



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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KPMG LLP
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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, 2009, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based 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 to the financial statements, the financial statements of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2009, the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of California State University, Northridge and of its aggregate discretely presented component units as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with U.S. generally accepted accounting principles.



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

KPMG LLP

January 19, 2010

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2009

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, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

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

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

Analytical Overview

Summary

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2009

The University's condensed summary of net assets as of June 30, 2009 and 2008 are as follows:

Condensed Summary of Net Assets

	June 30	
	<u>2009</u>	<u>2008</u>
Assets:		
Current assets	\$ 139,641,113	127,776,382
Capital assets	418,901,319	337,505,773
Other noncurrent assets	80,463,653	138,416,932
	<u>639,006,085</u>	<u>603,699,087</u>
Liabilities:		
Current liabilities	115,883,719	63,496,562
Long-term debt obligations, net of current portion	128,408,997	132,757,500
Other noncurrent liabilities	13,837,670	11,911,893
	<u>258,130,386</u>	<u>208,165,955</u>
Net assets:		
Invested in capital assets, net of related debt	322,763,880	236,156,349
Restricted, expendable	23,416,077	80,370,308
Unrestricted	34,695,742	79,006,475
	<u>\$ 380,875,699</u>	<u>395,533,132</u>

Assets

Total assets increased by \$35.3 million from prior year due to an \$11.9 million increase in current assets, an \$81.4 million increase in capital assets, and a \$58.0 million decrease in other noncurrent assets. Total current assets increased by \$11.9 million primarily due to the following: 1) an increase in short-term investments of \$16.0 million, and 2) a decrease in accounts receivable, current, of \$4.2 million. Short-term investments increased by \$16.0 million mainly due to \$42.1 million increase in funds held in the State Treasury offset by a \$21.7 million decrease in funds held by the Chancellor's Office pooled account (SWIFT). The funds held at the state were to facilitate reimbursing the state for anticipated budget cuts. The decrease in accounts receivable, current, was due to a decrease of \$1.8 million in student receivables as a result of a change in the write-off policy and procedures for fiscal year 2008–2009. During fiscal year 2008–2009, the campus, based upon the Chancellor's Office Guidelines, developed a new campus policy and procedure in dealing with delinquent student receivables resulting in an acceleration of the write-down of student receivables in the current year. Also, accounts receivable from the Chancellors Office decreased by \$1.2 million as a result of a decrease in receivables related to bond activities for the Student Union. During fiscal year 2007–2008, an additional \$1.4 million was due from the Chancellor's Office for the Student Union. This was because not enough of the University's share of bond proceeds were transferred from the Chancellor's Office in the prior year, and in the current year, the funding was transferred to the University, resulting in a decrease in the receivable. Other receivables decreased by \$1.1 million as a result of claims processed in June 2008 by the University prior to fiscal year-end that were not processed by the State Controller's office until July 2008.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2009

Net capital assets increased by \$81.4 million primarily due to construction on the following projects for Housing, Parking Structure G3, Student Union, Science 1 replacement, Performing Arts Center, and various other capital projects.

Other noncurrent assets decreased by \$58.0 million primarily due to a \$37.7 million decrease in state appropriations receivable as a result of the following completed projects: 1) Science building and replacement equipment totaling \$22.6 million, 2) \$22.2 million for the Performing Arts Center (PAC), which is expected to be completed in August 2010, 3) \$1.2 million for the HVAC project, 4) Fuel Cell totaling \$1.5 million, and 5) \$700 thousand for other projects. These were offset by increases in funds appropriated for the PAC project totaling \$6.0 million and \$4.5 million for the Science project. Also, other long-term investments decreased by \$21.1 million due to a decrease in the investments held at the Chancellor's Office to fund the following projects: 1) G-3 Parking Structure totaling \$10.2 million, 2) Housing totaling \$10.2 million and, 3) PAC totaling \$6.0 million. This was offset by the receipts of \$2.5 million in Bond Anticipation Note (BAN) funding for The University Corporation-Satellite Student Union Food Service renovation project and, \$2.8 million for the Student Union.

Liabilities

Total liabilities increased by \$50.0 million from prior year due to a \$52.4 million increase in current liabilities and a \$4.3 million decrease in long-term debt obligations, net of current portion, as well as an increase of \$1.9 million in other noncurrent liabilities. Total current liabilities increased by \$52.4 million due to a \$49.9 million increase in account payable primarily associated with the refund of noncapital appropriation to the State of California (the State) based on the latest revised State budget.

Total long-term debt obligations, net of current portion, decreased by \$4.3 million due to principal payments of \$4.3 million in the current year.

Other noncurrent liabilities increased by \$1.9 million primarily due to an increase of \$2.3 million in Other Postemployment benefits obligation, for the University's share of the System's liability. Depository accounts decreased \$300 thousand which is directly related to amounts owed to others.

Net Assets

Total net assets decreased by \$14.7 million from the prior year. A significant portion at the end of the year is invested in capital assets, net of related debt and totaled \$322.8 million. Net assets invested in capital assets, net of related debt increased by \$86.6 million from the prior year primarily due to construction work in progress on the Performing Arts Center, the Student Union project, the Science 1 Replacement building project, and the housing project. Net assets of the \$23.4 million are restricted at year-end for scholarships and fellowships, loans, capital projects, debt service, and sponsored programs, which decreased by \$57.0 million from the prior year as discussed below. Unrestricted net assets totaled \$34.7 million at year-end. 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, 2009

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	
	2009	2008
Expendable:		
Scholarships and fellowships	\$ 576,316	578,610
Loans	149,337	147,561
Capital projects	19,900,214	75,357,620
Debt service	2,790,030	4,286,517
Other	180	—
Total restricted net assets – expendable	<u>\$ 23,416,077</u>	<u>80,370,308</u>

Total restricted net assets – expendable decreased by \$57.0 million, primarily due to a \$55.5 million decrease in net assets restricted for capital projects. Bond proceeds were spent on Housing, Parking, and Student Union projects. Also, there was a \$1.5 million decrease in net assets restricted for debt service, which represents decreased amounts needed to cover upcoming debt service payments.

