



**CALIFORNIA STATE UNIVERSITY, POMONA**

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

# CALIFORNIA STATE UNIVERSITY, POMONA

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## **Independent Auditors' Report**

Dr. J. Michael Ortiz  
President  
California State Polytechnic University, Pomona:

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

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

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

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

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 15, 2006

# CALIFORNIA STATE UNIVERSITY, POMONA

## Management's Discussion and Analysis

June 30, 2006

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

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

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and 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 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 reported at their book value, on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net assets of the University.

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

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

### **Analytical Overview**

#### ***Summary***

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

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

**Condensed Summary of Net Assets**

**June 30, 2006**

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 103,778,526	108,470,982
Capital assets	230,747,132	231,859,219
Other noncurrent assets	106,520,215	34,712,959
Total assets	<u>441,045,873</u>	<u>375,043,160</u>
Liabilities:		
Current liabilities	31,430,820	28,139,114
Long-term debt obligations, net of current portion	111,237,113	114,514,115
Other noncurrent liabilities	8,731,717	8,623,429
Total liabilities	<u>151,399,650</u>	<u>151,276,658</u>
Net assets:		
Invested in capital assets, net of related debt	138,881,031	170,543,961
Restricted, expendable	93,715,181	12,499,412
Unrestricted	57,050,011	40,723,129
Total net assets	<u>\$ 289,646,223</u>	<u>223,766,502</u>

*Assets*

The \$66 million, or 18% increase in total assets, is primarily due to a \$4.2 million increase in cash and short-term investments as a result of unremitted student fees in compliance with the forthcoming new business process of fees to trust, a \$41.1 million increase in state appropriation receivable as a result of a higher current year state appropriations for library renovations project, \$28.5 million increase in lease receivable due from auxiliary organization, which is offset by a \$6.3 million decrease in other assets related to the reversal of prior year revenue collected in advance and a reduction in current year's self insurance claim prepayments, a \$400 thousand reduction in student loans receivable and a \$1.1 million decrease in capital assets due to an asset transfer by the University to an auxiliary organization.

Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System.

*Liabilities*

The \$123 thousand or 1% increase in total liabilities from the prior year is primarily due to a \$2.9 million decrease in long-term debt obligations as a result of current year payments on capital lease obligations and bonds outstanding. This decrease was offset by a \$1.2 million increase in accrued salaries and benefits and accrued compensated absences, a \$1.2 million increase in deferred revenue, and a \$510 thousand increase in the self-insurance liability as a result of the University prepaying the estimated amount for fiscal year 2007 as of June 30, 2006, and \$127 thousand increase in other liabilities.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

*Net Assets*

The \$65.9 million or 29% increase in net assets from the prior year is primarily related to current year's \$52.8 million in state capital appropriations for the library addition and renovation project, a \$13.3 million settlement on Classroom Laboratory Administration Building 98 (CLA) construction defect lawsuit, a \$3.0 million increase in unrestricted net assets and a \$3.4 million reduction in debt service.

***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:

	<b>Restricted Net Assets</b>	
	<b>June 30, 2006 and 2005</b>	
	<u>2006</u>	<u>2005</u>
Expendable:		
Scholarships and fellowships	\$ 188,988	104,216
Loans	320,794	311,064
Capital projects	93,205,399	11,655,748
Debt service	—	428,384
Total restricted net assets – expendable	<u>\$ 93,715,181</u>	<u>12,499,412</u>

The \$81.2 million increase in restricted net assets – expendable is primarily due to \$55.2 million current year's state capital appropriations on library projects, \$29.4 million current year increase in capital projects fund, and \$3.4 million reduction in debt service.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

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

**Condensed Summary of Revenues, Expenses, and Changes in Net Assets**  
**Year ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees	\$ 53,499,246	48,111,152
Grants, contracts, and gifts	33,428,205	31,101,386
Sales and services of auxiliary enterprises, net	15,529,438	14,146,345
Other operating revenue	<u>1,881,785</u>	<u>1,660,200</u>
	<u>104,338,674</u>	<u>95,019,083</u>
Operating expenses	<u>(246,305,170)</u>	<u>(226,058,305)</u>
Nonoperating revenues (expenses):		
State appropriations	128,798,672	128,011,663
Investment income	3,454,398	1,226,109
Interest on capital-related debt	(4,295,581)	(3,707,579)
Other nonoperating revenues, net	<u>24,649,728</u>	<u>10,523,802</u>
Total nonoperating revenues	<u>152,607,217</u>	<u>136,053,995</u>
Other capital-related revenues:		
State appropriations, capital	<u>55,239,000</u>	<u>(7,975,000)</u>
Increase in net assets	65,879,721	(2,960,227)
Beginning net assets	<u>223,766,502</u>	<u>226,726,729</u>
Ending net assets	\$ <u><u>289,646,223</u></u>	<u><u>223,766,502</u></u>

*Operating Revenues and Expenses*

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

***Operating Revenues***

The University recognized \$104.3 million in operating revenues during this fiscal year, as compared to \$95 million in the prior year. This comprised 33% of total revenues for the year ended June 30, 2006, compared to 39% of total revenues for the year ended June 30, 2005. Federal and state grants and contracts revenue increased \$1.5 million from \$27.6 million to \$29.1 million for the fiscal years ended June 30, 2006 and 2005,

