



CALIFORNIA STATE UNIVERSITY, POMONA

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY, POMONA

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	13
Statement of Revenues, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	15
Notes to Financial Statements	17



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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the California State Polytechnic University, Pomona (the University) and its aggregate discretely presented component units as of and for the year ended June 30, 2007, 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 to the financial statements, 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, 2007, 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

January 8, 2008

CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

June 30, 2007

This section of California State Polytechnic University, Pomona'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, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

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

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, 2007

The University's condensed summary of net assets as of June 30, 2007 and 2006 are as follows:

Condensed Summary of Net Assets

	June 30	
	2007	2006
Assets:		
Current assets	\$ 92,356,051	103,778,526
Capital assets	281,496,372	230,747,132
Other noncurrent assets	88,638,647	106,520,215
Total assets	<u>462,491,070</u>	<u>441,045,873</u>
Liabilities:		
Current liabilities	40,877,236	31,430,820
Long-term debt and capital lease obligations, net of current portion	111,899,175	111,384,891
Other noncurrent liabilities	9,022,165	8,583,939
Total liabilities	<u>161,798,576</u>	<u>151,399,650</u>
Net assets:		
Invested in capital assets, net of related debt	212,993,930	138,881,031
Restricted, expendable	27,973,773	93,715,181
Unrestricted	59,724,791	57,050,011
Total net assets	<u>\$ 300,692,494</u>	<u>289,646,223</u>

Assets

The \$21.4 million, or 5% increase in total assets is primarily due to an increase in investments of \$31.9 million, an increase in capital assets of \$50.7 million and an increase in prepaid expenses and other assets of \$4.8 million. These increases were offset by a decrease in cash of \$16.5 million and a decrease in state appropriations receivable of \$50.5 million. During fiscal years 2006-2007, the California State University System entered into a new banking arrangement whereby the campus was permitted to invest daily excess cash, and retain only minimal balances with the State Treasury, resulting in the aforementioned changes in cash and investments. Prepaid expenses and other assets increased primarily due to the University prepaying the estimated self-insurance premium amount for the fiscal year 2008 during fiscal year 2007. State appropriations receivable decreased as a result of lower current year state appropriations for capital projects.

The \$50.7 million increase in capital assets is a result of the completion of the parking structure and a number of other University capital projects. Capital expansion is financed through general obligation bonds of the state of California and the California State University System, which is not reflected in the accompanying financial statements.

CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

June 30, 2007

Liabilities

The \$10.4 million or 7% increase in total liabilities from the prior year is primarily due to a \$8.4 million increase in accounts payable year-end accruals related to capital project expenditures incurred but not yet paid, \$1.3 million increase in accrued salaries and benefits, \$0.7 million increase in accrued compensated absences, and \$3.4 million increase in current and long-term debt obligations as a result of incurring a new systemwide revenue bond. The increase in accrued salaries on benefits payable and accrued compensated absences is directly related to the increase in salaries and benefits, due to faculty equity, faculty and staff compensation increases, and health and retirement benefit increases for all employees. These increases were offset by \$0.8 million reduction in deferred revenue, \$0.3 million reduction in capital lease obligations and bonds outstanding and \$0.5 million reduction in the self-insurance liability as a result of the University prepaying the estimated amount for fiscal year 2008 as of June 30, 2007.

Net Assets

A significant portion of net assets at the end of the year is invested in capital assets. The increase in total net assets of \$11 million from the prior year is related to an increase of \$74.1 million in invested in capital assets due to completion of the parking structure and a number of university capital projects. This increase was offset by a decrease of \$65.7 million in restricted for capital projects due to a decrease in state capital appropriations.

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:

	June 30	
	2007	2006
Expendable:		
Scholarships and fellowships	\$ 76,390	188,988
Loans	331,961	320,794
Capital projects	27,565,422	93,205,399
Total restricted net assets – expendable	<u>\$ 27,973,773</u>	<u>93,715,181</u>

The \$65.7 million decrease in restricted net assets – expendable is primarily due to a decrease in state capital appropriations and capital projects that were completed and transferred to capital assets during the year. Significant completed projects include the \$37.7 million parking structure.

CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

June 30, 2007

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006 is as follows:

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

	Year ended June 30	
	2007	2006
Operating revenues:		
Student tuition and fees, net	\$ 55,697,150	53,499,246
Grants and contracts, noncapital	34,691,754	33,428,205
Sales and services of educational activities	178,051	—
Sales and services of auxiliary enterprises, net	16,265,482	15,529,438
Other operating revenues	3,108,045	1,881,785
Total operating revenues	109,940,482	104,338,674
Operating expenses	(245,136,700)	(246,305,170)
Operating loss	(135,196,218)	(141,966,496)
Nonoperating revenues (expenses):		
State appropriations, noncapital	139,583,790	128,798,672
Gifts, noncapital	96,900	—
Investment income, net	6,155,340	3,454,398
Interest on capital-related debt	(3,864,686)	(4,295,581)
Other nonoperating revenues, net	1,617,145	24,649,728
Total nonoperating revenues, net	143,588,489	152,607,217
Income before other additions	8,392,271	10,640,721
State appropriations, capital	2,654,000	55,239,000
Increase in net assets	11,046,271	65,879,721
Beginning net assets	289,646,223	223,766,502
Ending net assets	\$ 300,692,494	289,646,223

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 and 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 and amortization. In this discussion and analysis, expenses are reported by functional program such as instruction, academic support, and student services.

CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

June 30, 2007

Operating Revenues

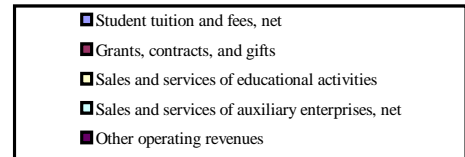
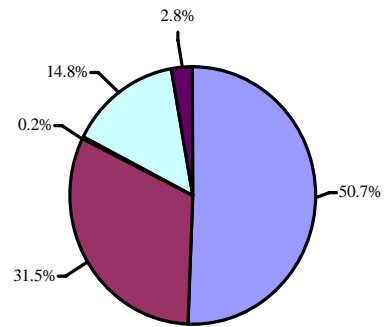
The University recognized \$109.9 million in operating revenues during this fiscal year, as compared to \$104.3 million in the prior year. Operating revenue represents 42% of total revenues for the year ended June 30, 2007, compared to 33% of total revenues for the year ended June 30, 2006. Student tuition and fees increased by \$2.2 million due to an increase in the number of students by 1,351 from 2006. Federal and state grants and contracts revenue increased \$2.4 million from \$29.1 million to \$31.5 million for the fiscal years ended June 30, 2006 and 2007, respectively. Sales and services of auxiliary enterprises increased by \$0.7 million primarily due to an increase in dormitory housing revenue, as a result of an increase in housing rates.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2007 and 2006:

Operating Expenses

Year ended June 30, 2007

Student tuition and fees, net	\$ 55,697,150	50.7%
Grants, contracts, and gifts	34,691,754	31.5
Sales and services of educational activities	178,051	0.2
Sales and services of auxiliary enterprises, net	16,265,482	14.8
Other operating revenues	<u>3,108,045</u>	<u>2.8</u>
Total operating revenues	<u><u>\$ 109,940,482</u></u>	<u><u>100.0%</u></u>



CALIFORNIA STATE UNIVERSITY, POMONA

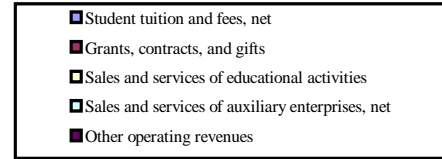
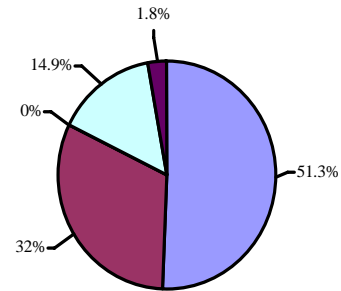
Management's Discussion and Analysis

June 30, 2007

Operating Expenses

Year ended June 30, 2006

Student tuition and fees, net	\$ 53,499,246	51.3%
Grants, contracts, and gifts	33,428,205	32.0%
Sales and services of educational activities	-	0.0%
Sales and services of auxiliary enterprises, net	15,529,438	14.9%
Other operating revenues	<u>1,881,785</u>	<u>1.8%</u>
Total operating revenues	<u>\$ 104,338,674</u>	<u>100.0%</u>



Operating Expenses

The University's operating expenses consist of salaries and fringe benefits of \$169.7 million, supplies and other services of \$34.4 million, scholarships and fellowships of \$29.1 million, and depreciation and amortization of \$11.9 million. Total operating expenses, excluding depreciation and amortization, decreased by \$1.1 million, or 0.5%, primarily due to an increase in salaries and benefits due to faculty equity, faculty and staff compensation increases, and health and retirement benefit increases for all employees. This increase was offset by a decrease in supplies and other services due to the University's reduction in spending during the current year.

CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

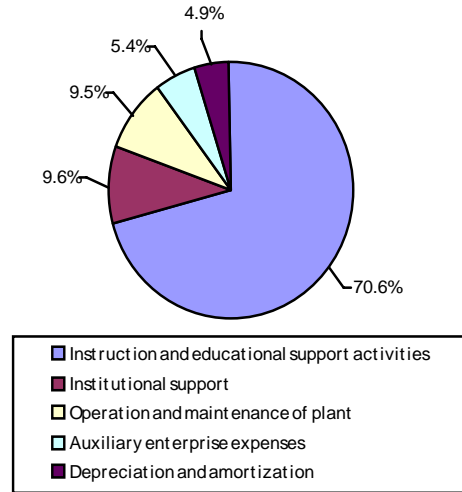
June 30, 2007

The following charts present the proportional share that each category of operating expenses contributed to total for fiscal years 2007 and 2006:

Operating Expenses

Year ended June 30, 2007

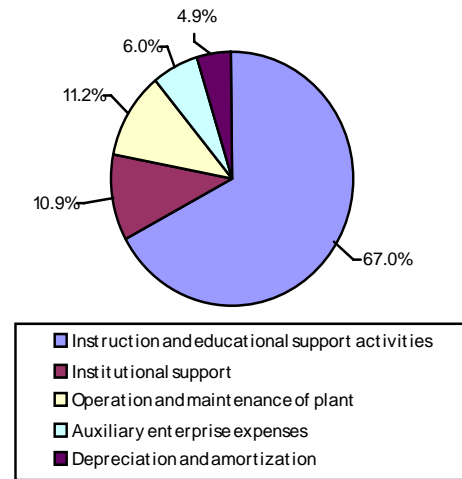
Instruction	\$ 98,162,759	40.0%
Public service	90,789	—
Academic support	22,240,714	9.1
Student services	23,528,770	9.6
Student grants and scholarships	<u>29,086,763</u>	<u>11.9</u>
Total instruction and educational support activities	173,109,795	70.6
Institutional support	23,604,427	9.6
Operation and maintenance of plant	23,211,112	9.5
Auxiliary enterprise expenses	13,340,031	5.4
Depreciation and amortization	<u>11,871,335</u>	<u>4.9</u>
Total operating expenses	\$ <u>245,136,700</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2006

Instruction	\$ 93,176,394	37.8%
Public service	132,145	0.1
Academic support	23,513,507	9.5
Student services	21,304,869	8.6
Student grants and scholarships	<u>26,985,399</u>	<u>11.0</u>
Total instruction and educational support activities	165,112,314	67.0
Institutional support	26,865,302	10.9
Operation and maintenance of plant	27,676,772	11.2
Auxiliary enterprise expenses	14,703,582	6.0
Depreciation and amortization	<u>11,947,200</u>	<u>4.9</u>
Total operating expenses	\$ <u>246,305,170</u>	<u>100.0%</u>

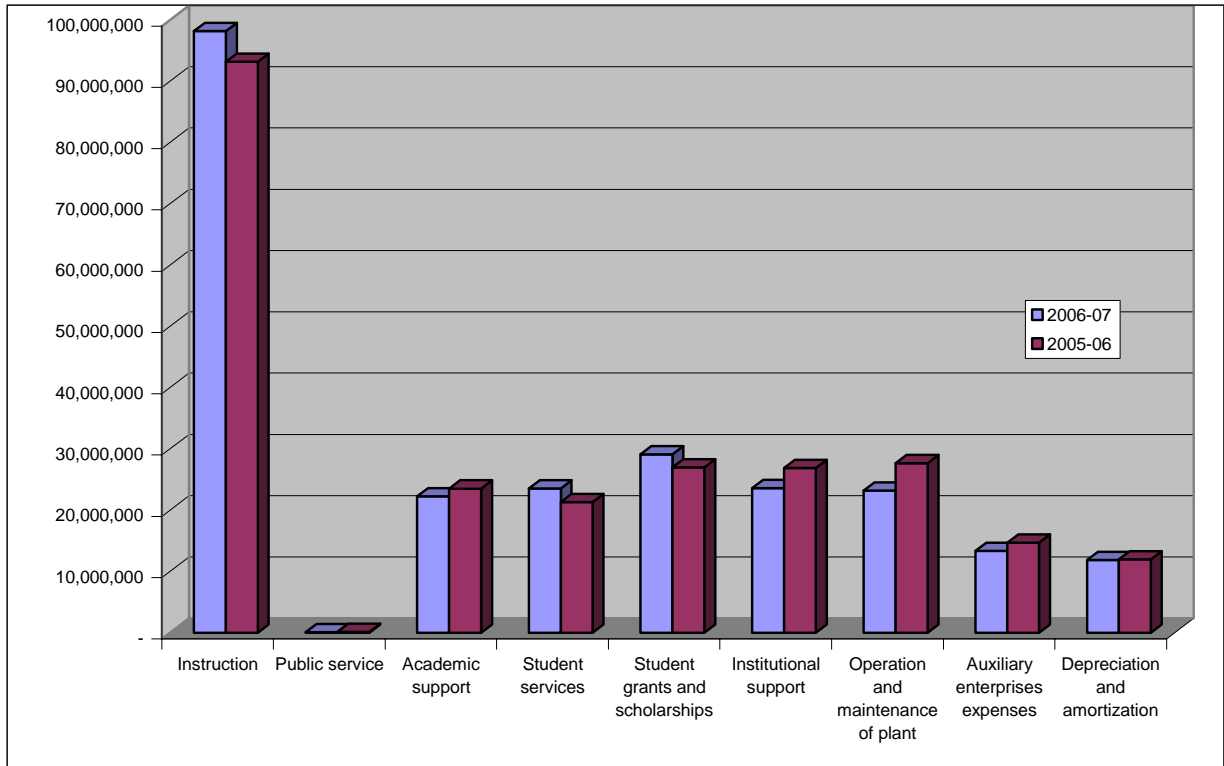


CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

June 30, 2007

The following chart presents the distribution of resources in support of the University's mission for fiscal years 2007 and 2006:



Nonoperating and Other Revenues (Expenses), Net Capital

Nonoperating and other revenues (expenses), net 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, net 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 \$2.7 million for the fiscal year ended June 30, 2007, down from \$55.2 million for the fiscal year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$139.6 million, an increase of \$10.8 million from the prior year. Other nonoperating revenues, net decreased \$23.0 million from \$24.6 million to \$1.6 million for the fiscal years ended June 30, 2006 and 2007, respectively. The decrease was primarily due to the \$13.3 million construction lawsuit settlement and \$3.5 million surplus from lottery fund received during fiscal year ended June 30, 2006.