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2009 and 2008 is as follows:

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

	Year ended June 30	
	2009	2008
Operating revenues:		
Student tuition and fees, net	\$ 102,141,581	93,407,570
Sales and services of educational activities	1,067,207	1,234,727
Sales and services of auxiliary enterprises, net	27,072,715	25,430,330
Other operating revenues	8,515,473	10,004,230
Total operating revenues	138,796,976	130,076,857
Operating expenses	<u>(391,040,503)</u>	<u>(382,782,959)</u>
Operating loss	<u>(252,243,527)</u>	<u>(252,706,102)</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2009

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

	Year ended June 30	
	2009	2008
Nonoperating revenues (expenses):		
State appropriations, noncapital	\$ 139,275,832	195,832,161
Federal financial aid grants, noncapital	44,505,147	37,970,294
State financial aid grants, noncapital	20,088,645	19,209,344
Nongovernmental financial aid grants, noncapital	3,008,787	2,937,677
Other Federal nonoperating grants, noncapital	18,635,700	—
Investment income, net	4,351,909	7,391,099
Other nonoperating expenses, net	(3,233,962)	(172,305)
Total nonoperating revenues	<u>226,632,058</u>	<u>263,168,270</u>
Income (loss) before other additions	(25,611,469)	10,462,168
State appropriations, capital	10,531,000	3,340,155
Grants and gifts, capital	423,036	2,797,193
Increase (decrease) in net assets	(14,657,433)	16,599,516
Beginning net assets	<u>395,533,132</u>	<u>378,933,616</u>
Ending net assets	<u>\$ 380,875,699</u>	<u>395,533,132</u>

Certain reclassifications have been made to the 2008 condensed financial information to conform to the 2009 presentation. The changes primarily relate to the classification of cost recovery between the University and its auxiliaries that were previously presented as a reduction of operating expenses and other operating revenues. These reclassifications did not have an impact on the previously reported changes in net assets or total net assets of the University.

Operating Revenues and Expenses

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2009

Operating Revenues

Total operating revenues increased by \$8.7 million primarily due to a \$8.7 million net increase in student tuition and fees, a \$168 thousand decrease in sales and services of educational activities, a \$1.6 million net increase in sales and services of auxiliary enterprises, and a \$1.4 million decrease in other operating revenues. Student tuition and fees increased by \$8.7 million, or 9.4%, from prior year primarily due to a 10.0% increase in the state university fee, which was offset by an increase of \$7.8 million, or 15.5%, in scholarship allowances provided to students and a decrease of 4.6% in full-time equivalent students. Sales and services of auxiliary enterprises increased by \$1.6 million from the prior year primarily due to a \$877 thousand increase in dormitory housing revenue, which experienced a 5.0% rate increase and higher occupancy due to the completion of additional housing space, and a \$627 thousand increase in parking permit sales that had a 12.5% rate increase.

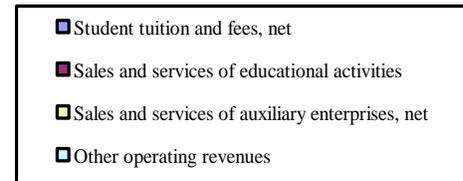
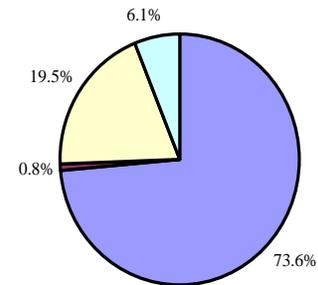
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2009 and 2008:

Operating Revenues

Year ended June 30, 2009

(In thousands)

Student tuition and fees, net	\$ 102,141,581	73.6%
Sales and services of educational activities	1,067,207	0.8
Sales and services of auxiliary enterprises, net	27,072,715	19.5
Other operating revenues	<u>8,515,473</u>	<u>6.1</u>
 Total operating revenues	 <u>\$ 138,796,976</u>	 <u>100.0%</u>



CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

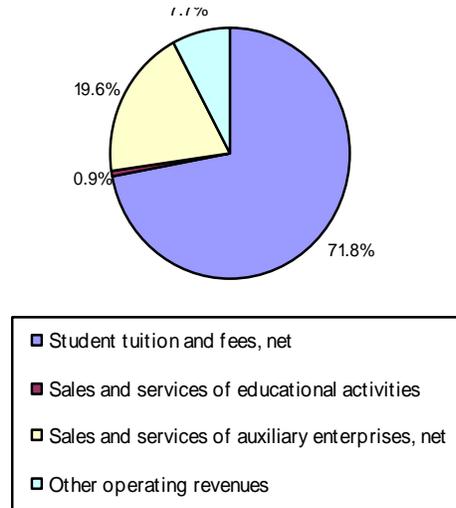
June 30, 2009

Operating Revenues

Year ended June 30, 2008

(In thousands)

Student tuition and fees, net	\$ 93,407,570	71.8%
Sales and services of educational activities	1,234,727	0.9
Sales and services of auxiliary enterprises, net	25,430,330	19.6
Other operating revenues	<u>10,004,230</u>	<u>7.7</u>
Total operating revenues	<u>\$ 130,076,857</u>	<u>100.0%</u>



Operating Expenses

Total operating expenses increased by \$8.3 million, or 2.2%, primarily due to a \$1.5 decrease in instruction, a \$1.0 million decrease in research, a \$0.2 million decrease in public services, a \$2.1 million increase in academic support, a \$1.2 increase in institutional support, a \$3.3 million increase in student grants and scholarships, a \$3.7 million increase in Auxiliary enterprise expenses, and an increase in depreciation and amortization of \$0.7 million. Total salaries and benefits costs allocated to each of these functions, increased by \$7.7 million primarily due to a guaranteed faculty range increase of approximately 0.5%, and a 10.5% health and retirement benefit increase for all employees resulting from increases in health insurance premiums as well as the first year recognition of \$2.3 million in postemployment benefits obligation. Total supplies and other services expense allocated to these functions, decreased by \$3.4 million due to a \$1.6 million decrease in Extended Learning Contracts and \$1.8 million of budget cuts. Institutional support increased by \$1.2 million primarily related to benefits costs and supplies and other services. Student grants and scholarships increased by \$3.3 million. The percentage of students receiving aid increased from 53.9% to 59.7% in the fiscal year ended June 30, 2009. The number of student enrollment increased by 1.2% even though student Full-Time Equivalents decreased.

