

CAL POLY POMONA FOUNDATION, INC.

Financial Statements and Supplementary Schedules

June 30, 2003

(With Independent Auditors' Report Thereon)



Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU

RENÉE S. GRAVES

WADE N. McMULLEN

KARIN HECKMAN NELSON

CARL PON

MARY ANN QUAY

LINDA M. SADDLEMIRE

Principal

JERI A. WENGER

Senior Managers

TIMOTHY D. EVANS

PHEBE M. McCUTCHEON

GEMA M. PTASINSKI

ARVEE ROBINSON

COLLEEN K. TAYLOR

DEAN WEST

Independent Auditors' Report

The Board of Directors
Cal Poly Pomona Foundation, Inc.:

We have audited the accompanying statement of financial position of the Cal Poly Pomona Foundation, Inc. (a California State University Auxiliary Organization) (the Foundation) as of June 30, 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Cal Poly Pomona Foundation as of June 30, 2002, were audited by other auditors whose report dated August 23, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cal Poly Pomona Foundation, Inc. as of June 30, 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2003 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN, LLP



CAL POLY POMONA FOUNDATION, INC.

Statements of Financial Position

June 30, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash and cash equivalents:		
On hand and in commercial accounts	\$ 9,992,532	\$ 7,055,882
Cash equivalents	2,696,501	1,547,374
Total cash and cash equivalents	<u>12,689,033</u>	<u>8,603,256</u>
Marketable securities, at fair value (note 4)	233,014	1,498,064
Other short-term investments, at fair value (note 4)	5,706,448	6,749,121
Investments restricted as to use – debt service, at fair value (note 4)	961,443	472,716
	<u>6,900,905</u>	<u>8,719,901</u>
Receivables:		
Sponsored programs (note 2)	3,026,260	2,830,272
Contributions, net (note 5)	1,201,466	1,607,099
Other activities, net of allowance for doubtful accounts of \$67,854 for 2003 and \$96,522 for 2002	3,989,048	2,830,618
Total receivables, net	<u>8,216,774</u>	<u>7,267,989</u>
Inventories	1,910,647	2,164,243
Prepaid expenses and deferred charges	302,760	184,495
Total current assets	<u>30,020,119</u>	<u>26,939,884</u>
Property, plant and equipment		
Land	944,611	247,701
Buildings and improvements	31,334,922	29,325,832
Equipment, furniture and fixtures	7,490,199	6,738,554
Orchards	131,863	131,863
Construction in progress	3,149,767	1,862,749
	<u>43,051,362</u>	<u>38,306,699</u>
Less accumulated depreciation and amortization	(14,642,108)	(13,387,090)
Total property, plant and equipment	<u>28,409,254</u>	<u>24,919,609</u>
Other assets:		
Long-term investments restricted as to use – debt service, at fair value (note 4)		546,736
Long-term investments, at fair value (note 4)	9,821,974	13,104,949
Contributions receivable, net of current portion (note 5)	3,378,629	4,443,756
Total other assets	<u>13,200,603</u>	<u>18,095,441</u>
Total assets	<u>\$ 71,629,976</u>	<u>\$ 69,954,934</u>

See accompanying notes to financial statements.

CAL POLY POMONA FOUNDATION, INC.