CALIFORNIA STATE UNIVERSITY, POMONA

Management's Discussion and Analysis

June 30, 2007

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2007	2006
Land and land improvements	\$ 15,696,836	15,696,836
Works of art and historical treasures	978,966	978,966
Buildings and building improvements	183,437,601	149,561,227
Improvements, other than buildings	3,923,542	1,179,879
Infrastructure	15,684,319	17,011,387
Personal property	8,158,847	8,488,614
Intangible assets	36,068	25,329
Construction work in progress	53,580,193	37,804,894
Total capital assets, net of accumulated depreciation	<u>\$ 281,496,372</u>	<u>230,747,132</u>

At June 30, 2007 and 2006, the University had \$281.5 million and \$230.7 million, respectively, in capital assets, net of accumulated depreciation of \$219.3 million and \$208.3 million, respectively. Depreciation and amortization expense totaled \$11.8 million and \$11.9 million for the years ended June 30, 2007 and 2006, respectively.

The University's major capital projects throughout the year were the completion of the parking structure that totaled \$37.7 million, funded through general obligation debt, and the on-going renovation of the library that totaled \$40.5 million, funded by state appropriations.

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, 2007

Long-Term Debt and Capital Lease Obligations

Debt outstanding at June 30, 2007 and 2006 is summarized below by type of debt instrument:

	June 30	
	2007	2006
Systemwide Revenue Bonds	\$ 111,533,572	109,818,087
Capital leases	107,398	404,529
Other	3,148,285	3,473,510
Total	114,789,255	113,696,126
Unamortized bond premium (discount)	964,479	1,004,115
Unamortized loss on refunding	(1,013,558)	(1,061,047)
Total long-term debt	114,740,176	113,639,194
Less current portion	2,841,001	2,254,303
Long-term debt and capital lease obligations, net of current portion	<u>\$ 111,899,175</u>	<u>111,384,891</u>

The interest rates on outstanding debt range from 2.5% to 8%.

At June 30, 2007 and 2006, the University had \$114.8 million and \$113.7 million, respectively, in debt outstanding. The University issued \$3.4 million in new bonds during fiscal year 2007 to refinance existing debt on Foundation University Housing Villas.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at Aa3 and the Student Union Revenue Bonds at A1 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds at A+ and the Student Union 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 2007/2008. The allocation provided to the University is \$146.6 million, an increase of \$9.3 million over fiscal year 2006/2007. The increase in budget will be used primarily for fulfilling our collective bargaining obligations, as well as other salary and benefit increases.

Budgeted full-time equivalent enrollment targets for fiscal years 2007/2008 are 17,816, representing an increase of 1%.

Salaries are anticipated to increase approximately 5.7% in 2007/2008 for compensation increases.

CALIFORNIA STATE UNIVERSITY, POMONA

Statement of Net Assets

June 30, 2007

		Discretely presented component units	
	University	Auxiliary Organizations	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 856,810	8,308,082	9,164,892
Short-term investments	82,062,631	22,157,099	104,219,730
Accounts receivable, net	3,190,498	5,420,046	8,610,544
Leases receivable, current portior	480,000	—	480,000
Pledges receivable, net	—	1,086,070	1,086,070
Prepaid expenses and other assets	5,766,112	2,494,766	8,260,878
Total current assets	<u>92,356,051</u>	<u>39,466,063</u>	<u>131,822,114</u>
Noncurrent assets:			
Accounts receivable, net	37,073,240	—	37,073,240
Leases receivable, net of current portior	30,975,000	—	30,975,000
Student loans receivable, net	5,311,106	—	5,311,106
Pledges receivable, net	—	891,831	891,831
Endowment investments	—	31,442,495	31,442,495
Other long-term investments	15,279,301	15,346,260	30,625,561
Capital assets, net	281,496,372	62,569,214	344,065,586
Total noncurrent assets	<u>370,135,019</u>	<u>110,249,800</u>	<u>480,384,819</u>
Total assets	<u>462,491,070</u>	<u>149,715,863</u>	<u>612,206,933</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	15,485,406	3,822,750	19,308,156
Accrued salaries and benefits payable	9,615,738	1,210,294	10,826,032
Accrued compensated absences – current portior	4,838,789	454,143	5,292,932
Deferred revenue	5,982,871	1,279,434	7,262,305
Capitalized lease obligations – current portior	107,398	608,812	716,210
Long-term debt obligations – current portior	2,733,603	835,000	3,568,603
Other liabilities	2,113,431	2,498,080	4,611,511
Total current liabilities	<u>40,877,236</u>	<u>10,708,513</u>	<u>51,585,749</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,846,798	170,078	3,016,876
Grants refundable	5,528,397	—	5,528,397
Capitalized lease obligations, net of current portior	—	32,300,236	32,300,236
Long-term debt obligations, net of current portior	111,899,175	2,145,000	114,044,175
Depository accounts	646,970	538,252	1,185,222
Other liabilities	—	15,265,126	15,265,126
Total noncurrent liabilities	<u>120,921,340</u>	<u>50,418,692</u>	<u>171,340,032</u>
Total liabilities	<u>161,798,576</u>	<u>61,127,205</u>	<u>222,925,781</u>
Net assets:			
Invested in capital assets, net of related debt	212,993,930	26,680,166	239,674,096
Restricted for:			
Nonexpendable – endowments	—	30,164,946	30,164,946
Expendable:			
Scholarships and fellowships	76,390	6,275,616	6,352,006
Loans	331,961	—	331,961
Capital projects	27,565,422	3,224,221	30,789,643
Other	—	15,057,314	15,057,314
Unrestricted	59,724,791	7,186,395	66,911,186
Total net assets	<u>\$ 300,692,494</u>	<u>88,588,658</u>	<u>389,281,152</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, POMONA
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2007