Auxiliary enterprise expenses increased by \$3.7 million primarily due to the following: 1) \$0.6 million increase in housing expenditures related to staff development and noncapital-related expenses for the new facilities; 2) \$0.3 million increase in Parking expenditures; 3) \$0.3 million increase for Campus Union deferred maintenance expenses; 4) \$0.6 million in Campus Union expenditures related to the return of surplus for operations; 5) Health facilities expenditures increased by \$0.3 million due to increased lab and pharmacy costs; and 6) \$0.4 million increase in the cost of benefits as well as the recording of \$1.2 million in Postemployment benefits. Depreciation and amortization expense increased by \$0.7 million, primarily as a result of G3 Parking capital projects being completed during the current year. The academic support function increased by \$2.1 million due to the higher salaries and benefits costs discussed above.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

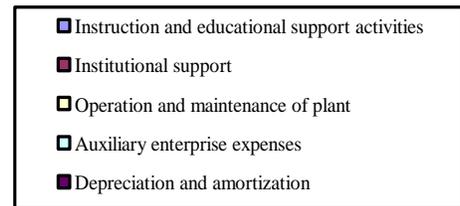
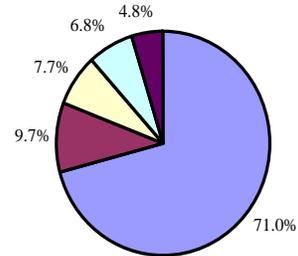
June 30, 2009

The following charts present the distribution of resources in support of the University's mission for fiscal years 2009 and 2008:

Operating Expenses

Year ended June 30, 2009

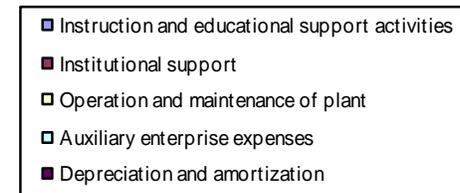
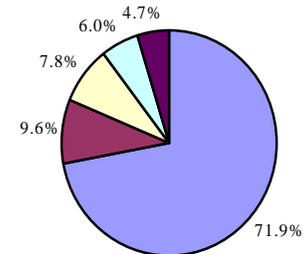
Instruction	\$ 152,695,502	39.0%
Research	2,067,647	0.5
Public service	1,489,007	0.4
Academic support	35,050,695	9.0
Student services	45,810,194	11.7
Student grants and scholarships	<u>40,370,474</u>	<u>10.3</u>
Total instruction and educational support activities	277,483,519	71.0
Institutional support	38,101,858	9.7
Operation and maintenance of plant	30,185,231	7.7
Auxiliary enterprises expenses	26,516,385	6.8
Depreciation and amortization	<u>18,753,510</u>	<u>4.8</u>
Total operating expenses	<u>\$ 391,040,503</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2008

Instruction	\$ 154,217,286	40.3%
Research	3,077,066	0.8
Public service	1,668,457	0.4
Academic support	32,999,944	8.6
Student services	45,966,343	12.0
Student grants and scholarships	<u>37,075,542</u>	<u>9.7</u>
Total instruction and educational support activities	275,004,638	71.9
Institutional support	36,911,598	9.6
Operation and maintenance of plant	30,007,557	7.8
Auxiliary enterprises expenses	22,814,516	6.0
Depreciation and amortization	<u>18,044,650</u>	<u>4.7</u>
Total operating expenses	<u>\$ 382,782,959</u>	<u>100.0%</u>



Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations, Federal American Recovery and Reinvestment Act (ARRA) grant to restore state appropriations, certain financial aid grants, noncapital, grants and gifts, capital, investment income, and interest expense.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Management's Discussion and Analysis

June 30, 2009

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$10.5 million for the fiscal year ended June 30, 2009, an increase of \$7.2 million from the fiscal year ended June 30, 2008. Capital state appropriations in the current year included one-time appropriations of \$6.0 million for the Performing Art Center, and \$4.5 million for the Science 1 Replacement building. General (noncapital) appropriation revenues totaled \$139.3 million, representing a decrease of \$56.6 million from the prior year primarily due to the refund of noncapital appropriation to the State based on the latest revised State budget. The decrease is partially offset by a funding of \$18.6 million from the Federal American Recovery and Reinvestment Act (ARRA) to restore the state appropriation. Investment income was \$4.4 million, representing a decrease of \$3.0 million from prior year primarily due to the decrease in earnings rate and the funds available to invest. Other nonoperating revenues (expenses), net, decreased by \$2.7 million primarily due to the receipt of \$2.8 million for one-time energy conservation incentives in prior year. Grants and gifts, capital, decreased by \$2.4 million due to the non-recurring nature of a \$2.5 million grant from Los Angeles County for the Performing Arts Center project received in prior year.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2009	2008
Land and land improvements	\$ 6,113,511	6,113,511
Buildings and building improvements	253,232,713	236,738,591
Improvements, other than buildings	3,075,829	3,042,244
Infrastructure	8,031,366	7,238,890
Personal property	13,753,879	15,038,308
Intangible assets	1,129,812	1,263,324
Construction work in progress	133,564,209	68,070,905
Total capital assets, net of accumulated depreciation	\$ 418,901,319	337,505,773

At June 30, 2009 and 2008, the University had \$742.1 million and \$643.3 million, in capital assets, net of accumulated depreciation of \$323.2 million and \$305.8 million, respectively. Depreciation expense totaled \$18.8 million and \$18.0 million for the years ended June 30, 2009 and 2008, respectively.

Major capital projects additions during fiscal year 2009 are as follows (in millions):

Housing	\$ 16.2
Student union	2.2
Parking structure	8.1
Science 1 replacement building	28.0
Performing Arts Center	37.1

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These projects were funded primarily through Systemwide Revenue Bond proceeds and state appropriations. Contractual commitments for construction projects unexpended as of June 30, 2009 totaled \$72.8 million. These expenditures will be funded primarily from state appropriations, Systemwide Revenue Bonds, and private donations.

Due to the State's budget crisis and its difficulty issuing bonds in the current financial market, the State suspended all State-funded capital projects, including General Obligation and Lease Revenue Bond projects, and froze disbursements on these projects starting in December 2008. The State lifted the suspension of the General Obligation bond projects in April 2009.