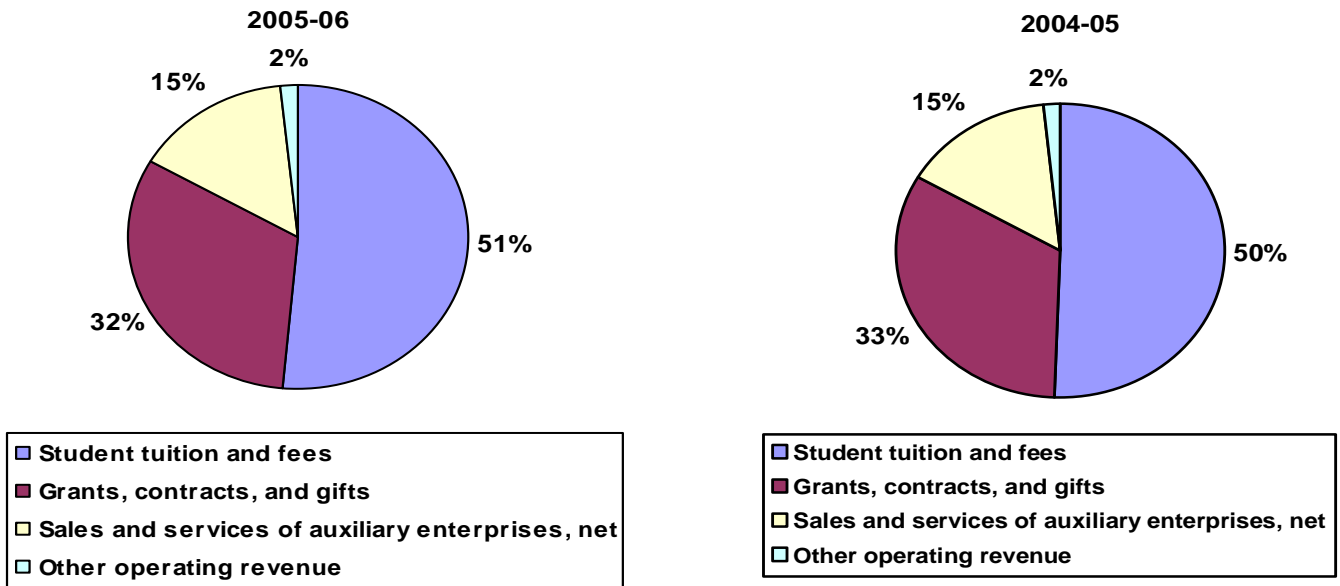
**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

respectively. Sales and services of auxiliary enterprises increased by \$1.4 million primarily due to an increase in dormitory housing revenue, as a result of additional housing space being completed and occupied.

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



***Operating Expenses***

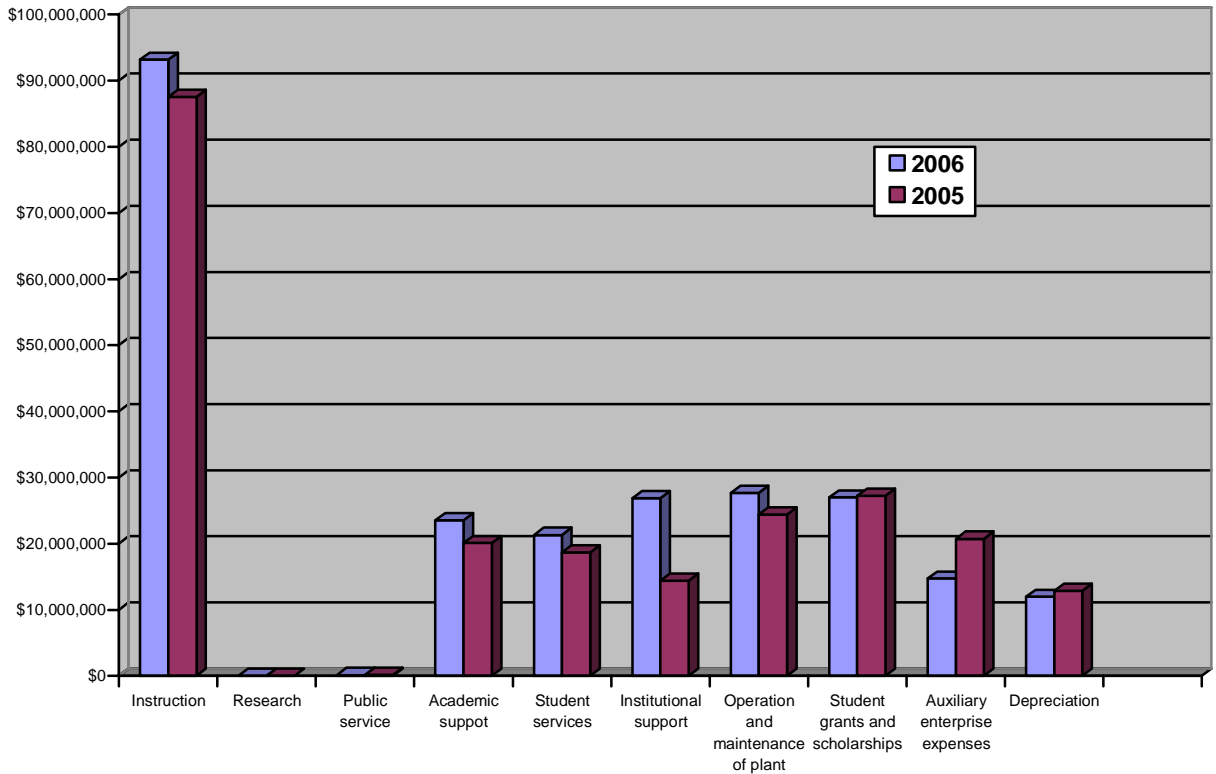
The University's operating expenses consist of salaries and fringe benefits of \$147.2 million, supplies and services of \$60.2 million, scholarships and fellowships of \$27 million, and depreciation of \$11.9 million. Total operating expenses, including depreciation, increased by \$20.2 million, or 9%, primarily due to academic support, student services, institutional support, and operation and maintenance of plant. Salaries and benefits costs increased by \$315K due to salary rate increases and health and retirement benefit increases for all employees. The University contribution to the California Employees' Retirement System (CalPERS) alone increased by \$426K. Student grants and scholarships decreased by \$264K. While the percentage of students receiving aid remained consistent at approximately 7.06%, enrollment increased by 4.71%. The decrease in auxiliary enterprise expenses is due to the University's prior year funding match contribution of \$6.5 million to the new campus parking structure. The decrease in depreciation expense of \$905K relates to current year capital asset deletions. The institutional support function increased \$12.5 million due to faculty and support salary increases, and increases in supplies and other services.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

