,841	6,840,134	8,124,975
Other liabilities	—	5,152,464	5,152,464
Total noncurrent liabilities	144,669,393	25,887,447	170,556,840
Total liabilities	208,165,955	32,803,791	240,969,746
Net assets:			
Invested in capital assets, net of related debt	236,156,349	10,263,468	246,419,817
Restricted for:			
Nonexpendable – endowments	—	54,472,163	54,472,163
Expendable:			
Scholarships and fellowships	578,610	6,535,805	7,114,415
Research	—	5,235,823	5,235,823
Loans	147,561	—	147,561
Capital projects	75,357,620	1,618,704	76,976,324
Debt service	6,071,081	—	6,071,081
Other	—	35,188,367	35,188,367
Unrestricted	77,221,911	37,412,164	114,634,075
Total net assets	\$ 395,533,132	150,726,494	546,259,626

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2008

	<u>University</u>	<u>Discretely presented component units Auxiliary organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$49,939,291)	\$ 93,782,323	11,116,078	—	104,898,401
Grants and contracts, noncapital:				
Federal	—	14,960,547	—	14,960,547
State	—	1,400,662	—	1,400,662
Local	—	1,752,456	—	1,752,456
Nongovernmental	—	1,024,772	—	1,024,772
Sales and services of educational activities	1,234,727	—	—	1,234,727
Sales and services of auxiliary enterprises	25,055,577	13,477,463	—	38,533,040
Other operating revenues	7,596,781	2,641,577	—	10,238,358
Total operating revenues	<u>127,669,408</u>	<u>46,373,555</u>	<u>—</u>	<u>174,042,963</u>
Expenses:				
Operating expenses:				
Instruction	153,372,183	199,026	—	153,571,209
Research	1,674,531	17,043,948	—	18,718,479
Public service	1,668,457	219,376	—	1,887,833
Academic support	32,919,011	385,875	—	33,304,886
Student services	45,891,810	11,114,804	—	57,006,614
Institutional support	36,911,016	3,887,853	(297,193)	40,501,676
Operation and maintenance of plant	30,003,794	15,112	—	30,018,906
Student grants and scholarships	37,075,542	2,883,484	—	39,959,026
Auxiliary enterprise expenses	22,814,516	13,746,011	—	36,560,527
Depreciation and amortization	18,044,650	1,829,489	—	19,874,139
Total operating expenses	<u>380,375,510</u>	<u>51,324,978</u>	<u>(297,193)</u>	<u>431,403,295</u>
Operating loss	<u>(252,706,102)</u>	<u>(4,951,423)</u>	<u>297,193</u>	<u>(257,360,332)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	195,832,161	—	—	195,832,161
Federal financial aid grants, noncapital	37,970,294	—	—	37,970,294
State and local financial aid grants, noncapital	19,209,344	—	—	19,209,344
Nongovernmental and other financial aid grants, noncapital	2,937,677	—	—	2,937,677
Gifts, noncapital	59,098	12,904,804	—	12,963,902
Investment income (loss), net	7,391,099	(4,000,129)	—	3,390,970
Endowment loss	—	(822,840)	—	(822,840)
Interest expense	(5,148,982)	(686,035)	—	(5,835,017)
Other nonoperating revenues (expenses), net	4,917,579	(180,515)	—	4,737,064
Net nonoperating revenues	<u>263,168,270</u>	<u>7,215,285</u>	<u>—</u>	<u>270,383,555</u>
Income before other additions	10,462,168	2,263,862	297,193	13,023,223
State appropriations, capital	3,340,155	—	—	3,340,155
Grants and gifts, capital	2,797,193	—	(297,193)	2,500,000
Additions to permanent endowments	—	808,310	—	808,310
Increase in net assets	<u>16,599,516</u>	<u>3,072,172</u>	<u>—</u>	<u>19,671,688</u>
Net assets:				
Net assets at beginning of year, as restated (note 2)	378,933,616	147,654,322	—	526,587,938
Net assets at end of year	<u>\$ 395,533,132</u>	<u>150,726,494</u>	<u>—</u>	<u>546,259,626</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2008