Statements of Financial Position

June 30, 2003 and 2002

Liabilities and Net Assets	2003	2002
Current liabilities:		
Accounts payable	\$ 3,627,725	\$ 4,907,811
Accrued liabilities	1,562,168	1,473,593
Deferred income	1,268,861	766,106
Deposits held in custody for others (note 2)	335,999	325,863
Current portion of lease obligations (note 7)	66,013	9,067
Current portion of bonds and note payable (note 6)	730,000	775,000
Receipts in excess of expenditures on specific sponsored programs (note 2)	2,791,298	2,268,461
Total current liabilities	<u>10,382,064</u>	<u>10,525,901</u>
Noncurrent liabilities:		
Accrued liabilities (note 10)	3,733,938	2,928,094
Noncurrent portion of bonds and note payable (note 6)	8,860,000	9,590,000
Unitrust liability (note 2)	508,577	91,903
Lease obligations (note 7)	298,259	9,865
Total noncurrent liabilities	<u>13,400,774</u>	<u>12,619,862</u>
Total liabilities	<u>23,782,838</u>	<u>23,145,763</u>
Net assets (notes 2 and 3):		
Unrestricted	25,088,884	24,534,288
Temporarily restricted (note 11)	22,758,254	22,274,883
Total net assets	<u>47,847,138</u>	<u>46,809,171</u>
Total liabilities and net assets	<u>\$ 71,629,976</u>	<u>\$ 69,954,934</u>

See accompanying notes to the financial statements.

CAL POLY POMONA FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support (note 9):			
Auxiliary activities:			
Sales	\$ 28,809,466	\$	\$ 28,809,466
Commissions, fees, and other	946,221		946,221
Investment income (note 4)	50,915		50,915
Total auxiliary activities	<u>29,806,602</u>		<u>29,806,602</u>
Sponsored programs revenue	<u>12,243,371</u>		<u>12,243,371</u>
Campus programs revenue:			
University programs support	4,023,416		4,023,416
Contributions		3,321,632	3,321,632
Investment income (note 4)		530,071	530,071
Total campus programs revenue	<u>4,023,416</u>	<u>3,851,703</u>	<u>7,875,119</u>
General activities:			
Investment income (note 4)	838,394		838,394
Rental property	752,804		752,804
Administrative fees and other revenue	523,219		523,219
Total general activities	<u>2,114,417</u>		<u>2,114,417</u>
Total revenues and support	<u>48,187,806</u>	<u>3,851,703</u>	<u>52,039,509</u>
Net assets released from restrictions	<u>2,291,163</u>	<u>(2,291,163)</u>	
Total revenues and support and net assets released from restrictions	<u>50,478,969</u>	<u>1,560,540</u>	<u>52,039,509</u>
Expenses and other changes (notes 2, 9, and 10):			
Auxiliary activities:			
Bookstores	11,022,764		11,022,764
Food services	8,484,452		8,484,452
Kellogg West Conference Center	1,727,990		1,727,990
Continuing Education	3,996,630		3,996,630
University Village	2,537,583		2,537,583
Agriculture units	1,378,409		1,378,409
Total auxiliary activities	<u>29,147,828</u>		<u>29,147,828</u>
Sponsored programs expenses:			
Direct expenses	10,819,148		10,819,148
Indirect expenses	1,345,142		1,345,142
Total sponsored programs expenses	<u>12,164,290</u>		<u>12,164,290</u>
Campus programs expenses:			
University programs support	5,649,536		5,649,536
Scholarships	665,043		665,043
Total campus programs expenses	<u>6,314,579</u>		<u>6,314,579</u>
General expenses:			
Rental property expense	606,357		606,357
Administrative	1,133,561		1,133,561
Total general expenses	<u>1,739,918</u>		<u>1,739,918</u>
Designated expenses (note 3)	<u>557,758</u>		<u>557,758</u>
Total expenses	<u>49,924,373</u>		<u>49,924,373</u>
Other changes – transfer of fixed assets (note 9)		1,077,169	1,077,169
Total expenses and other changes	<u>49,924,373</u>	<u>1,077,169</u>	<u>51,001,542</u>
Total change in net assets	554,596	483,371	1,037,967
Net assets at beginning of year	<u>24,534,288</u>	<u>22,274,883</u>	<u>46,809,171</u>
Net assets at end of year	<u>\$ 25,088,884</u>	<u>\$ 22,758,254</u>	<u>\$ 47,847,138</u>

See accompanying notes to financial statements.