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



**Nonoperating and Other Revenues (Expenses)**

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

As the University is part of the California State University System, which is an agency of the state of California, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$55.2 million for the fiscal year ended June 30, 2006, up from (\$7.9) million for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled \$128.8 million, an increase of \$800K from the prior year.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

**Capital Assets and Long-term Debt Obligations**

*Capital Assets*

Capital assets, net of accumulated depreciation are shown below:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Land and land improvements	\$ 15,696,836	15,696,836
Works of art and historical treasures	978,966	978,966
Buildings and building improvements	149,561,227	156,611,134
Improvements, other than buildings	1,179,879	1,550,873
Infrastructure	17,011,387	14,955,835
Personal property	8,488,614	9,586,627
Intangible assets	25,329	586,153
Construction work in progress	37,804,894	31,892,795
Total capital assets, net of accumulated depreciation	<u>\$ 230,747,132</u>	<u>231,859,219</u>

At June 30, 2006 and 2005, the University had \$230.7 million and \$231.9 million, respectively, in capital assets, net of accumulated depreciation of \$208.3 million and \$198.4 million, respectively. Depreciation expense totaled \$11.9 million and \$12.9 million for the years ended June 30, 2006 and 2005, respectively.

The University had two major capital projects during the year. These projects are the construction of the parking structure building, which totaled \$32.1 million and was funded through general obligation debt, and the Foundation University Villas Student Housing funded by revenue bonds of \$28.5 million completed as of June 30, 2006.

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Management's Discussion and Analysis

June 30, 2006

***Long-term Debt and Capital Leases Obligations***

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

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Housing System Revenue Bonds	\$ 208,087	333,285
Systemwide Revenue Bonds	109,610,000	110,570,000
Capital leases	404,529	832,810
Other	3,473,510	3,819,079
Total	113,696,126	115,555,174
Unamortized bond premium	1,004,115	1,947,364
Unamortized loss on refunding	(1,061,047)	(1,107,280)
Total long-term debt and capital leases	113,639,194	116,395,258
Less current portion	2,254,303	1,881,143
Long-term debt, and capital leases net of current portion	\$ 111,384,891	114,514,115

The interest rates on outstanding debt range from 2% to 8%.

***Bond Ratings***

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at A1 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds at A+ (however, these bonds are insured to AAA).

See notes 7 through 10 of the notes to the financial statements for further information on long-term debt obligations.

**Factors Impacting Future Periods**

The legislative process has approved the State General Fund allocation to the California State University for fiscal year 2006/2007. The allocation provided to the University is \$137.3 million, an increase of \$8.2 million over fiscal year 2005/2006. The increase is budgeted to be used primarily to hire additional faculty, fund increases in faculty and staff salaries, and complete deferred maintenance projects.