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

Long-Term Debt Obligations

Debt outstanding at June 30, 2009 and 2008 is summarized below by type of debt instrument:

	June 30	
	<u>2009</u>	<u>2008</u>
Systemwide Revenue Bonds:		
Series 2002A	\$ 8,175,000	8,425,000
Series 2003A	6,185,000	6,315,000
Series 2004A	27,465,000	28,660,000
Series 2005A	8,380,000	8,530,000
Series 2005B	27,845,000	29,510,000
Series 2007A	3,800,000	3,945,000
Series 2007C	9,700,000	10,175,000
Series 2008A	38,975,000	38,975,000
Series J	1,603,000	1,723,000
Revenue Bond Anticipation Note	2,459,000	—
Total	<u>134,587,000</u>	<u>136,258,000</u>
Unamortized bond premium (discount)	2,120,821	2,276,168
Unamortized loss on refunding	<u>(1,524,824)</u>	<u>(1,646,668)</u>
Total long-term debt	135,182,997	136,887,500
Less current portion	<u>(6,774,000)</u>	<u>(4,130,000)</u>
Long-term debt, net of current portion	<u>\$ 128,408,997</u>	<u>132,757,500</u>

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Bond Ratings

Moody's Investors Service currently provides an intrinsic rating of Aa3, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, and Series 2008A, and Series 2009A, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa3 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 9 to the financial statements for further information on long-term debt obligations.

Factors Impacting Future Periods

The University's state noncapital appropriations budget for fiscal year 2010 approved by the legislative process is \$148.7 million. Although this is an increase of \$9.5 million over the fiscal year 2009 funding level of \$139.2 million, it is still \$47.1 million below the fiscal year 2008 funding level of \$195.8 million before the economic downturn. The University will receive the remaining \$31.0 million of ARRA fund intended to mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2009. However, it will not mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2010. Reductions in operating expenses and an increase in student fees in fiscal year 2010 will partly offset the funding loss from the state. The student fee increase is expected to generate \$24.7 million during fiscal year 2010 in new revenue, net of financial aid. In addition, all University employees, except public safety personnel, will be on furlough work schedules to reduce up to \$18.0 million in operating expenses and narrow the budget gap in fiscal year 2010.

The California State University Board of Trustees recently approved a student housing project for the University. The project includes 75 four-bedroom apartment style units and a dining facility. The total cost of the project is projected to be approximately \$30.3 million and will be funded through issuance of revenue bonds. The project is scheduled for completion in August 2009.

The California State University Board of Trustees recently approved a student recreation center for the University. The new facility includes administrative offices, cardio fitness and weight training rooms, three basketball courts, a racquetball court, indoor running track, and locker rooms. Also, the project includes a 5,000 square foot outdoor recreational pool. The total cost of the project is projected to be approximately \$69.7 million, of which \$49.8 million and \$19.9 million will be funded by Systemwide Revenue Bonds and University Student Union Fees, respectively.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Net Assets

June 30, 2009

Assets	University	Discretely presented component units FASB Auxiliary Organizations	Total
Current assets:			
Cash and cash equivalents	\$ 18,741	18,827,013	18,845,754
Short-term investments	130,326,988	27,343,753	157,670,741
Accounts receivable, net	6,979,614	5,768,663	12,748,277
Leases receivable, current portion	285,000	—	285,000
Notes receivable, current portion	—	2,188	2,188
Pledges receivable, net	—	5,372,247	5,372,247
Prepaid expenses and other assets	2,030,770	558,684	2,589,454
Total current assets	139,641,113	57,872,548	197,513,661
Noncurrent assets:			
Restricted cash and cash equivalents	—	649,162	649,162
Accounts receivable, net	47,598,913	3,156,581	50,755,494
Leases receivable, net of current portion	9,700,000	—	9,700,000
Notes receivable, net of current portion	—	876,552	876,552
Student loans receivable, net	3,660,563	—	3,660,563
Pledges receivable, net	—	4,444,013	4,444,013
Endowment investments	—	41,439,211	41,439,211
Other long-term investments	19,504,177	15,560,276	35,064,453
Capital assets, net	418,901,319	25,676,823	444,578,142
Other assets	—	22,834,389	22,834,389
Total noncurrent assets	499,364,972	114,637,007	614,001,979
Total assets	\$ 639,006,085	172,509,555	811,515,640
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 73,894,220	2,192,341	76,086,561
Accrued salaries and benefits payable	15,052,883	1,881,341	16,934,224
Accrued compensated absences – current portion	8,254,327	443,024	8,697,351
Deferred revenue	10,606,590	2,653,990	13,260,580
Capitalized lease obligations – current portion	—	285,000	285,000
Long-term debt obligations – current portion	6,774,000	135,967	6,909,967
Other liabilities	1,301,699	149,933	1,451,632
Total current liabilities	115,883,719	7,741,596	123,625,315
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	6,386,196	153,403	6,539,599
Deferred revenue	—	250,000	250,000
Grants refundable	4,111,820	40,000	4,151,820
Capitalized lease obligations, net of current portion	—	9,895,885	9,895,885
Long-term debt obligations, net of current portion	128,408,997	3,893,573	132,302,570
Depository accounts	1,036,547	8,786,227	9,822,774
Other postemployment benefits obligation	2,303,107	5,904,570	8,207,677
Other liabilities	—	780,767	780,767
Total noncurrent liabilities	142,246,667	29,704,425	171,951,092
Total liabilities	258,130,386	37,446,021	295,576,407
Net assets:			
Invested in capital assets, net of related debt	322,763,880	11,466,398	334,230,278
Restricted for:			
Nonexpendable – endowments	—	57,288,629	57,288,629
Expendable:			
Scholarships and fellowships	576,316	11,395,900	11,972,216
Research	—	148,598	148,598
Loans	149,337	—	149,337
Capital projects	19,900,214	10,522,223	30,422,437
Debt service	2,790,030	—	2,790,030
Other	180	30,454,502	30,454,682
Unrestricted	34,695,742	13,787,284	48,483,026
Total net assets	\$ 380,875,699	135,063,534	515,939,233