CAL POLY POMONA FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2002

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support (note 9):			
Auxiliary activities:			
Sales	\$ 27,740,819	\$	\$ 27,740,819
Commissions, fees, and other	1,065,725		1,065,725
Investment income (note 4)	25,775		25,775
Total auxiliary activities	<u>28,832,319</u>		<u>28,832,319</u>
Sponsored programs revenue	<u>13,826,172</u>		<u>13,826,172</u>
Campus programs revenue:			
University programs support	2,978,037		2,978,037
Contributions		4,564,345	4,564,345
Investment income (note 4)		741,721	741,721
Total campus programs revenue	<u>2,978,037</u>	<u>5,306,066</u>	<u>8,284,103</u>
General activities:			
Investment income (note 4)	987,534		987,534
Rental property	719,607		719,607
Administrative fees and other revenue	301,200		301,200
Total general activities	<u>2,008,341</u>		<u>2,008,341</u>
Total revenues and support	<u>47,644,869</u>	<u>5,306,066</u>	<u>52,950,935</u>
Net assets released from restrictions	<u>2,829,078</u>	<u>(2,829,078)</u>	
Total revenues and support and net assets released from restrictions	<u>50,473,947</u>	<u>2,476,988</u>	<u>52,950,935</u>
Expenses and other changes (notes 2, 9, and 10):			
Auxiliary activities:			
Bookstores	10,563,951		10,563,951
Food services	8,075,800		8,075,800
Kellogg West Conference Center	1,789,898		1,789,898
Continuing Education	4,414,318		4,414,318
University Village	2,519,242		2,519,242
Agriculture units	1,169,909		1,169,909
Total auxiliary activities	<u>28,533,118</u>		<u>28,533,118</u>
Sponsored programs expenses:			
Direct expenses	11,052,430		11,052,430
Indirect expenses	1,349,966		1,349,966
Total sponsored programs expenses	<u>12,402,396</u>		<u>12,402,396</u>
Campus programs expenses:			
University programs support	5,338,420		5,338,420
Scholarships	468,695		468,695
Total campus programs expenses	<u>5,807,115</u>		<u>5,807,115</u>
General expenses:			
Rental property expense	528,684		528,684
Administrative	930,581		930,581
Total general expenses	<u>1,459,265</u>		<u>1,459,265</u>
Designated expenses (note 3)	<u>569,015</u>		<u>569,015</u>
Total expenses	<u>48,770,909</u>		<u>48,770,909</u>
Other changes – transfer of fixed assets (note 9)		12,321,380	12,321,380
Other changes – loss on defeasement of bonds (note 6)	555,245		555,245
Total expenses and other changes	<u>49,326,154</u>	<u>12,321,380</u>	<u>61,647,534</u>
Total change in net assets	1,147,793	(9,844,392)	(8,696,599)
Net assets at beginning of year	<u>23,386,495</u>	<u>32,119,275</u>	<u>55,505,770</u>
Net assets at end of year	<u>\$ 24,534,288</u>	<u>\$ 22,274,883</u>	<u>\$ 46,809,171</u>

See accompanying notes to financial statements.