Budgeted full-time equivalent enrollment targets for fiscal years 2006/2007 are 17,645, representing an increase of 2.5%. This anticipated growth is expected to generate additional revenues of approximately \$583,000 to the University.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Statement of Net Assets

June 30, 2006

<b>Assets</b>	<b>University</b>	<b>Discretely presented component units FASB Auxiliary Organizations</b>	<b>Total</b>
Current assets:			
Cash and cash equivalents	\$ 16,995,497	3,315,731	20,311,228
Short-term investments	41,651,603	26,698,169	68,349,772
Accounts receivable, net	19,895,157	5,175,506	25,070,663
Leases receivable, current portion	465,000	—	465,000
Pledges receivable, net	—	1,406,591	1,406,591
Prepaid expenses and other assets	1,004,721	1,864,053	2,868,774
Total current assets	<u>80,011,978</u>	<u>38,460,050</u>	<u>118,472,028</u>
Noncurrent assets:			
Restricted cash and cash equivalents	393,811	—	393,811
Accounts receivable, net	72,926,217	—	72,926,217
Leases receivable, net of current portion	28,105,000	—	28,105,000
Student loans receivable, net	5,095,187	—	5,095,187
Pledges receivable, net	—	1,064,024	1,064,024
Endowment investments	—	27,145,899	27,145,899
Other long-term investments	23,766,548	12,219,257	35,985,805
Capital assets, net	230,747,132	60,186,922	290,934,054
Total noncurrent assets	<u>361,033,895</u>	<u>100,616,102</u>	<u>461,649,997</u>
Total assets	<u>441,045,873</u>	<u>139,076,152</u>	<u>580,122,025</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	7,042,919	5,087,336	12,130,255
Accrued salaries and benefits payable	8,333,922	1,264,697	9,598,619
Accrued compensated absences – current portion	4,362,826	433,973	4,796,799
Deferred revenue	6,775,761	1,398,393	8,174,154
Due to California State University Risk Management Authority	510,000	—	510,000
Capitalized lease obligations – current portion	256,751	557,006	813,757
Long-term debt obligations – current portion	1,997,552	810,000	2,807,552
Other liabilities	2,151,089	2,418,807	4,569,896
Total current liabilities	<u>31,430,820</u>	<u>11,970,212</u>	<u>43,401,032</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,590,291	119,114	2,709,405
Grants refundable	5,602,532	—	5,602,532
Capitalized lease obligations, net of current portion	147,778	29,303,785	29,451,563
Long-term debt obligations, net of current portion	111,237,113	6,515,000	117,752,113
Depository accounts	391,116	510,942	902,058
Other liabilities	—	7,886,097	7,886,097
Total noncurrent liabilities	<u>119,968,830</u>	<u>44,334,938</u>	<u>164,303,768</u>
Total liabilities	<u>151,399,650</u>	<u>56,305,150</u>	<u>207,704,800</u>
Net assets:			
Invested in capital assets, net of related debt	138,881,031	23,001,131	161,882,162
Restricted for:			
Nonexpendable – endowments	—	26,667,187	26,667,187
Expendable:			
Scholarships and fellowships	188,988	3,117,269	3,306,257
Loans	320,794	—	320,794
Capital projects	93,205,399	3,274,961	96,480,360
Debt service	—	—	—
Other	—	12,851,261	12,851,261
Unrestricted	57,050,011	13,859,193	70,909,204
Total net assets	<u>\$ 289,646,223</u>	<u>82,771,002</u>	<u>372,417,225</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2006

	<u>University</u>	<u>Discretely presented component units FASB Auxiliary Organizations</u>	<u>Total</u>
Revenues:			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of \$16,672,603)	\$ 53,499,246	5,695,528	59,194,774
Grants and contracts, noncapital:			
Federal	18,765,805	8,707,007	27,472,812
State and local	10,391,800	2,123,838	12,515,638
Nongovernmental	4,270,600	1,643,450	5,914,050
Sales and services of educational activities	—	4,398,713	4,398,713
Sales and services of auxiliary enterprises	15,529,438	34,487,899	50,017,337
Other operating revenues	1,881,785	3,288,879	5,170,664
Total operating revenues	<u>104,338,674</u>	<u>60,345,314</u>	<u>164,683,988</u>
Expenses:			
Operating expenses:			
Instruction	93,176,394	11,489,461	104,665,855
Research	—	2,549,691	2,549,691
Public service	132,145	292,328	424,473
Academic support	23,513,507	2,137,128	25,650,635
Student services	21,304,869	4,963,221	26,268,090
Institutional support	26,865,302	3,255,436	30,120,738
Operation and maintenance of plant	27,676,772	445,228	28,122,000
Student grants and scholarships	26,985,399	1,027,155	28,012,554
Auxiliary enterprise expenses	14,703,582	32,594,735	47,298,317
Depreciation	11,947,200	3,490,968	15,438,168
Total operating expenses	<u>246,305,170</u>	<u>62,245,351</u>	<u>308,550,521</u>
Operating loss	<u>(141,966,496)</u>	<u>(1,900,037)</u>	<u>(143,866,533)</u>
Nonoperating revenues (expenses):			
State appropriations, noncapital	128,798,672	—	128,798,672
Gifts, noncapital	—	4,557,161	4,557,161
Investment income, net	3,454,398	2,205,310	5,659,708
Endowment income (loss)	—	1,673,641	1,673,641
Interest on capital-related debt	(4,295,581)	(1,387,278)	(5,682,859)
Other nonoperating revenues (expenses), net	24,649,728	(1,627,569)	23,022,159
Net nonoperating revenues	<u>152,607,217</u>	<u>5,421,265</u>	<u>158,028,482</u>
Income before other additions	10,640,721	3,521,228	14,161,949
State appropriations, capital	55,239,000	—	55,239,000
Additions to permanent endowments	—	2,382,196	2,382,196
Increase in net assets	<u>65,879,721</u>	<u>5,903,424</u>	<u>71,783,145</u>
Net assets:			
Net assets at beginning of year	<u>223,766,502</u>	<u>76,867,578</u>	<u>300,634,080</u>
Net assets at end of year	<u>\$ 289,646,223</u>	<u>82,771,002</u>	<u>372,417,225</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Statement of Cash Flows