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 96,183,748
Payments to suppliers	(68,844,676)
Payments to employees	(254,067,894)
Payments to students	(35,993,090)
Collections of student loans	69,831
Sales and services of auxiliary enterprises	25,798,178
Sales and services of educational activities	1,234,727
Other receipts payments	3,175,984
	<hr/>
Net cash used in operating activities	(232,443,192)
	<hr/>
Cash flows from noncapital financing activities:	
State appropriations	195,902,216
Federal financial aid grants	37,969,825
State and local financial aid grants	19,209,344
Nongovernmental and other financial aid grants	2,937,677
Gifts and grants received for other than capital purposes	59,098
Federal loan program receipts	6,096,454
Federal loan program disbursements	(6,102,049)
Monies received on behalf of others	745,162
Monies disbursed on behalf of others	(610,206)
Other	5,185,949
	<hr/>
Net cash provided by noncapital financing activities	261,393,470
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	54,183,958
State appropriations	24,757,551
Capital grants and gifts	2,500,000
Acquisition of capital assets	(49,620,961)
Transfers to escrow agent	(11,623,310)
Principal paid on capital debt and leases	(7,700,737)
Interest paid on capital debt and leases	(4,654,980)
Principal payments received on capital leases	125,000
Interest payments received on capital leases	412,146
	<hr/>
Net cash provided by capital and related financing activities	8,378,667
	<hr/>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	533,932,272
Purchases of investments	(578,650,608)
Investment income received	7,314,130
	<hr/>
Net cash used in investing activities	(37,404,206)
	<hr/>
Net decrease in cash and cash equivalents	(75,261)
	<hr/>
Cash and cash equivalents at beginning of year	95,221
	<hr/>
Cash and cash equivalents at end of year	\$ 19,960
	<hr/> <hr/>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2008

	University
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (252,706,102)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	18,044,650
Change in assets and liabilities:	
Accounts receivable, net	(7,435,440)
Student loans receivable, net	69,831
Prepaid expenses and other assets	(17,932)
Accounts payable	(347,089)
Accrued salaries and benefits payable	(31,022)
Accrued compensated absences	4,301,477
Deferred revenue	5,824,864
Other liabilities	(146,429)
Net cash used in operating activities	\$ (232,443,192)
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 297,193
Change in accrued capital asset costs (purchased but unpaid at year-end)	11,515,016
Amortization of bond premium, net	148,671
Amortization of loss on refundings	125,394

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

(1) Organization

California State University, Northridge (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 its five recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The discretely presented auxiliary organizations are as follows:

- California State University, Northridge Foundation
- Associated Students Incorporated of California State University, Northridge
- University Student Union of California State University, Northridge
- The University Corporation
- North Campus – University Park Development Corporation

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

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

June 30, 2008	California State University, Northridge Foundation	Other auxiliary organizations	Total
Current assets	\$ 39,155,415	15,561,888	54,717,303
Capital assets, net	190,812	23,768,200	23,959,012
Other noncurrent assets	76,186,676	28,667,294	104,853,970
Total assets	\$ 115,532,903	67,997,382	183,530,285
Current liabilities	\$ 461,273	6,455,071	6,916,344
Noncurrent liabilities	312,500	25,574,947	25,887,447
Total liabilities	\$ 773,773	32,030,018	32,803,791
Invested in capital assets, net of related debt	\$ 190,812	10,072,656	10,263,468
Restricted	95,778,382	7,272,480	103,050,862
Unrestricted	18,789,936	18,622,228	37,412,164
Total net assets	\$ 114,759,130	35,967,364	150,726,494
Year ended June 30, 2008			
Operating revenues:			
Student tuition and fees, net	\$ —	11,116,078	11,116,078
Grants and contracts, noncapital	—	19,138,437	19,138,437
Sales and services of auxiliary enterprises, net	—	13,477,463	13,477,463
Other	—	2,641,577	2,641,577
Total operating revenues	\$ —	46,373,555	46,373,555