	University	Discretely presented component units Auxiliary Organizations	Total
Revenues:			
Operating revenues:			
Student tuition and fees (net of scholarship allowances of \$17,326,348)	\$ 55,697,150	6,190,769	61,887,919
Grants and contracts, noncapital:			
Federal	20,580,278	8,715,009	29,295,287
State and local	10,965,261	2,289,982	13,255,243
Nongovernmental	3,146,215	1,576,406	4,722,621
Sales and services of educational activities	178,051	4,831,749	5,009,800
Sales and services of auxiliary enterprises	16,265,482	36,363,908	52,629,390
Other operating revenues	3,108,045	3,508,821	6,616,866
Total operating revenues	109,940,482	63,476,644	173,417,126
Expenses:			
Operating expenses:			
Instruction	98,162,759	11,628,784	109,791,543
Research	—	2,465,811	2,465,811
Public service	90,789	466,704	557,493
Academic support	22,240,714	6,780,321	29,021,035
Student services	23,528,770	1,017,645	24,546,415
Institutional support	23,604,427	3,212,285	26,816,712
Operation and maintenance of plant	23,211,112	167,556	23,378,668
Student grants and scholarships	29,086,763	874,402	29,961,165
Auxiliary enterprise expenses	13,340,031	35,073,502	48,413,533
Depreciation and amortization	11,871,335	3,830,756	15,702,091
Total operating expenses	245,136,700	65,517,766	310,654,466
Operating loss	(135,196,218)	(2,041,122)	(137,237,340)
Nonoperating revenues (expenses):			
State appropriations, noncapital	139,583,790	—	139,583,790
Gifts, noncapital	96,900	5,117,803	5,214,703
Investment income, net	6,155,340	3,624,750	9,780,090
Endowment income	—	4,380,362	4,380,362
Interest on capital-related debt	(3,864,686)	(1,785,020)	(5,649,706)
Other nonoperating revenues (expenses), net	1,617,145	(6,976,876)	(5,359,731)
Net nonoperating revenues	143,588,489	4,361,019	147,949,508
Income before other additions	8,392,271	2,319,897	10,712,168
State appropriations, capital	2,654,000		2,654,000
Additions to permanent endowments	—	3,497,759	3,497,759
Increase in net assets	11,046,271	5,817,656	16,863,927
Net assets:			
Net assets at beginning of year	289,646,223	82,771,002	372,417,225
Net assets at end of year	\$ 300,692,494	88,588,658	389,281,152

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, POMONA

Statement of Cash Flows

Year ended June 30, 2007

	University
Cash flows from operating activities:	
Student tuition and fees	\$ 56,631,928
Federal grants and contracts	20,454,835
State and local grants and contracts	11,199,475
Nongovernmental grants and contracts	3,146,215
Payments to suppliers	(37,256,360)
Payments to employees	(167,732,084)
Payments to students	(30,225,259)
Collections of student loans	1,057,999
Sales and services of educational activities	178,051
Sales and services of auxiliary enterprises	16,775,481
Other receipts	2,893,791
Net cash used in operating activities	(122,875,928)
Cash flows from noncapital financing activities:	
State appropriations	154,257,132
Gifts and grants received for other than capital purposes	96,900
Federal loan program receipts	37,781,875
Federal loan program disbursements	(37,624,330)
Monies received on behalf of others	3,844,509
Monies disbursed on behalf of others	(2,271,135)
Other	(2,389,676)
Net cash provided by noncapital financing activities	153,695,275
Cash flows from capital and related financing activities:	
Proceeds from capital debt	3,398,727
State appropriations	38,506,976
Acquisition of capital assets	(53,022,914)
Principal paid on capital debt and leases	(2,305,598)
Interest paid on capital debt and leases	(3,830,429)
Principal payments received on capital leases	465,000
Interest payments received on capital leases	1,360,174
Net cash used in capital and related financing activities	(15,428,064)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	86,513,257
Purchases of investments	(123,232,204)
Investment income received	4,795,166
Net cash used in investing activities	(31,923,781)
Net decrease in cash and cash equivalents	(16,532,498)
Cash and cash equivalents at beginning of year	17,389,308
Cash and cash equivalents at end of year	\$ 856,810

CALIFORNIA STATE UNIVERSITY, POMONA

Statement of Cash Flows

Year ended June 30, 2007

	University
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (135,196,218)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	11,871,335
Change in assets and liabilities:	
Accounts receivable, net	2,157,801
Student loans receivable, net	(215,919)
Prepaid expenses and other assets	(4,761,391)
Accounts payable	2,447,264
Accrued salaries and benefits	1,281,816
Accrued compensated absences	732,470
Deferred revenue	(792,890)
Due to California State University Risk Management Authority	(510,000)
Depository accounts	255,854
Other liabilities	(146,050)
Net cash used in operating activities	\$ (122,875,928)
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 389,598
Construction work in progress acquired from the Office of the Chancellor	94,966
Accrued capital asset costs (purchased but unpaid at year-end)	9,263,344
Amortization of bond premium	39,636
Amortization of loss on refunding	47,489

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 masters degrees and certificate programs, and operates various auxiliary enterprises such as student dormitories, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs which are funded primarily through state and federal programs.