Year ended June 30, 2006

Cash flows from operating activities:	
Student tuition and fees	\$ 53,435,460
Federal grants and contracts	19,053,027
State and local grants and contracts	10,417,945
Nongovernmental grants and contracts	4,270,600
Payments to suppliers	(53,289,109)
Payments to employees	(146,035,170)
Payments to students	(27,469,090)
Collections of student loans	1,262,281
Sales and services of educational activities	—
Sales and services of auxiliary enterprises	15,209,479
Other receipts (payments)	31,917,619
Net cash used in operating activities	<u>(91,226,958)</u>
Cash flows from noncapital financing activities:	
State appropriations	130,877,777
Gifts and grants received for other than capital purposes	—
Federal loan program receipts	34,936,515
Federal loan program disbursements	(34,755,184)
Monies received on behalf of others	2,175,777
Monies disbursed on behalf of others	(2,149,241)
Other	23,337,242
Net cash provided by noncapital financing activities	<u>154,422,886</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	(85,948)
State appropriations	4,751,535
Capital grants and gifts	—
Proceeds from sale of capital assets	—
Acquisition of capital assets	(34,175,848)
Transfers to escrow agent	—
Principal paid on capital debt and leases	(1,859,048)
Interest paid on capital debt and leases	(5,289,775)
Principal payments received on capital leases	—
Interest payments received on capital leases	—
Net cash used in capital and related financing activities	<u>(36,659,084)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	1,036,107
Purchases of investments	(23,419,413)
Investment income received	3,454,398
Net cash used in investing activities	<u>(18,928,908)</u>
Net increase in cash and cash equivalents	7,607,936
Cash and cash equivalents at beginning of year	<u>9,781,372</u>
Cash and cash equivalents at end of year	<u>\$ 17,389,308</u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 16,995,497
Restricted cash and investments	393,811
Total cash and cash equivalents at end of year	<u>\$ 17,389,308</u>

**CALIFORNIA STATE UNIVERSITY, POMONA**

Statement of Cash Flows

Year ended June 30, 2006

Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating loss	\$ (141,966,496)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation	11,947,200
Change in assets and liabilities:	
Accounts receivable, net	30,987,960
Student loans receivable, net	420,906
Prepaid expenses and other assets	6,335,400
Accounts payable	57,337
Accrued salaries and benefits	706,622
Accrued compensated absences	401,812
Deferred revenue	1,199,965
Due to California State University Risk Management Authority	510,000
Depository accounts	37,121
Other liabilities	(1,864,785)
Net cash used in operating activities	<u>\$ (91,226,958)</u>
Supplemental schedule of noncash transactions:	
Construction work in progress contributed from the Office of the Chancellor	\$ 2,599,192
Accrued capital asset costs (purchased but unpaid at year end)	4,182

See accompanying notes to financial statements.

# CALIFORNIA STATE UNIVERSITY, POMONA

## Notes to Financial Statements

June 30, 2006

### (1) Organization

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

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

### (2) Summary of Significant Accounting Policies

#### (a) *Financial Reporting Entity*

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

The discretely presented auxiliary organizations are as follows:

- Cal Poly Pomona Foundation, Inc.
- Associated Students Inc., California State Polytechnic University, Pomona
- Cal Poly Pomona University Educational Trust