CAL POLY POMONA FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,037,967	\$ (8,696,599)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,925,446	1,637,750
Realized and unrealized gains and losses on investments, net	(186,872)	(332,403)
Loss on disposal of fixed assets	80,107	272,420
Transfer of fixed assets	1,077,169	12,321,380
Changes in operating assets and liabilities:		
Receivables	116,342	(43,539)
Inventories	253,595	273,852
Prepaid expenses and deferred charges	(118,266)	(7,859)
Accounts payable	(1,280,085)	460,653
Accrued liabilities	894,419	447,308
Deferred income	502,755	(28,083)
Deposits held in custody for others	10,136	84,159
Receipts in excess of expenditures on specific sponsored programs	522,837	(985,554)
Unitrust liability	416,674	(66,753)
Net cash provided by operating activities	<u>5,252,224</u>	<u>5,336,732</u>
Cash flows from investing activities:		
Purchases of fixed assets	(6,217,960)	(9,532,882)
Purchases of investments	(4,000,000)	(7,222,454)
Proceeds from sales and maturities of investments	9,645,217	14,328,598
Net cash used in investing activities	<u>(572,743)</u>	<u>(2,426,738)</u>
Cash flows from financing activities:		
Repayments of principal on capital lease obligations	(9,067)	
Repayments of principal on bonds payable	(775,000)	(5,515,000)
Proceeds from issuance of bonds payable		5,295,000
Decrease in debt reserve funds	190,363	447,093
Net cash provided by (used in) financing activities	<u>(593,704)</u>	<u>227,093</u>
Net increase in cash and cash equivalents	4,085,777	3,137,087
Cash and cash equivalents, beginning of year	<u>8,603,256</u>	<u>5,466,169</u>
Cash and cash equivalents, end of year	\$ <u><u>12,689,033</u></u>	\$ <u><u>8,603,256</u></u>
Supplemental disclosure of cash flow information:		
Interest paid during the year, net of amounts capitalized of \$152,743 for 2002	\$ <u>442,538</u>	\$ <u>598,298</u>
Noncash investing and financing activities:		
The Foundation entered into capital lease obligations for office equipment totaling \$354,407 in 2003 and \$10,990 in 2002.		

See accompanying notes to financial statements.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (1) Organization

Cal Poly Pomona Foundation, Inc. (the Foundation) was organized as a nonprofit corporation and auxiliary organization of California State Polytechnic University, Pomona (the University) in 1966. The Foundation assists the University in several ways, including the development and administration of research and education grants and contracts; conducting campus bookstore, food service, apartment style housing, and conference center operations; the accumulation and management of endowment and student scholarship funds on behalf of the University; and the administration of various educationally related functions, special programs, and other activities.

Note (2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting.

Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Foundation
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time
- *Permanently restricted net assets* – Net assets that are permanently restricted by donors for investment in perpetuity. The investment income generated from these funds is available for general support of the Foundation's programs and operations. There were no permanently restricted net assets as of June 30, 2003 and 2002.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of fixed income securities of the United States government, corporate bonds with original maturities of three months or less when purchased, and investments in the State Treasurer's Local Agency Investment Fund and state investment pools.

(c) Concentration of Credit Risk – Cash

The Foundation maintains its cash balances at one financial institution and is exposed to credit risk for amounts exceeding federally insured limits (\$100,000) in the event of nonperformance by the financial institution. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk for cash and cash equivalents. Total amounts uninsured at June 30, 2003 and 2002 were \$1,947,701 and \$3,698,849, respectively.

(d) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the accompanying statements of activities as investment income.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (2) Summary of Significant Accounting Policies (continued)

(d) Investments (continued)

Fair values of investments are based on quoted market prices. The Foundation does not require collateral or other security to support financial instruments subject to credit risk. However, it is the Foundation's policy to invest in only high-grade securities.

(e) Contributions Receivable

Contributions receivable expected to be received beyond one year are recorded at the net present value of anticipated future cash flows. The discount rate used during the years ended June 30, 2003 and 2002 was 6%.

(f) Inventories

Inventories, consisting primarily of textbooks and food supplies, are stated at the lower of cost (weighted average) or market.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, if donated, at their estimated fair market value at the date of donation. Depreciation is provided using the straight-line method over the assets' estimated useful lives, which range from 3 to 30 years. The Foundation capitalized \$152,743 of interest costs related to construction of the continuing education complex during the year ended June 30, 2002.

(h) Deposits Held in Custody for Others

Funds administered by the Foundation on behalf of University-affiliated auxiliary organizations are recorded as deposits held in custody for others and are recorded as a current liability. It is management's belief that the Foundation is acting as an agent for the transactions of these ancillary organizations. Accordingly, the financial activities of such organizations have not been recorded in the accompanying statements of activities.