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2009

	University	Discretely presented component units <u>FASB Auxiliary Organizations</u>	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$57,705,327)	\$ 102,141,581	11,860,132	—	114,001,713
Grants and contracts, noncapital:				
Federal	—	15,614,367	—	15,614,367
State	—	902,749	—	902,749
Local	—	1,762,610	—	1,762,610
Nongovernmental	—	1,002,540	—	1,002,540
Sales and services of educational activities	1,067,207	—	—	1,067,207
Sales and services of auxiliary enterprises (net of scholarship allowances of \$0)	27,072,715	13,825,626	—	40,898,341
Other operating revenues	8,515,473	2,874,123	—	11,389,596
Total operating revenues	138,796,976	47,842,147	—	186,639,123
Expenses:				
Operating expenses:				
Instruction	152,695,502	336,642	(367,640)	152,664,504
Research	2,067,647	17,294,587	—	19,362,234
Public service	1,489,007	184,032	—	1,673,039
Academic support	35,050,695	759,013	(55,396)	35,754,312
Student services	45,810,194	11,415,475	—	57,225,669
Institutional support	38,101,858	4,715,666	—	42,817,524
Operation and maintenance of plant	30,185,231	18,643	—	30,203,874
Student grants and scholarships	40,370,474	3,119,165	—	43,489,639
Auxiliary enterprise expenses	26,516,385	14,698,096	—	41,214,481
Depreciation and amortization	18,753,510	1,761,278	—	20,514,788
Total operating expenses	391,040,503	54,302,597	(423,036)	444,920,064
Operating loss	(252,243,527)	(6,460,450)	423,036	(258,280,941)
Nonoperating revenues (expenses):				
State appropriations, noncapital	139,275,832	—	—	139,275,832
Federal financial aid grants, noncapital	44,505,147	—	—	44,505,147
State financial aid grants, noncapital	20,088,645	—	—	20,088,645
Nongovernmental and other financial aid grants, noncapital	3,008,787	—	—	3,008,787
Other Federal nonoperating grants, noncapital	18,635,700	—	—	18,635,700
Gifts, noncapital	79,235	7,079,585	—	7,158,820
Investment income (loss), net	4,351,909	(15,713,103)	—	(11,361,194)
Endowment loss	—	(2,142,165)	—	(2,142,165)
Interest expense	(5,535,128)	(610,746)	—	(6,145,874)
Other nonoperating revenues (expenses), net	2,221,931	882,282	—	3,104,213
Net nonoperating revenues (expenses), net	226,632,058	(10,504,147)	—	216,127,911
Loss before other additions	(25,611,469)	(16,964,597)	423,036	(42,153,030)
State appropriations, capital	10,531,000	—	—	10,531,000
Grants and gifts, capital	423,036	—	(423,036)	—
Additions to permanent endowments	—	1,301,637	—	1,301,637
Decrease in net assets	(14,657,433)	(15,662,960)	—	(30,320,393)
Net assets:				
Net assets at beginning of year	395,533,132	150,726,494	—	546,259,626
Net assets at end of year	\$ 380,875,699	135,063,534	—	515,939,233

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2009

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 103,096,468
Payments to suppliers	(62,238,667)
Payments to employees	(266,064,182)
Payments to students	(39,928,220)
Collections of student loans, net	(400,157)
Sales and services of auxiliary enterprises	25,830,547
Sales and services of educational activities	1,067,207
Other receipts	11,398,122
	<hr/>
Net cash used in operating activities	(227,238,882)
	<hr/>
Cash flows from noncapital financing activities:	
State appropriations	189,166,287
Federal financial aid grants	44,620,848
State financial aid grants	20,088,645
Nongovernmental and other financial aid grants	3,008,787
Other Federal nonoperating grants	18,635,700
Gifts and grants received for other-than-capital purposes	79,238
Federal loan program receipts	17,503,396
Federal loan program disbursements	(17,671,844)
Monies received on behalf of others	28,332
Monies disbursed on behalf of others	(276,626)
Other	2,736,607
	<hr/>
Net cash provided by noncapital financing activities	277,919,370
	<hr/>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	2,459,000
State appropriations	48,236,604
Acquisition of capital assets	(100,799,588)
Principal paid on capital debt and leases	(4,130,000)
Interest paid on capital debt and leases	(6,594,307)
Principal payments received on capital leases	275,000
Interest payments received on capital leases	304,601
	<hr/>
Net cash used in capital and related financing activities	(60,248,690)
	<hr/>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	618,747,260
Purchases of investments	(613,140,634)
Investment income received	3,960,357
	<hr/>
Net cash provided by investing activities	9,566,983
	<hr/>
Net decrease in cash and cash equivalents	(1,219)
Cash and cash equivalents at beginning of year	19,960
Cash and cash equivalents at end of year	\$ <u>18,741</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 18,741
Restricted cash and cash equivalents	<u>—</u>
Total cash and cash equivalents at end of year	\$ <u>18,741</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Statement of Cash Flows

Year ended June 30, 2009

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (252,243,527)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	18,753,510
Change in assets and liabilities:	
Accounts receivable, net	3,024,909
Student loans receivable, net	(400,157)
Prepaid expenses and other assets	(58,166)
Accounts payable	1,919,861
Accrued salaries and benefits	(449,930)
Accrued compensated absences	366,214
Deferred revenue	(429,540)
Other postemployment benefits obligation	2,303,107
Other liabilities	(25,163)
Net cash used in operating activities	<u>\$ (227,238,882)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 423,036
Change in accrued capital asset costs (purchased but unpaid at year-end)	(1,321,280)
Amortization of bond premium	155,347
Amortization of loss on refunding	121,844

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(1) Organization

California State University, Northridge (the University), an agency of the State of California, 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*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's 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 recognized 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 California State University, Auxiliary and Business Services
- North Campus – University Park Development Corporation

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

Summary information for the discretely presented component units is as follows:

June 30, 2009	California State University, Northridge Foundation	Other Auxiliary Organizations	Total
Current assets	\$ 36,881,742	20,990,806	57,872,548
Capital assets, net	128,716	25,548,107	25,676,823
Other noncurrent assets	68,095,430	20,864,754	88,960,184
Total assets	\$ 105,105,888	67,403,667	172,509,555
Current liabilities	\$ 716,947	7,024,649	7,741,596
Noncurrent liabilities	250,000	29,454,425	29,704,425
Total liabilities	\$ 966,947	36,479,074	37,446,021
Invested in capital assets, net of related debt	\$ 128,716	11,337,682	11,466,398
Restricted	102,523,931	7,285,921	109,809,852
Unrestricted	1,486,294	12,300,990	13,787,284
Total net assets	\$ 104,138,941	30,924,593	135,063,534

Year ended June 30, 2009	California State University, Northridge Foundation	Other Auxiliary Organizations	Total
Operating revenues:			
Student tuition and fees, net	\$ —	11,860,132	11,860,132
Grants and contracts, noncapital	—	19,282,266	19,282,266
Sales and services of auxiliary enterprises, net	—	13,825,626	13,825,626
Other	—	2,874,123	2,874,123
Total operating revenues	\$ —	47,842,147	47,842,147
Operating expenses:			
Instruction	\$ 336,642	—	336,642
Research	295,470	16,999,117	17,294,587
Public service	184,032	—	184,032
Academic support	759,013	—	759,013
Student services	642,589	10,772,886	11,415,475
Institutional support	2,810,805	1,904,861	4,715,666
Operation and maintenance of plant	—	18,643	18,643