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

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

<b>June 30, 2006</b>	<b>Cal Poly Pomona Foundation, Inc.</b>	<b>Other auxiliary organizations</b>	<b>Total</b>
Current assets	\$ 32,878,934	5,581,116	38,460,050
Capital assets, net	59,958,722	228,200	60,186,922
Other noncurrent assets	12,755,037	27,674,143	40,429,180
<b>Total assets</b>	<b>105,592,693</b>	<b>33,483,459</b>	<b>139,076,152</b>
Current liabilities	11,190,523	779,689	11,970,212
Noncurrent liabilities	43,802,948	531,990	44,334,938
<b>Total liabilities</b>	<b>54,993,471</b>	<b>1,311,679</b>	<b>56,305,150</b>
Invested in capital assets, net of related debt	22,772,931	228,200	23,001,131
Restricted	17,652,129	28,258,549	45,910,678
Unrestricted	10,174,162	3,685,031	13,859,193
<b>Total net assets</b>	<b>\$ 50,599,222</b>	<b>32,171,780</b>	<b>82,771,002</b>
Operating revenues:			
Student tuition and fees	\$ 1,770,470	3,925,058	5,695,528
Grants and contracts, noncapital	12,474,295	—	12,474,295
Sales and services of educational services	4,398,713	—	4,398,713
Sales and services of auxiliary enterprises, net	33,381,457	1,106,442	34,487,899
Other	3,112,217	176,662	3,288,879
<b>Total operating revenues</b>	<b>55,137,152</b>	<b>5,208,162</b>	<b>60,345,314</b>
Operating expenses:			
Instruction	11,489,461	—	11,489,461
Research	2,549,691	—	2,549,691
Public service	292,328	—	292,328
Academic support	1,887,574	249,554	2,137,128
Student services	516,746	4,446,475	4,963,221
Institutional support	2,015,535	1,239,901	3,255,436
Operation and maintenance of plant	445,228	—	445,228
Student grants and scholarships	1,027,155	—	1,027,155
Auxiliary enterprise expenses	32,594,735	—	32,594,735
Depreciation	3,403,402	87,566	3,490,968
<b>Total operating expenses</b>	<b>56,221,855</b>	<b>6,023,496</b>	<b>62,245,351</b>
<b>Operating income (loss)</b>	<b>(1,084,703)</b>	<b>(815,334)</b>	<b>(1,900,037)</b>
Net nonoperating revenues (expenses)	3,525,992	1,895,273	5,421,265
<b>Income (loss) before other additions</b>	<b>2,441,289</b>	<b>1,079,939</b>	<b>3,521,228</b>
Additions to permanent endowments	—	2,382,196	2,382,196
<b>Increase in net assets</b>	<b>2,441,289</b>	<b>3,462,135</b>	<b>5,903,424</b>
Beginning net assets, July 1, 2005	48,157,933	28,709,645	76,867,578
Ending net assets, June 30, 2006	\$ 50,599,222	32,171,780	82,771,002

# CALIFORNIA STATE UNIVERSITY, POMONA

## Notes to Financial Statements

June 30, 2006

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

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

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

The financial statements required by GASB 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 not to adopt the pronouncements issued by the FASB after November 30, 1989.

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

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

# CALIFORNIA STATE UNIVERSITY, POMONA

## Notes to Financial Statements

June 30, 2006

net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

**(e) *Cash and Cash Equivalents***

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

**(f) *Investments***

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

**(g) *Capital Assets***

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

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

**(h) *Deferred Revenue***

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

**(i) *Compensated Absences***

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

**(j) *Grants Refundable***

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

# CALIFORNIA STATE UNIVERSITY, POMONA

## Notes to Financial Statements

June 30, 2006

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 retain them in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.

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

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

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

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

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

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

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) Income Taxes**

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

**(n) Eliminations**

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

**(o) Use of Estimates**

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

**(3) Cash, Cash Equivalents and Short-term Investments**

The University's cash, cash equivalents and short-term investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 16,995,497
Restricted cash and cash equivalents	393,811
Total cash and cash equivalents	<u>17,389,308</u>
Short-term investments	<u>41,651,603</u>
Total cash, cash equivalents and short-term investments	<u>\$ 59,040,911</u>

**(a) Cash and Cash Equivalents**

At June 30, 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$17,389,308 had a corresponding carrying value balance with the State Treasury of \$15,965,470 at June 30, 2006. The differences related primarily to deposits in transit and outstanding checks.

# CALIFORNIA STATE UNIVERSITY, POMONA

## Notes to Financial Statements

June 30, 2006

**(b) *Short-term Investments***

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

**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 University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2006 is presented in the table below.

**Credit Risk**

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

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

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 632,383	0.01	—	—	—	632,383
Certificates of deposit	6,028,266	1.41	\$ —	2,260,397	3,767,869	—
Commercial papers	2,459,128	0.01	—	—	—	2,459,128
U.S. agency securities	1,785,303	1.46	1,785,303	—	—	—
Mortgage-backed securities	110,746	10.57	110,746	—	—	—
Corporate and fixed income securities	12,102,365	1.74	553,364	3,370,413	8,178,588	—
SMIF	18,533,412	0.42	—	—	—	18,533,412
<b>Total</b>	<b>41,651,603</b>		<b>\$ 2,449,413</b>	<b>5,630,810</b>	<b>11,946,457</b>	<b>21,624,923</b>
Not subject to ratings:						
U.S. Treasury securities	—					
State of California Surplus Money Investment Fund	—					
State of California Local Agency Investment Fund	—					
<b>Total investments</b>	<b>\$ 41,651,603</b>					

**Concentration of Credit Risk**

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2006, there were no investments (other than U.S. Treasury securities, mutual funds, and external investment pools) representing 5% or more of the University's investment portfolio.

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

**(4) Accounts Receivable**

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 14,765,436	72,926,217	87,691,653
Auxiliary organizations	1,332,402	—	1,332,402
Student accounts	2,525,596	—	2,525,596
Government grants and contracts	352,244	—	352,244
Other	1,432,023	—	1,432,023
	20,407,701	72,926,217	93,333,918
Less allowance for doubtful accounts	(512,544)	—	(512,544)
<b>Total</b>	<b>\$ 19,895,157</b>	<b>72,926,217</b>	<b>92,821,374</b>

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

**(5) Lease Receivable**

The University entered into a 30-year capital lease agreement with Cal Poly Pomona Foundation, Inc. to lease facilities to the auxiliary organization effective May 01, 2006. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A was used to finance such facilities. Lease payments are due twice a year on May 1 and November 1.