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

	California State University, Northridge	Other auxiliary	Total
	<u> </u>	<u> </u>	<u> </u>
Operating expenses:			
Instruction	\$ 199,026	—	199,026
Research	369,320	16,674,628	17,043,948
Public service	219,376	—	219,376
Academic support	385,875	—	385,875
Student services	740,085	10,374,719	11,114,804
Institutional support	1,831,270	2,056,583	3,887,853
Operation and maintenance of plant	—	15,112	15,112
Student grants and scholarships	985,640	1,897,844	2,883,484
Auxiliary enterprise expenses	—	13,746,011	13,746,011
Depreciation and amortization	154,869	1,674,620	1,829,489
	<u>4,885,461</u>	<u>46,439,517</u>	<u>51,324,978</u>
Total operating expenses			
Operating loss	(4,885,461)	(65,962)	(4,951,423)
Net nonoperating revenues (expenses)	<u>10,356,271</u>	<u>(3,140,986)</u>	<u>7,215,285</u>
Income (loss) before other additions	5,470,810	(3,206,948)	2,263,862
Additions to permanent endowments	<u>808,310</u>	—	<u>808,310</u>
Increase (decrease) in net assets	6,279,120	(3,206,948)	3,072,172
Beginning net assets, July 1, 2007, as restated	<u>108,480,010</u>	<u>39,174,312</u>	<u>147,654,322</u>
Ending net assets, June 30, 2008	<u>\$ 114,759,130</u>	<u>35,967,364</u>	<u>150,726,494</u>

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California 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 of California or the System as of June 30, 2008 and the changes in their financial position, and, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

(b) Basis of Presentation

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

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

The auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB).

(c) Auxiliary Organizations Restatement

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

	North Campus – University Park Development Corporation	Total
Net assets as of June 30, 2007, as previously reported	\$ 2,966,934	146,937,438
Recognition of lease income	716,884	716,884
Net assets at July 1, 2007, as restated	\$ 3,683,818	147,654,322

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

(d) Election of Applicable FASB Statements

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

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

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

(f) Cash and Cash Equivalents

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

(g) Investments

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

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

(h) Capital Assets

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

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

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

(i) Deferred Revenue

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

(j) Compensated Absences

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

(k) Grants Refundable

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

(l) Net Assets

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

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

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

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

Unrestricted – All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the University or have legislative or bond indenture 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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

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

(m) *Classification of Revenues and Expenses*

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

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

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

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

(n) *Internal Services Activities*

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

(o) *Income Taxes*

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

(p) *New Accounting Pronouncements*

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

On July 1, 2007, the University adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets*, which requires additional disclosures related to pledged future revenues. The University has pledged future continuing education, healthcare facilities, housing, parking, student union, and the related revenues from the University Corporation to repay Systemwide Revenue Bonds. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and the University Corporation revenues. See note 8 (b) for further details.

(q) *Eliminations*

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

(r) *Use of Estimates*

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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(3) Cash and Investments

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

Cash	\$	<u>19,960</u>
Short-term investments		114,311,612
Other long-term investments		<u>40,647,775</u>
Total investments		<u>154,959,387</u>
Total cash and investments	\$	<u><u>154,979,347</u></u>

(a) Cash

At June 30, 2008, cash consisted of petty cash.

Custodial Credit Risk for Deposits

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

(b) Investments

At June 30, 2008, the University's investment portfolio consists primarily of investments in the State of California 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 University's various funds and programs.

Investment Policy

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

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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- and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2008 is presented in the table in the following page.

Credit Risk

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

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2008:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 42,011	0.00	\$ 42,011	—	—	—	—
Commercial paper	28,569,066	0.05	—	—	28,569,066	—	—
Certificates of deposit	24,271,394	0.13	—	—	24,271,394	—	—
Repurchase agreements	2,675,420	0.50	—	—	2,675,420	—	—
U.S. agency securities	13,969,419	1.17	11,833,884	—	2,135,535	—	—
Corporate and fixed income securities	38,930,711	1.68	12,005,243	12,835,391	13,166,457	324,812	598,808
State of California Surplus Money Investment Fund	42,484,906	0.58	—	—	—	—	42,484,906
Mortgage-backed securities	3,749,134	11.97	3,749,134	—	—	—	—
Total	154,692,061		\$ 27,630,272	12,835,391	70,817,872	324,812	43,083,714
Not subject to ratings:							
U.S. Treasury securities	267,326	5.65					
Total investments	\$ 154,959,387						

Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2008, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank bonds and mortgage-backed securities totaling \$7.8 million, (5.1%).

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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Risks 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 financial position.