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

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

The discretely presented auxiliary organizations are as follows:

- 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, 2007

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

June 30, 2007	Cal Poly Pomona Foundation, Inc.	Other auxiliary organizations	Total
Current assets	\$ 30,900,755	8,565,308	39,466,063
Capital assets, net	62,225,422	343,792	62,569,214
Other noncurrent assets	15,877,811	31,802,775	47,680,586
Total assets	109,003,988	40,711,875	149,715,863
Current liabilities	10,124,537	583,976	10,708,513
Noncurrent liabilities	47,608,130	2,810,562	50,418,692
Total liabilities	57,732,667	3,394,538	61,127,205
Invested in capital assets, net of related debt	26,374,428	305,738	26,680,166
Restricted	20,053,881	34,668,216	54,722,097
Unrestricted	4,843,012	2,343,383	7,186,395
Total net assets	\$ 51,271,321	37,317,337	88,588,658
Year ended June 30, 2007			
Operating revenues:			
Student tuition and fees, net	\$ 1,794,461	4,396,308	6,190,769
Grants and contracts, noncapital	12,581,397	—	12,581,397
Sales and services of educational activities	4,831,749	—	4,831,749
Sales and services of auxiliary enterprises, net	35,115,031	1,248,877	36,363,908
Other	3,352,586	156,235	3,508,821
Total operating revenues	57,675,224	5,801,420	63,476,644

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

<u>Year ended June 30, 2007</u>	<u>Cal Poly Pomona Foundation, Inc.</u>	<u>Other auxiliary organizations</u>	<u>Total</u>
Operating expenses:			
Instruction	\$ 11,628,784	—	11,628,784
Research	2,465,811	—	2,465,811
Public service	466,704	—	466,704
Academic support	1,579,915	5,200,406	6,780,321
Student services	722,133	295,512	1,017,645
Institutional support	1,791,042	1,421,243	3,212,285
Operation and maintenance of plant	167,556	—	167,556
Student grants and scholarships	874,402	—	874,402
Auxiliary enterprise expenses	35,073,502	—	35,073,502
Depreciation and amortization	3,708,904	121,852	3,830,756
Total operating expenses	<u>58,478,753</u>	<u>7,039,013</u>	<u>65,517,766</u>
Operating loss	(803,529)	(1,237,593)	(2,041,122)
Net nonoperating revenues	<u>1,475,628</u>	<u>2,885,391</u>	<u>4,361,019</u>
Income before other additions	672,099	1,647,798	2,319,897
Additions to permanent endowments	<u>—</u>	<u>3,497,759</u>	<u>3,497,759</u>
Increase in net assets	672,099	5,145,557	5,817,656
Beginning net assets, July 1, 2006	<u>50,599,222</u>	<u>32,171,780</u>	<u>82,771,002</u>
Ending net assets, June 30, 2007	<u>\$ 51,271,321</u>	<u>37,317,337</u>	<u>88,588,658</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 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, 2007 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.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 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 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.

(e) *Cash and Cash Equivalents*

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

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 considered to be liabilities of the University and are reflected as such in the accompanying statement of net assets.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 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, interest expense, and capital contributions.

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.

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.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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) Use of Estimates

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

(o) Capitalized Interest

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects. A reconciliation of total interest cost to "interest expense" as reported in the accompanying statement of revenues, expenses, and changes in net assets is as follows:

Interest cost capitalized	\$	944,502
Interest cost charged to income		<u>3,864,686</u>
Total interest expense	\$	<u><u>4,809,188</u></u>

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2007 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$	<u>856,810</u>
Short-term investments		82,062,631
Other long-term investments		<u>15,279,301</u>
Total investments		<u>97,341,932</u>
Total cash and cash equivalents and investments	\$	<u><u>98,198,742</u></u>

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(a) Cash and Cash Equivalents

At June 30, 2007, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$856,810 had a corresponding carrying value balance with the State Treasury of \$969,524 at June 30, 2007. The differences related primarily to deposits in transit and outstanding checks.

Custodial Credit Risk for Deposits

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

(b) Investments

At June 30, 2007, 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, 2007 is presented in the table on the following page.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

Credit Risk

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

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2007:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 26,367	0.01	\$ —	—	—	26,367
Certificates of deposit	21,042,665	0.38	—	15,434,397	5,608,268	—
Commercial paper	20,663,080	0.01	—	—	20,663,080	—
Mortgage-backed securities	87,011	8.94	87,011	—	—	—
Corporate and fixed income securities	31,074,210	1.42	3,200,867	13,137,084	14,736,259	—
State of California Surplus Money Investment Fund	<u>24,448,599</u>	0.48	—	—	—	24,448,599
Total investments	<u>97,341,932</u>		<u>\$ 3,287,878</u>	<u>28,571,481</u>	<u>41,007,607</u>	<u>24,474,966</u>

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, 2007, there were no investments 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, 2007 consisted of the following:

	Current	Noncurrent	Total
State appropriations	\$ 92,094	37,073,240	37,165,334
Auxiliary organizations	677,246	—	677,246
Student accounts	1,293,123	—	1,293,123
Government grants and contracts	243,473	—	243,473
Other	1,472,942	—	1,472,942
	<u>3,778,878</u>	<u>37,073,240</u>	<u>40,852,118</u>
Less allowance for doubtful accounts	(588,380)	—	(588,380)
Total	<u>\$ 3,190,498</u>	<u>37,073,240</u>	<u>40,263,738</u>

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 1, 2006. A portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005A and 2007A were 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:	
2008	\$ 480,000
2009	500,000
2010	515,000
2011	535,000
2012	720,000
Thereafter	<u>28,705,000</u>
Total lease receivable	31,455,000
Less current portion	<u>(480,000)</u>
Long-term lease receivable, net of current portion	<u>\$ 30,975,000</u>

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 consisted of the following:

	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</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>37,804,894</u>	<u>58,825,374</u>	—	<u>(43,050,075)</u>	<u>53,580,193</u>
Total nondepreciable capital assets	<u>54,480,696</u>	<u>58,825,374</u>	—	<u>(43,050,075)</u>	<u>70,255,995</u>
Depreciable capital assets:					
Buildings and building improvements	287,754,707	1,805,541	—	39,858,594	329,418,842
Improvements, other than buildings	22,130,839	—	—	3,191,481	25,322,320
Infrastructure	27,830,172	288,288	—	—	28,118,460
Personal property:					
Equipment	24,549,728	1,285,460	(1,028,743)	—	24,806,445
Library books and materials	18,779,955	540,248	—	—	19,320,203
Intangible assets	<u>3,533,613</u>	<u>25,911</u>	—	—	<u>3,559,524</u>
Total depreciable capital assets	<u>384,579,014</u>	<u>3,945,448</u>	<u>(1,028,743)</u>	<u>43,050,075</u>	<u>430,545,794</u>
Total cost	<u>439,059,710</u>	<u>62,770,822</u>	<u>(1,028,743)</u>	—	<u>500,801,789</u>
Less accumulated depreciation:					
Buildings and building improvements	(138,193,480)	(7,787,761)	—	—	(145,981,241)
Improvements, other than buildings	(20,950,960)	(447,818)	—	—	(21,398,778)
Infrastructure	(10,818,785)	(1,615,356)	—	—	(12,434,141)
Personal property:					
Equipment	(18,266,687)	(1,370,669)	878,496	—	(18,758,860)
Library books and materials	(16,574,382)	(634,559)	—	—	(17,208,941)
Intangible assets	<u>(3,508,284)</u>	<u>(15,172)</u>	—	—	<u>(3,523,456)</u>
Total accumulated depreciation	<u>(208,312,578)</u>	<u>(11,871,335)</u>	<u>878,496</u>	—	<u>(219,305,417)</u>
Net capital assets	\$ <u>230,747,132</u>	<u>50,899,487</u>	<u>(150,247)</u>	—	<u>281,496,372</u>

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

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 \$525,986 at June 30, 2007. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 6% to 8% and have terms expiring in various years through June 30, 2008.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2012. 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:		
2008	\$ 111,148	204,527
2009	—	183,202
2010	—	175,161
2011	—	95,364
2012	—	50,085
Total minimum lease payments	<u>111,148</u>	<u>\$ 708,339</u>
Less amount representing interest	<u>(3,750)</u>	
Present value of future minimum lease payments	107,398	
Less current portion	<u>(107,398)</u>	
Capital lease obligation, net of current portion	<u>\$ —</u>	

Rent expense under operating leases for the year ended June 30, 2007 totaled \$211,834.

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, 2007 totaled \$570,858,000.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 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 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 \$1,393,141,000 as of June 30, 2007.

(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 to provide health services to students. The health facilities program derives its revenues primarily from student fees and interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

operating expenses and required charges remain available for future program expenses and capital needs.

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

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

The Systemwide Revenue Bond 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 \$2,302,428,000 at June 30, 2007. The University's portion of the total outstanding balance under this program was \$111,533,572 at June 30, 2007.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

Long-term debt obligations of the University as of June 30, 2007 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>
Systemwide Revenue Bonds:				
Housing Series B	3.00%	2008	\$ 2,943,693	78,572
Series 2003A	2.50% – 5.38%	2034	24,700,000	23,390,000
Series 2004A (Student Union)	3.00% – 5.25%	2031	2,675,000	2,530,000
Series 2005A (Student Union)	2.75% – 5.00%	2031	22,920,000	21,920,000
Series 2005A (Parking)	2.75% – 5.00%	2032	32,160,000	32,160,000
Series 2005A (Auxiliary)	2.75% – 5.00%	2036	28,570,000	28,105,000
Series 2007A (Auxiliary)	4.00% – 5.00%	2025	3,350,000	3,350,000
Other:				
Transocean funding	5.10%	2014	5,570,000	3,110,473
Providence capital	6.01%	2011	48,727	37,812
Total				114,681,857
Unamortized bond premium				964,479
Unamortized loss on refunding				<u>(1,013,558)</u>
Total long-term debt				114,632,778
Less current portion				<u>(2,733,603)</u>
Long-term debt, net of current portion				<u>\$ 111,899,175</u>

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

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2008	\$ 2,733,603	5,443,149
2009	2,744,829	5,337,315
2010	2,840,634	5,248,423
2011	2,947,495	5,139,583
2012	3,214,554	5,020,027
2013 – 2017	16,650,742	22,882,334
2018 – 2022	19,940,000	18,472,073
2023 – 2027	24,945,000	12,818,316
2028 – 2032	29,055,000	5,999,157
2033 – 2036	9,610,000	834,500
	<u>\$ 114,681,857</u>	<u>87,194,877</u>

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

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 Years' Refundings

In prior years, 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 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 refunding bonds were used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matures. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The amount of prior years defeased bonds outstanding as of June 30, 2007 totaled \$20,970,000.