Lease payments are due to the University as follows:

Fiscal year ending:	
2007	\$ 465,000
2008	480,000
2009	490,000
2010	505,000
2011	525,000
Thereafter	<u>26,105,000</u>
Total lease receivable	28,570,000
Less current portion	<u>(465,000)</u>
Long-term lease receivable, net of current portion	<u><u>\$ 28,105,000</u></u>

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

**(6) Capital Assets**

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

	<u>Balance, June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2006</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 15,696,836	—	—	—	15,696,836
Works of art and historical treasures	978,966	—	—	—	978,966
Construction work in progress	<u>31,892,795</u>	<u>36,674,367</u>	<u>(27,868,699)</u>	<u>(2,893,569)</u>	<u>37,804,894</u>
Total nondepreciable capital assets	<u>48,568,597</u>	<u>36,674,367</u>	<u>(27,868,699)</u>	<u>(2,893,569)</u>	<u>54,480,696</u>
Depreciable capital assets:					
Buildings and building improvements	287,512,738	1,761,980	(1,520,011)	—	287,754,707
Improvements, other than buildings	22,130,839	—	—	—	22,130,839
Infrastructure	24,208,142	728,461	—	2,893,569	27,830,172
Personal property:					
Equipment	25,509,184	1,142,138	(2,145,025)	43,431	24,549,728
Library books and materials	18,846,939	—	(66,984)	—	18,779,955
Intangible assets	<u>3,506,467</u>	<u>27,146</u>	<u>—</u>	<u>—</u>	<u>3,533,613</u>
Total depreciable capital assets	<u>381,714,309</u>	<u>3,659,725</u>	<u>(3,732,020)</u>	<u>2,937,000</u>	<u>384,579,014</u>
Total cost	<u>430,282,906</u>	<u>40,334,092</u>	<u>(31,600,719)</u>	<u>43,431</u>	<u>439,059,710</u>
Less accumulated depreciation:					
Buildings and building improvements	(130,901,604)	(7,291,876)	—	—	(138,193,480)
Improvements, other than buildings	(20,579,966)	(370,994)	—	—	(20,950,960)
Infrastructure	(9,252,307)	(1,566,478)	—	—	(10,818,785)
Personal property:					
Equipment	(18,809,657)	(1,448,355)	2,030,574	(39,249)	(18,266,687)
Library books and materials	(15,959,839)	(681,527)	66,984	—	(16,574,382)
Intangible assets	<u>(2,920,314)</u>	<u>(587,970)</u>	<u>—</u>	<u>—</u>	<u>(3,508,284)</u>
Total accumulated depreciation	<u>(198,423,687)</u>	<u>(11,947,200)</u>	<u>2,097,558</u>	<u>(39,249)</u>	<u>(208,312,578)</u>
Net capital assets	\$ <u>231,859,219</u>	<u>28,386,892</u>	<u>(29,503,161)</u>	<u>4,182</u>	<u>230,747,132</u>

Construction work in progress retirements of \$27.9 million relates to capital assets that were transferred from the University to the Cal Poly Foundation, Inc. following the completion of the Foundation University Villas Student Housing capital project during fiscal year 2006.

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

**(7) Lease Obligations**

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

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$764,577 at June 30, 2006. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.54% to 8.00% and have terms expiring in various years through 2009.

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

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2007	\$ 277,400	174,939
2008	146,117	116,271
2009	8,742	94,946
2010	—	86,905
2011	—	7,533
	<u>432,259</u>	<u>\$ 480,594</u>
Less amount representing interest	<u>(27,730)</u>	
Present value of future minimum lease payments	\$ <u>404,529</u>	

Rent expense under operating leases for the year ended June 30, 2006 totaled \$206,353.

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

**(8) Long-term Debt Obligations**

**(a) General Obligation Bond Program**

The General Obligation Bond program of the state of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a

# CALIFORNIA STATE UNIVERSITY, POMONA

## Notes to Financial Statements

June 30, 2006

project-by-project basis among the University of California, the System, and the community colleges. Financing provided to the University through state of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,277,682,000 as of June 30, 2006.

**(b) Revenue Bond Programs**

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

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

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

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

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

The continuing education program provides nonstate-supported courses to students. The continuing education program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

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

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

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$1,982,433,000 at June 30, 2006. The University's portion of the total outstanding balance under this program was \$109,610,000 at June 30, 2006.