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

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

(4) Accounts Receivable

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 4,955	84,523,751	84,528,706
Auxiliary organizations	335,879	—	335,879
Student accounts	6,464,897	—	6,464,897
Government grants and contracts	493,530	—	493,530
Other	8,148,298	—	8,148,298
	<u>15,447,559</u>	<u>84,523,751</u>	<u>99,971,310</u>
Less allowance for doubtful accounts	<u>(4,250,353)</u>	<u>—</u>	<u>(4,250,353)</u>
Total	<u>\$ 11,197,206</u>	<u>84,523,751</u>	<u>95,720,957</u>

(5) Lease Receivable

The University and The University Corporation entered into a 30-year capital lease agreement for the Sierra Center Building effective October 2003. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2002A was used to finance such facilities. The three-story building incorporates food service units and indoor and outdoor space. The University and The University Corporation also entered into an 18-year capital lease agreement for the Matador Bookstore addition effective March 2007. Lease payments are due twice a year on May 1 and November 1.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

Lease payments are due to the University as follows:

Fiscal year ending:		
2009	\$	275,000
2010		285,000
2011		295,000
2012		305,000
2013		320,000
Thereafter		<u>8,780,000</u>
Total lease receivable		10,260,000
Less current portion		<u>(275,000)</u>
Long-term lease receivable, net of current portion	\$	<u><u>9,985,000</u></u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

(6) Capital Assets

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

	<u>Balance, June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2008</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 6,113,511	—	—	—	6,113,511
Construction work in progress	<u>16,435,663</u>	<u>55,437,009</u>	<u>(12,830)</u>	<u>(3,788,937)</u>	<u>68,070,905</u>
Total nondepreciable capital assets	<u>22,549,174</u>	<u>55,437,009</u>	<u>(12,830)</u>	<u>(3,788,937)</u>	<u>74,184,416</u>
Depreciable capital assets:					
Buildings and building improvements	439,739,735	—	—	2,118,079	441,857,814
Improvements, other than buildings	16,247,460	—	—	529,579	16,777,039
Infrastructure	14,857,852	—	—	1,141,279	15,999,131
Personal property:					
Equipment	43,395,175	4,495,083	(1,339,367)	—	46,550,891
Library books and materials	35,655,813	874,812	—	—	36,530,625
Intangible assets	<u>10,781,561</u>	<u>626,266</u>	<u>—</u>	<u>—</u>	<u>11,407,827</u>
Total depreciable capital assets	<u>560,677,596</u>	<u>5,996,161</u>	<u>(1,339,367)</u>	<u>3,788,937</u>	<u>569,123,327</u>
Total cost	<u>583,226,770</u>	<u>61,433,170</u>	<u>(1,352,197)</u>	<u>—</u>	<u>643,307,743</u>
Less accumulated depreciation:					
Buildings and building improvements	(191,504,378)	(13,614,845)	—	—	(205,119,223)
Improvements, other than buildings	(13,323,451)	(411,344)	—	—	(13,734,795)
Infrastructure	(8,449,395)	(310,846)	—	—	(8,760,241)
Personal property:					
Equipment	(34,164,743)	(2,308,251)	1,083,826	—	(35,389,168)
Library books and materials	(31,861,151)	(792,889)	—	—	(32,654,040)
Intangible assets	<u>(9,538,028)</u>	<u>(606,475)</u>	<u>—</u>	<u>—</u>	<u>(10,144,503)</u>
Total accumulated depreciation	<u>(288,841,146)</u>	<u>(18,044,650)</u>	<u>1,083,826</u>	<u>—</u>	<u>(305,801,970)</u>
Net capital assets	\$ <u><u>294,385,624</u></u>	<u><u>43,388,520</u></u>	<u><u>(268,371)</u></u>	<u><u>—</u></u>	<u><u>337,505,773</u></u>

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

(7) Lease Obligations

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

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2010. The leases can be canceled if the State does not provide adequate funding.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

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

	<u>Operating leases</u>
Year ending June 30:	
2009	\$ 867,313
2010	<u>585,972</u>
Total minimum lease payments	<u>\$ 1,453,285</u>

Rent expense under operating leases for the year ended June 30, 2008 totaled \$893,072.

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

(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 California State University System, and the Community Colleges. Financing provided to the University through State General Obligation Bonds is not allocated to the System by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the State related to System projects is approximately \$1,494,093,000 as of June 30, 2008.

(b) Revenue Bond Programs

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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

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

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

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

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

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June 30, 2008

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

The University participates in the SRB program and its allocated share of outstanding SRB debt as of June 30, 2008 is \$136,258,000, 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 \$2,804,033,000 in Systemwide Revenue Bonds issued through fiscal year 2008. 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 2044/2045. 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 \$4,939,829,000. In fiscal year 2008, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$148,395,000 and \$213,695,000, respectively.