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

Year ended June 30, 2009	California State University, Northridge Foundation	Other Auxiliary Organizations	Total
Student grants and scholarships	\$ 1,254,654	1,864,511	3,119,165
Auxiliary enterprise expenses	—	14,698,096	14,698,096
Depreciation and amortization	62,096	1,699,182	1,761,278
Total operating expenses	<u>6,345,301</u>	<u>47,957,296</u>	<u>54,302,597</u>
Operating loss	(6,345,301)	(115,149)	(6,460,450)
Net nonoperating expenses	<u>(5,576,525)</u>	<u>(4,927,622)</u>	<u>(10,504,147)</u>
Loss before other additions	(11,921,826)	(5,042,771)	(16,964,597)
Additions to permanent endowments	<u>1,301,637</u>	—	<u>1,301,637</u>
Decrease in net assets	(10,620,189)	(5,042,771)	(15,662,960)
Beginning net assets, July 1, 2008	<u>114,759,130</u>	<u>35,967,364</u>	<u>150,726,494</u>
Ending net assets, June 30, 2009	<u>\$ 104,138,941</u>	<u>30,924,593</u>	<u>135,063,534</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.

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 California State University System as of June 30, 2009 and the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(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) *Election of Applicable FASB Statements*

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

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

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities 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).

(e) *Cash and Cash Equivalents*

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(f) Investments

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

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

(g) Capital Assets

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, 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 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.

Capitalized interest, net of related investment income at June 30, 2009 is as follows:

Interest expense capitalized for construction projects	\$	862,580
Investment income related to unspent bond proceeds for construction		<u>(100,192)</u>
Capitalized interest, net of related investment income	\$	<u><u>762,388</u></u>

(h) Deferred Revenue

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

(i) Compensated Absences

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(j) **Grants Refundable**

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

(k) **Net Assets**

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

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

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

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

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

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

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange 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, financial aid and American Recovery and Reinvestment Act (ARRA) grants, noncapital, net investment income, gifts, interest expense, and capital contributions.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

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

In fiscal year 2009, the State of California received Federal education grants that were passed on to school districts and the state's universities to restore state appropriations. The Governor had filed an application with the Federal government to receive California's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The Federal education grants have been appropriated to the System by the State as a reimbursement to the general operation and reported separately as nonoperating revenues and expenses.

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

(m) Internal Services Activities

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

(n) Income Taxes

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

(o) New Accounting Pronouncements

On July 1, 2008, the University adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. To provide governments with better accounting guidance and consistency, GASB Statement No. 49 identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The adoption of the statement did not have a material impact on the University's financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

On July 1, 2008, the University adopted GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement requires endowments to report their land and other real estate investments at fair value. The adoption of the statement did not have a material impact on the University's financial statements.

(p) Eliminations

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

(q) Use of Estimates

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

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2009 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 18,741
Short-term investments	130,326,988
Other long-term investments	19,504,177
	<hr/>
Total investments	149,831,165
	<hr/>
Total cash, cash equivalents, and investments	\$ 149,849,906
	<hr/> <hr/>

(a) Cash and Cash Equivalents

At June 30, 2009, 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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(b) Investments

At June 30, 2009, 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 monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the California State University Investment Pool manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in the California State University Investment Pool by measuring the weighted average maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that the callable investments will not be called. The weighted average maturity of the University's allocated share of the California State University Investment Pool for each investment type as of June 30, 2009 is presented in the following table.

Credit Risk

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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June 30, 2009

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's allocated share of the California State University Investment Pool and the State of California Surplus Money Investment Fund as of June 30, 2009:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 4,012,816	—	\$ 4,012,816	—	—	—	—
Certificates of deposit	2,621,119	0.27	311,773	—	2,309,346	—	—
U.S. agency securities	36,375,227	0.56	11,295,118	—	25,080,108	—	—
Corporate and fixed income securities	37,208,674	1.06	19,317,689	6,141,838	9,202,617	1,923,420	623,119
U.S. Treasury securities	2,049,076	0.64	—	—	—	—	2,049,076
State of California Surplus Money Investment Fund	65,051,354	0.64	—	—	—	—	65,051,354
Mortgage-backed securities	2,512,899	10.85	2,512,899	—	—	—	—
Total	149,831,165		\$ 37,450,295	6,141,838	36,592,071	1,923,420	67,723,549
Total investments	\$ 149,831,165						

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, 2009, the following allocation of pooled investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Freddie Mac notes guaranteed by the Federal \$13.7 million, (9.1%), Fannie Mae notes guaranteed by the Federal \$12.9 million, (8.6%), and Federal Home Loan Bank bonds and notes \$7.6 million, (5.1%).

Risk and Uncertainties

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

The University, through the California State Investment Pool, invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate 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 component units, refer to their separately issued financial statements.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(4) Accounts Receivable

Accounts receivable at June 30, 2009 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	46,818,147	46,818,147
Auxiliary organizations	574,210	780,766	1,354,976
Student accounts	4,657,148	—	4,657,148
Government grants and contracts	372,810	—	372,810
Other	4,592,486	—	4,592,486
	<u>10,196,654</u>	<u>47,598,913</u>	<u>57,795,567</u>
Less allowance for doubtful accounts	<u>(3,217,040)</u>	<u>—</u>	<u>(3,217,040)</u>
Total	\$ <u><u>6,979,614</u></u>	<u><u>47,598,913</u></u>	<u><u>54,578,527</u></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.

Lease payments are due to the University as follows:

Fiscal years ending:		
2010	\$	285,000
2011		295,000
2012		305,000
2013		320,000
2014		335,000
2015 – 2019		1,925,000
2020 – 2024		2,480,000
2025 – 2029		2,120,000
2030 – 2034		<u>1,920,000</u>
Total lease receivable		9,985,000
Less current portion		<u>(285,000)</u>
Long-term lease receivable, net of current portion	\$	<u><u>9,700,000</u></u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

(6) Capital Assets

Capital assets activity for the year ended June 30, 2009 consisted of the following:

	<u>Balance, June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2009</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 6,113,511	—	—	—	6,113,511
Construction work in progress	68,070,905	96,510,355	—	(31,017,051)	133,564,209
Total nondepreciable capital assets	<u>74,184,416</u>	<u>96,510,355</u>	<u>—</u>	<u>(31,017,051)</u>	<u>139,677,720</u>
Depreciable capital assets:					
Buildings and building improvements	441,857,814	—	—	30,404,719	472,262,533
Improvements, other than buildings	16,777,039	—	—	460,027	17,237,066
Infrastructure	15,999,131	1,321,264	—	152,305	17,472,700
Personal property:					
Equipment	46,550,891	2,018,923	(1,898,065)	—	46,671,749
Library books and materials	36,530,625	577,182	—	—	37,107,807
Intangible assets	11,407,827	236,008	(15,709)	—	11,628,126
Total depreciable capital assets	<u>569,123,327</u>	<u>4,153,377</u>	<u>(1,913,774)</u>	<u>31,017,051</u>	<u>602,379,981</u>
Total cost	<u>643,307,743</u>	<u>100,663,732</u>	<u>(1,913,774)</u>	<u>—</u>	<u>742,057,701</u>
Less accumulated depreciation:					
Buildings and building improvements	(205,119,223)	(13,910,597)	—	—	(219,029,820)
Improvements, other than buildings	(13,734,795)	(426,442)	—	—	(14,161,237)
Infrastructure	(8,760,241)	(681,093)	—	—	(9,441,334)
Personal property:					
Equipment	(35,389,168)	(2,589,340)	1,393,862	—	(36,584,646)
Library books and materials	(32,654,040)	(786,991)	—	—	(33,441,031)
Intangible assets	(10,144,503)	(359,047)	5,236	—	(10,498,314)
Total accumulated depreciation	<u>(305,801,970)</u>	<u>(18,753,510)</u>	<u>1,399,098</u>	<u>—</u>	<u>(323,156,382)</u>
Net capital assets	\$ <u>337,505,773</u>	<u>81,910,222</u>	<u>(514,676)</u>	<u>—</u>	<u>418,901,319</u>

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

(7) Lease Obligations

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

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The leases can be canceled if the State does not provide adequate funding.

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

	<u>Operating leases</u>
Years ending June 30:	
2010	\$ 791,596
2011	131,673
2012	129,110
2013	100,925
2014	<u>27,421</u>
Total minimum lease payments	<u>\$ 1,180,725</u>

Rent expense under operating leases for the year ended June 30, 2009 totaled \$1,093,258.

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, 2009 totaled \$553,055,000.

(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 \$2,424,162,000 as of June 30, 2009.

(b) Revenue Bond Programs

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

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 and from interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

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

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

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

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

Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay principal and interest payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain for future program expenses and capital needs.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

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

The University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2009 was \$132,128,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,269,398,000 in Systemwide Revenue Bonds issued through fiscal year 2009. Proceeds from the bonds provided financing for the construction of continuing education, health facilities, housing, parking, and student unions, and auxiliary projects. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$5,730,813,000. In fiscal year 2009, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$172,972,000 and \$199,426,000, respectively.

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

Revenue Bond Anticipation Notes (BANs) are issued by the California State University Institute (the Institute), an auxiliary organization of the System, to provide short-term financing to the System for construction projects. They are generally issued for a one- to three-year period in anticipation of issuing permanent revenue bonds at a future date. The University issued BANs during 2009 to finance the development and construction of The University Corporation-Satellite Student Union Food Service Renovation Project. Interest is variable and changes based upon the cost of the Institute's commercial paper program. The interest rate was 1.05% as of June 30, 2009. Amounts outstanding under the BANs totaled \$2,459,000 at June 30, 2009.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

Long-term debt obligations of the University as of June 30, 2009 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	4.10% – 5.50%	2027/28	\$ 9,550,000	8,175,000
Series 2004A	3.00 – 5.25	2030/31	13,300,000	12,370,000
Series 2008A	3.50 – 5.00	2034/35	21,300,000	21,300,000
Housing:				
Series J	3.00	2019/20	3,173,000	1,603,000
Series 2004A	2.50 – 5.00	2018/19	12,555,000	9,100,000
Series 2005B	5.00	2021/22	34,225,000	27,845,000
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	5,995,000
Series 2005A	3.00 – 5.00	2035/36	8,815,000	8,380,000
Series 2007C	5.00	2022/23	10,175,000	9,700,000
Auxiliary organization:				
Food Services				
Series 2003A	2.50 – 5.375	2033/34	6,795,000	6,185,000
Bookstore Series 2007A	4.00 – 5.00	2025/26	3,945,000	3,800,000
Revenue Bond Anticipation notes	Variable	2009/10	2,459,000	<u>2,459,000</u>
Total				134,587,000
Unamortized bond premium (discount)				2,120,821
Unamortized loss on refunding				<u>(1,524,824)</u>
Total long-term debt				135,182,997
Less current portion				<u>(6,774,000)</u>
Long-term debt, net of current portion				<u>\$ 128,408,997</u>

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Notes to Financial Statements

June 30, 2009

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2010	\$ 6,774,000	6,270,384	13,044,384
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	6,030,000	5,315,811	11,345,811
2015 – 2019	34,570,000	21,888,661	56,458,661
2020 – 2024	25,308,000	14,173,407	39,481,407
2025 – 2029	19,045,000	8,947,031	27,992,031
2030 – 2034	17,595,000	4,346,125	21,941,125
2035 – 2039	7,685,000	996,125	8,681,125
2040 – 2044	1,105,000	27,624	1,132,624
	<u>\$ 134,587,000</u>	<u>79,444,747</u>	<u>214,031,747</u>

Long-term debt obligations of the discretely presented component units 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 component units, refer to their separately issued financial statements.

(9) Advance Refundings

Prior Years' Refundings

In April 2008, The University Corporation defeased certain bonds, which were 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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June 30, 2009

(10) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2009 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 14,274,309	10,513,470	(10,147,256)	14,640,523	8,254,327
Long-term debt obligations (note 9):					
Systemwide Revenue Bonds	136,258,000	—	(4,130,000)	132,128,000	4,315,000
Revenue Bond Anticipation Notes	—	2,459,000	—	2,459,000	2,459,000
Other	—	—	—	—	—
Total	136,258,000	2,459,000	(4,130,000)	134,587,000	6,774,000
Unamortized bond premium (discount)	2,276,168	—	(155,347)	2,120,821	—
Unamortized loss on refunding	(1,646,668)	—	121,844	(1,524,824)	—
Total long-term debt obligations	136,887,500	2,459,000	(4,163,503)	135,182,997	6,774,000
Total long-term liabilities	\$ 151,161,809	12,972,470	(14,310,759)	149,823,520	15,028,327

(11) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

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

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

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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June 30, 2009

Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 16.6% 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:

2007	\$	24,365,135
2008		26,498,111
2009		27,241,118

(b) Postretirement Healthcare Plan

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

Plan Description

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

For healthcare benefits, CalPERS offers Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), and Exclusive Provider Organizations (EPOs) (limited to members in certain California counties); for dental benefits, a Dental Maintenance Organization (DMO) and dental indemnity plans to the University's retirees. Health plans offered, covered benefits, monthly rates, and co-payments 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.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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Funding Policy

For healthcare benefits, responsibility for funding the cost of the employer share of premiums is apportioned between the State and the System based on “billable” and “nonbillable” accounts. Billable accounts have special revenue sources such as fees, licenses, penalties, assessments, interest, which offset the costs incurred by a State department during the year. The System reimburses the State for retiree’s health benefit costs allocated to billable accounts but not for costs allocated to nonbillable accounts. The System is responsible for funding the costs of the billable accounts on a pay-as-you-go basis as part of the statewide general administrative costs charged to the System. The University then reimburses the System for its share of healthcare premiums for all billable funds based on annual retirement expenses.

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

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

Annual OPEB Cost and Net OPEB Obligation

The following table shows the total annual required contribution (ARC) for the University’s allocated portion of the postretirement healthcare plan, net of dental benefit portion, the amount contributed to the plan by the University, and changes in the University’s net OPEB obligation (NOO) for billable accounts for the fiscal year ended 2009:

Billable accounts only:		
Annual required contribution (ARC)	\$	1,963,993
Contributions during the year		<u>(755,990)</u>
Increase in net OPEB obligation (NOO)		1,208,003
NOO – beginning of year		<u>1,095,104</u>
NOO – end of year	\$	<u><u>2,303,107</u></u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2009		38%

Actuarial Methods and Assumptions and Plan Funding Information

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

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Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2008 actuarial evaluation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2009 and 8.50% in 2010, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009.

(12) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but 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, 2009.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2009 are as follows:

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
Incurred claims and changes in estimates	17,019,000
Claim payments	<u>(50,268,000)</u>
Liability at June 30, 2009	70,748,000
Less current portion	<u>(17,875,000)</u>
Long-term liability at June 30, 2009, net of current portion	<u><u>\$ 52,873,000</u></u>

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For the year ended June 30, 2009, the CSURMA purchased excess insurance to protect the Members from catastrophic losses. The CSURMA previously maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchases excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of \$2,500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF. The CSURMA remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. For the years ended June 30, 2009 and 2008, this assessment totaled \$19,914,000 and \$19,834,000, 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 CSURMA loss reserve liability attributable to the University as of June 30, 2009 was approximately 6%, or \$5,273,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2009. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

There is no amount due to or from CSURMA as of June 30, 2009 and 2008.

(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.

Authorized but unexpended expenditures for construction projects as of June 30, 2009 totaled \$38,550,986. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

Also, unexpended authorized Performing Arts Center expenditures for construction projects as of June 30, 2009 totaled \$34,230,724. These expenditures will be funded primarily from donations.

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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, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2009, operating expenses by natural classification consisted of the following:

2009	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:						
Instruction	\$ 110,214,265	34,975,798	—	7,505,439	—	152,695,502
Research	1,404,588	457,832	—	205,227	—	2,067,647
Public service	1,090,286	200,200	—	198,521	—	1,489,007
Academic support	20,097,858	7,101,873	—	7,850,964	—	35,050,695
Student services	28,286,332	9,814,152	—	7,709,710	—	45,810,194
Institutional support	17,817,794	6,796,120	—	13,487,944	—	38,101,858
Operation and maintenance of plant	14,736,005	6,401,547	—	9,047,679	—	30,185,231
Student grants and scholarships	—	—	40,370,474	—	—	40,370,474
Auxiliary enterprise expenses	5,205,752	3,683,171	—	17,627,462	—	26,516,385
Depreciation and amortization	—	—	—	—	18,753,510	18,753,510
Total	\$ 198,852,880	69,430,693	40,370,474	63,632,946	18,753,510	391,040,503

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

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$149,806,832 for the year ended June 30, 2009. The state appropriation revenue, noncapital, included a refund to the State based on the latest revised State budget. The refund to the State is a retroactive reduction of the System's fiscal 2009 state appropriation revenue. The refund allocated to the University through the Office of the Chancellor was \$49,885,500 and was recorded as a reduction in state appropriation revenue, noncapital, in the accompanying statement of revenues, expenses, and changes in net assets for the year ended June 30, 2009 and was included in accounts payable in the accompanying statement of net assets as of June 30, 2009. State appropriations receivable aggregated \$46,818,147 at June 30, 2009. The University also received lottery fund distributions from the State in the amount of \$2,736,712 for the year ended June 30, 2009, which is included in other nonoperating revenues (expense) in the accompanying statement of revenues, expenses, and changes in net assets.

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

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

As discussed in notes 8 and 9, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the year ended June 30, 2009, no such additions of capital are included in the accompanying financial statements.

The accompanying financial statements also include the following transactions with discretely presented component units and other related parties as of and for the year ended June 30, 2009:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	1,881,340
Reimbursements from recognized auxiliary organizations for other than salaries of University employees		3,209,746
Payments to recognized auxiliary organizations for services, office space rental, and programs		9,289,653
Gifts-in-kind to the University from recognized auxiliary organizations		423,036
Payments to the Office of the Chancellor for administrative activities		453,011
Payments to the Office of the Chancellor for State pro rata charges		866,950
Amounts receivable from the Office of the Chancellor		2,846,404
Amounts payable to the Office of the Chancellor		(284,969)
Amounts receivable from recognized auxiliary organizations		1,354,976
Amounts payable to recognized auxiliary organizations		(1,093,385)

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(16) Subsequent Events

In August 2009, the CSU began furloughing all employees (with the exception of public safety personnel) two days per month. The University believes furloughs will reduce expenditures by approximately \$18.0 million for the University, in fiscal year ending June 30, 2010.

In September 2009, the CSURMA's Executive Committee declared the return of \$16.6 million from the Worker's Compensation Program funds to the Members (23 campuses). In accordance with the Funding Policy described in the CSURMA's Policy & Procedure No. JPA-7, the Executive Committee allocates the amount to each Member by their pro rata contributions to the Worker's Compensation program fund over the past five completed fiscal years. \$1.3 million was returned to the University and will increase the University's fiscal year 2010 net assets.

In November 2009, a \$49.8 million BAN was authorized for the construction of Student Recreation Center at the Northridge campus. Commercial paper has not yet been issued for this project.