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

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Housing Series B	3%	2008	\$ 2,943,693	208,087
Systemwide Revenue Bonds:				
Series 2003A	2.5% – 5.25%	2034	24,700,000	23,840,000
Series 2004A (Student Union)	2% – 5.25%	2031	2,675,000	2,590,000
Series 2005A (Student Union)	2% – 5%	2031	22,920,000	22,450,000
Series 2005A (Parking)	2% – 5%	2032	32,160,000	32,160,000
Series 2005A (Auxiliary)	2% – 5%	2036	28,570,000	28,570,000
Other:				
Transocean Funding	5.055%	2014	5,570,000	<u>3,473,510</u>
Total				113,291,597
Unamortized bond premium				1,004,115
Unamortized loss on refunding				<u>(1,061,047)</u>
Total long-term debt				113,234,665
Less current portion				<u>(1,997,552)</u>
Long-term debt, net of current portion				<u>\$ 111,237,113</u>

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2007	\$ 1,997,552	5,334,054
2008	2,724,961	5,260,100
2009	2,725,668	5,175,861
2010	2,820,922	5,087,921
2011	2,927,199	5,130,639
2012 – 2016	15,500,295	22,790,134
2017 – 2021	17,780,000	18,996,412
2022 – 2026	22,855,000	13,918,522
2027 – 2031	29,320,000	7,451,763
2032 – 2036	14,640,000	1,440,750
	<u>\$ 113,291,597</u>	<u>90,586,156</u>

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

**(9) Advance Refundings**

*Prior Year Refundings*

In April 2005, the University defeased certain Student Union Revenue Bonds Series B and C, and certain bonds of the discretely presented auxiliary organizations (refunded bonds) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2005A refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of prior years' defeased bonds outstanding as of June 30, 2006 totaled \$21,400,000.

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

**(10) Long-term Liabilities Activity**

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 6,551,305	6,953,117	(6,551,305)	6,953,117	4,362,826
Capitalized lease obligations (note 7):					
Gross balance	832,810	—	(428,281)	404,529	256,751
Total capitalized lease obligations	832,810	—	(428,281)	404,529	256,751
Long-term debt obligations (note 8):					
Housing System Revenue Bonds	333,285	—	(125,198)	208,087	129,515
Systemwide Revenue Bonds	110,570,000	—	(960,000)	109,610,000	1,505,000
Other	3,819,079	—	(345,569)	3,473,510	363,037
Total	114,722,364	—	(1,430,767)	113,291,597	1,997,552
Unamortized bond premium	1,947,364	(85,948)	(857,301)	1,004,115	—
Unamortized loss on refunding	(1,107,280)	—	46,233	(1,061,047)	—
Total long-term debt obligations	115,562,448	(85,948)	(2,241,835)	113,234,665	1,997,552
Total long-term liabilities	\$ <u>122,946,563</u>	<u>6,867,169</u>	<u>(9,221,421)</u>	<u>120,592,311</u>	<u>6,617,129</u>

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Notes to Financial Statements

June 30, 2006

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

**(a) Plan Description**

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

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

**(b) Funding Policy**

University personnel are required to contribute 5% of their monthly earnings in excess of \$513 to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 15.942% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

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

2004	\$	15,113,971
2005		16,452,243
2006		16,025,721

**(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 centrally manage workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2006.

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Notes to Financial Statements

June 30, 2006

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

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

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

The University's allocation of the System's total self-insurance claims liability as of June 30, 2006 was approximately 5%, or \$5,360,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2006. All but \$510,000 of this estimated liability has been paid to CSURMA as of June 30, 2006.

The University's payable due to CSURMA of \$510,000 at June 30, 2006, is recorded as current liability in the accompanying financial statements.

***Commitments and Contingencies***

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

Contractual commitments for construction projects unexpended as of June 30, 2006 totaled \$51,814,595. These expenditures will be funded primarily from state capital appropriations.

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

**(13) Classification of Operating Expenses**

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

<u>2006</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 60,489,678	18,888,693	—	13,798,023	—	93,176,394
Public service	132,145	—	—	—	—	132,145
Academic support	12,129,366	3,821,192	—	7,562,949	—	23,513,507
Student services	12,731,471	4,690,522	—	3,882,876	—	21,304,869
Institutional support	13,292,172	4,867,106	—	8,706,024	—	26,865,302
Operation and maintenance of plant	8,491,723	3,988,621	—	15,196,428	—	27,676,772
Student grants and scholarships	—	—	26,985,399	—	—	26,985,399
Auxiliary enterprise expenses	2,659,774	998,262	—	11,045,546	—	14,703,582
Depreciation	—	—	—	—	11,947,200	11,947,200
Total	\$ <u>109,926,329</u>	<u>37,254,396</u>	<u>26,985,399</u>	<u>60,191,846</u>	<u>11,947,200</u>	<u>246,305,170</u>

**(14) Transactions with Related Entities**

The System is an agency of the state of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$184,037,672 for the year ended June 30, 2006. State appropriations receivable aggregated \$87,691,653 at June 30, 2006. The University also received lottery fund distributions from the state of California in the amount of \$1,786,000 for the year ended June 30, 2006, which is included in other nonoperating revenues and expenses.

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

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

**CALIFORNIA STATE UNIVERSITY, POMONA**

Notes to Financial Statements

June 30, 2006

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

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	1,319,209
Payments to recognized auxiliary organizations for services, office space rental, and programs		14,931,855
Amounts receivable from the Office of the Chancellor		23,766,548
Amounts receivable from recognized auxiliary organizations		1,332,402