(c) ***Revenue Bond Anticipation Notes***

The Trustees have authorized the issuance of Revenue Bond Anticipation Notes (BANs) to provide short-term financing to the System for certain projects. The BANs are issued to the California State University Institute, an auxiliary organization of the System, to secure the issuance of its commercial paper. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date. The University issued BANs during 2008 to finance the development and construction of parking facilities. As of June 30, 2008, these BANs were converted to Systemwide Revenue Bonds; therefore, the University has no BANs outstanding at June 30, 2008.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

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

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding at June 30</u>
Systemwide revenue bonds:				
Parking:				
Series 2002A	4.00% – 5.50%	2027/28	\$ 9,550,000	8,425,000
Series 2004A	3.00 – 5.25	2030/31	13,300,000	12,690,000
Series 2008A	3.50 – 5.00	2034/35	21,300,000	21,300,000
Housing:				
Series J	3.00	2019/20	3,173,000	1,723,000
Series 2004A	2.50 – 5.00	2018/19	12,555,000	9,855,000
Series 2005B	5.00	2021/22	34,225,000	29,510,000
Series 2008A	3.50 – 5.00	2039/40	17,675,000	17,675,000
Student Union:				
Series 2004A	3.00 – 5.25	2034/35	6,445,000	6,115,000
Series 2005A	3.00 – 5.00	2035/36	8,815,000	8,530,000
Series 2007C	5.00	2022/23	10,175,000	10,175,000
Auxiliary organization:				
Food Services				
Series 2003A	2.50 – 5.375	2033/34	6,795,000	6,315,000
Bookstore Series 2007A	4.00 – 5.00	2025/26	3,945,000	<u>3,945,000</u>
Total				136,258,000
Unamortized bond premium				2,276,168
Unamortized loss on refunding				<u>(1,646,668)</u>
Total long-term debt				136,887,500
Less current portion				<u>(4,130,000)</u>
Long-term debt, net of current portion				<u>\$ 132,757,500</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2008

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 4,130,000	6,566,960	10,696,960
2010	4,315,000	6,270,384	10,585,384
2011	5,255,000	6,060,828	11,315,828
2012	5,475,000	5,830,145	11,305,145
2013	5,745,000	5,588,606	11,333,606
2014 – 2018	33,090,000	23,501,834	56,591,834
2019 – 2023	29,238,000	15,525,205	44,763,205
2024 – 2028	19,095,000	9,890,370	28,985,370
2029 – 2033	17,630,000	5,226,750	22,856,750
2034 – 2038	10,130,000	1,441,500	11,571,500
2039 – 2043	2,155,000	109,125	2,264,125
	<u>\$ 136,258,000</u>	<u>86,011,707</u>	<u>222,269,707</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 the separately issued auxiliary organizations' reports.

(9) Advance Refundings

On August 7, 2007, the University defeased Student Union Revenue Bonds by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2007C refunding bonds in an irrevocable trust with the State of Treasurer to provide for all future debt service payments on the bonds. The proceeds from the Series 2007C refunding bonds were used to purchase federal, state, and local government securities that were placed in escrow accounts. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. These transactions will reduce the University's total debt service payments by \$696,692 over the life of the bonds. The economic gain (difference between net present values of the debt service payments on the old debt and new debt) from these transactions was \$510,089. Accordingly, the refunded bonds have been considered defeased, and therefore, removed as a liability from the accompanying financial statements. As of June 30, 2008, the bondholders have been paid, and therefore, the amount of the University's current year defeased bonds outstanding as of June 30, 2008 totaled \$0.

In April 2008, The University Corporation defeased certain bonds, which are presented in the discretely presented auxiliary organizations (refunded bonds) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2008A refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. For information regarding the advanced refundings of the individual discretely presented auxiliary organizations, refer to the separately issued auxiliary organizations' reports.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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(10) Long-Term Liabilities Activity

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Reductions (bond defeasance)</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 9,972,832	13,364,139	(9,062,662)	—	14,274,309	7,879,419
Long-term debt obligations (note 8):						
Student Union Revenue Bonds	11,130,000	—	—	(11,130,000)	—	—
Systemwide Revenue Bonds	90,559,958	49,150,000	(3,451,958)	—	136,258,000	4,130,000
Revenue Bond Anticipation Notes	—	4,248,779	(4,248,779)	—	—	—
Total	101,689,958	53,398,779	(7,700,737)	(11,130,000)	136,258,000	4,130,000
Unamortized bond premium (discount)	1,639,660	785,179	(148,671)	—	2,276,168	—
Unamortized loss on refunding	(1,429,862)	(342,200)	125,394	—	(1,646,668)	—
Total long-term debt obligations	101,899,756	53,841,758	(7,724,014)	(11,130,000)	136,887,500	4,130,000
Total long-term liabilities	\$ 111,872,588	67,205,897	(16,786,676)	(11,130,000)	151,161,809	12,009,419