(10) Long-term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2007 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 6,953,117	7,685,587	(6,953,117)	7,685,587	4,838,789
Capitalized lease obligations (note 7)	404,529	—	(297,131)	107,398	107,398
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds	109,818,087	3,350,000	(1,634,515)	111,533,572	2,343,572
Other	3,473,510	48,727	(373,952)	3,148,285	390,031
Total	113,291,597	3,398,727	(2,008,467)	114,681,857	2,733,603
Unamortized bond premium	1,004,115	—	(39,636)	964,479	—
Unamortized loss on refunding	(1,061,047)	—	47,489	(1,013,558)	—
Total long-term debt obligations	113,234,665	3,398,727	(2,000,614)	114,632,778	2,733,603
Total long-term liabilities	\$ 120,592,311	11,084,314	(9,250,862)	122,425,763	7,679,790

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(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 retirement plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan, which provides a defined benefit pension and postretirement program for substantially all eligible University employees.

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

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

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*

The benefit structure for state employees (including the University) is defined by statute. CalPERS uses contributions of the employer and the employee as well as income from investments to pay for employee retirement benefits. Employee and employer contributions are a percentage of applicable employee compensation. The employee contribution is 5% of salary for Miscellaneous Tier 1 members as defined by the plan and 8% for Peace Officer/Firefighter members (Public Safety Management and Firefighters only) less an exclusion allowance for coordination with Social Security. For eligible University Public Safety employees, the University pays for both the employer and employee contributions. The University is required to contribute at an actuarially determined rate. The current rate is 16.997% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

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

2005	\$	16,452,243
2006		16,025,721
2007		18,913,833

(12) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2007.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2007 are as follows:

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
Incurred claims and changes in estimates		35,794,000
Claim payments		<u>(39,978,000)</u>
Liability at June 30, 2007		108,192,000
Less current portion		<u>(27,250,000)</u>
Long-term liability at June 30, 2007, net of current portion	\$	<u><u>80,942,000</u></u>

The System maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$1,000,000 and up to \$49,000,000 per occurrence. The System 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 System maintains excess policies with SELF, ICH, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the System.

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the CSURMA's total self-insurance claims liability as of June 30, 2007 was approximately 4%, or \$4,815,405. 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, 2007. 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.

The University's receivable due from CSURMA totaled \$4,671,407 at June 30, 2007, which is recorded as a component of prepaid expenses and other assets in the accompanying statement of net assets. The receivable balance is a result of amounts paid by the University to CSURMA prior to year-end related to the University's share of the estimated future funding liability.

(13) Commitments and Contingencies

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

Contractual commitments for construction projects unexpended as of June 30, 2007 totaled \$505,880. These expenditures will be funded primarily from state appropriations for minor capital outlay.

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

(14) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements 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, 2007, operating expenses by natural classification consisted of the following:

<u>2007</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	\$ 71,313,766	21,657,376	—	5,191,617	—	98,162,759
Public service	90,701	88	—	—	—	90,789
Academic support	13,362,945	4,624,143	—	4,253,626	—	22,240,714
Student services	14,779,284	5,485,526	—	3,263,960	—	23,528,770
Institutional support	14,229,287	5,560,412	—	3,814,728	—	23,604,427
Operation and maintenance of plant	10,676,829	4,426,040	—	8,108,243	—	23,211,112
Student grants and scholarships	—	—	29,086,763	—	—	29,086,763
Auxiliary enterprise expenses	2,541,044	998,929	—	9,800,058	—	13,340,031
Depreciation and amortization	—	—	—	—	11,871,335	11,871,335
Total	<u>\$ 126,993,856</u>	<u>42,752,514</u>	<u>29,086,763</u>	<u>34,432,232</u>	<u>11,871,335</u>	<u>245,136,700</u>

CALIFORNIA STATE UNIVERSITY, POMONA

Notes to Financial Statements

June 30, 2007

(15) 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 \$142,237,790 for the year ended June 30, 2007. State appropriations receivable totaled \$37,165,334 at June 30, 2007. The University also received lottery fund distributions from the state of California in the amount of \$1,851,633 for the year ended June 30, 2007, which is included in other nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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.

As discussed in notes 6 and 7, 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, 2007, no such additions of capital assets are included in the accompanying financial statements.

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2007:

Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	2,074,279
Reimbursements from recognized auxiliary organizations for other than salaries of University employees		
Payments to recognized auxiliary organizations for services, office space rental, and programs		15,993,342
Amounts receivable from the Office of the Chancellor		198,448
Amounts payable to the Office of the Chancellor		(15,015)
Amounts receivable from recognized auxiliary organizations		677,246
Amounts payable to recognized auxiliary organizations		(622,546)