(11) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

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

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

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

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

Funding Policy

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

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

2006	\$	21,681,709
2007		24,365,135
2008		26,498,111

(b) Postretirement Healthcare Plan

The GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, relating to Other Postemployment Benefits (OPEB), which is effective July 1, 2007. Under this Statement, public employers sponsoring and subsidizing retiree healthcare benefit programs are required 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.

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

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

Funding Policy, Funded Status, and Funding Progress

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

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

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Actuarial Methods and Assumptions

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

(12) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2008.

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

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

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

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CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

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

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2008 was approximately 6%, or \$5.7 million. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2008. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

(13) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2008 totaled \$112,354,317. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

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

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(14) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2008, operating expenses by natural classification consisted of the following:

<u>2008</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 107,497,259	32,603,213	—	13,271,711	—	153,372,183
Research	1,028,207	311,784	—	334,540	—	1,674,531
Public service	1,131,581	244,564	—	292,312	—	1,668,457
Academic support	19,470,217	6,253,117	—	7,195,677	—	32,919,011
Student services	28,430,609	9,344,688	—	8,116,513	—	45,891,810
Institutional support	18,185,028	6,045,029	—	12,680,959	—	36,911,016
Operation and maintenance of plant	14,634,760	5,892,669	—	9,476,365	—	30,003,794
Student grants and scholarships	—	—	37,075,542	—	—	37,075,542
Auxiliary enterprise expenses	5,119,852	2,145,772	—	15,548,892	—	22,814,516
Depreciation and amortization	—	—	—	—	18,044,650	18,044,650
Total	\$ <u>195,497,513</u>	<u>62,840,836</u>	<u>37,075,542</u>	<u>66,916,969</u>	<u>18,044,650</u>	<u>380,375,510</u>

As discussed in note 2(n), the internal services activities between the University departments and the sales and service units have been eliminated in the accompanying financial statements. As a result, salaries and benefits of those internal services activities and sales and service units are reported as supplies and other services in the University departments, which received the services.

(15) Transactions with Related Entities

The System is an agency of the State and receives more than half of its total revenues through state appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$199,172,316 for the year ended June 30, 2008. State appropriations receivable aggregated \$84,528,706 at June 30, 2008. The University also received lottery fund distributions from the State in the amount of \$2,579,613 for the year ended June 30, 2008, which is included in other nonoperating revenues (expense), net in the accompanying statement of revenues, expenses, and changes in net assets.

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

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“nonbillable” accounts. Billable accounts (1) have special revenue sources such as fees, licenses, penalties, assessments, interest, etc. and (2) support a state department.

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

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

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

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 2,017,053
Reimbursements from recognized auxiliary organizations for other than salaries of University employees	3,055,394
Payments to recognized auxiliary organizations for services, office space rental, and programs	8,004,638
Gifts-in-kind to the University from recognized auxiliary organizations	297,193
Payments to the Office of the Chancellor for administrative activities	1,254,049
Payments to the Office of the Chancellor for State pro rata charges	881,881
Amounts receivable from the Office of the Chancellor	4,045,387
Amounts payable to the Office of the Chancellor	(374,451)
Amounts receivable from recognized auxiliary organizations	335,879
Amounts payable to recognized auxiliary organizations	(181,113)

(16) Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University’s investments were invested 73% in the California State University’s Investment Pool and 27% in the State of California’s Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University’s investment policy and the State’s SMIF investment policy state that the primary objective of the University’s investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of the investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component

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investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

The American Institute of Certified Public Accounts Governmental Audit Quality Center issued alert #91 indicating that effective September 29, 2008, the liquidity in the Common Fund Short Term Fund (Fund) is substantially restricted. The following auxiliaries, The University Corporation and North Campus – University Park Development Corporation have investments in this Fund as of June 30, 2008 totaling \$3,089,032 and \$440,160, respectively. This restriction on liquidity has had no impact on operations.

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