(i) Unitrust Liability

The Foundation administers irrevocable charitable remainder trusts that provide for the payment of lifetime distributions to the trustors or other designated beneficiaries. Upon the demise of the lifetime beneficiary, the trusts provide for the distribution of assets to the Foundation for the benefit of campus organizations. Remainder trust funds designated to the campus organizations are recorded as donations in the accompanying financial statements in the years received. The fair value of the trusts' assets has been included in the accompanying statements of financial position and a corresponding liability has been recorded to reflect the present value of required lifetime payments to the named beneficiaries.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (2) Summary of Significant Accounting Policies (continued)

(j) *Sponsored Programs (Grants and Contracts)*

The Foundation serves as administrator for grants and contracts awarded to the Foundation on behalf of the University by government and private institutions. The Foundation recognizes income from these grants as sponsored programs revenue only to the extent that expenditures have been made for the purposes specified by the grant agreement. Program expenditures incurred by the Foundation which have not yet been reimbursed under the terms of the grant agreements are shown in the accompanying statements of financial position as "sponsored programs receivables." Amounts received by the Foundation in advance of expenditures are presented in the accompanying statements of financial position as liabilities captioned as "receipts in excess of expenditures on specific sponsored programs."

(k) *Donor-Restricted Contributions*

Unconditional promises to give are recognized as contributions when received at the net present value of the amounts expected to be collected.

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

(l) *Expense Allocation*

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Foundation's management. Program service expenses, consisting of sponsored programs expenses, campus programs expenses, and auxiliary activities, less the general and administrative allocation to auxiliary activities, totaled \$45,844,434 and \$45,017,034 for the years ended June 30, 2003 and 2002, respectively.

(m) *Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (2) Summary of Significant Accounting Policies (continued)

(n) Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code.

(o) Reclassifications

Certain June 30, 2002 amounts have been reclassified to conform with the June 30, 2003 presentation.

Note (3) Designated Net Assets

The following are the unexpended net asset balances that have been designated for specific purposes by the board of directors as of June 30:

	<u>2003</u>	<u>2002</u>
Agriculture state share reserve	\$ 75,000	\$ 75,000
Equipment replacement	2,786,616	2,042,803
Faculty/staff housing		15,000
Foundation emergency reserve	120,152	120,152
Indirect cost disallowance	140,273	125,936
Interim Design Center	692,716	1,127,950
Pine Tree Ranch reserve	11,991	
Postretirement medical benefits	227,142	124,689
Venture capital reserve	472,077	293,571
Voorhis fellowship		35,843
Other	28,763	11,530
	<u>\$ 4,554,730</u>	<u>\$ 3,972,474</u>

Expenditures of Board-designated program activities for the years ended June 30, 2003 and 2002 are summarized as follows:

	<u>2003</u>	<u>2002</u>
Athletic program	\$ 40,000	\$ 80,000
News and publications	152,765	186,977
Office of Development	23,594	40,437
Special Foundation grants	12,175	4,674
Public relations	329,224	256,927
	<u>\$ 557,758</u>	<u>\$ 569,015</u>

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (4) Investments

Foundation investments are generally publicly traded debt and equity securities and are recorded at fair value. Investments consist of the following at June 30:

	<u>2003</u>	<u>2002</u>
Corporate debt securities	\$ 0	\$ 3,055,492
Treasury notes	115,334	113,629
Commercial paper	15,413,088	16,684,949
Equity securities	233,014	1,498,064
Investments by type	<u>\$ 15,761,436</u>	<u>\$ 21,352,134</u>
	<u>2003</u>	<u>2002</u>
Marketable securities	\$ 233,014	\$ 1,498,064
Other short-term investments	5,706,448	6,749,121
Long-term investments	9,821,974	13,104,949
Current and noncurrent investments	<u>\$ 15,761,436</u>	<u>\$ 21,352,134</u>

Investment return for the years ended June 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Net realized and unrealized gains and losses	\$ 109,934	\$ 228,560
Interest and dividend income	1,309,446	1,526,470
	<u>\$ 1,419,380</u>	<u>\$ 1,755,030</u>

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (4) Investments (continued)

Investment return is allocated to various activities as follows in 2003 and 2002:

	<u>2003</u>		<u>2002</u>
Auxiliary activities	\$ 50,915	\$	25,775
Campus programs	530,071		741,721
General fund activities	838,394		987,534
	<u>\$ 1,419,380</u>	\$	<u>1,755,030</u>

The Foundation also maintains debt reserve funds required by its bond covenants. The debt reserve funds consist of the following at June 30:

	<u>2003</u>		<u>2002</u>
Cash equivalents	\$ 24,743	\$	72,318
Corporate Debt Securities	400,643		
U.S. government obligations	536,057		947,134
	<u>\$ 961,443</u>	\$	<u>1,019,452</u>

Note (5) Contributions Receivable

Contributions receivable are expected to be received as follows at June 30, 2003 and 2002:

	<u>2003</u>		<u>2002</u>
Within one year	\$ 1,289,741	\$	1,742,737
Within two to five years	3,342,345		4,979,945
After five years	200,000		596,400
	4,832,086		7,319,082
Less allowance for uncollectible contributions	(88,275)		(135,638)
Less discount to reflect contributions receivable at present value	(163,716)		(1,132,589)
	<u>\$ 4,580,095</u>	\$	<u>6,050,855</u>

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (6) Bonds and Line of Credit

A summary of bonds payable at June 30, 2003 and 2002 follows:

	2003	2002
Bonds collateralized by the unrestricted revenues of the Foundation – Series 2000 Bonds (b)	\$ 4,945,000	\$ 5,070,000
Bonds collateralized by the unrestricted revenues of the Foundation – Series 2002A Bonds (c)	4,645,000	5,295,000
	9,590,000	10,365,000
Less current portion	(730,000)	(775,000)
Noncurrent portion of bonds payable	\$ 8,860,000	\$ 9,590,000

- (a) In fiscal year 1991, the Foundation issued Series 1990 B Bonds in the amount of \$8,000,000 to finance construction of a student housing facility (Phase II of II), which began in September 1991. The facility is located on land leased from the University. During fiscal year 1994, the Foundation negotiated to restructure the conditions of the bonds. During fiscal year 2002, the Foundation issued refunding bonds, Series 2002A to refund and defease the 1990 B Bonds, and \$555,245 was written off in the defeasement of the 1990 B Bonds (see note below (c)). The holders of the 1990 B Bonds were paid in full from account on February 1, 2003 and the debt has been completely defeased.
- (b) In fiscal year 2001, the Foundation issued its Auxiliary Organization Bonds, Series 2000 in the amount of \$5,070,000 to finance a portion of the construction of three buildings to house the University’s continuing education complex. The continuing education complex, referred to as the Center for Technology and Training and Incubation Center (the CTTI), will also include two federally funded business incubators, classrooms, computer labs, commercial space for a Foundation bookstore and café, and other auxiliary activities. The Series 2000 Bonds are general obligations of the Foundation and are secured principally by the unrestricted revenues of the Foundation. The CTTI is located on land leased from the University. The bonds bear interest at varying rates averaging 5.4%; semiannual deposits are made into a debt reserve fund 45 days in advance of interest payments in an amount equal to the required interest payment plus one-half of the principal of the bonds becoming due in the immediate 12 months. The bonds are redeemable at the option of the Foundation on any interest payment date on or after February 1, 2011 through January 31, 2012 at 101% and at 100% from February 1, 2012 and thereafter. The principal balance of the bonds is due in 2025.
- (c) In fiscal year 2002, the Foundation issued its Auxiliary Organization Bonds, Series 2002A in the amount of \$5,295,000 to refund and defease the 1990B Series Bonds. The Series 2002A Bonds are general obligations of the Foundation and are secured principally by the unrestricted revenues of the Foundation. The bonds bear interest at varying rates averaging 4.3%; semiannual deposits are made into a debt reserve fund 45 days in advance of interest payments in an amount equal to the required interest payment plus one-half of the principal of the bonds becoming due in the immediate 12 months. The bonds are not subject to optional redemption. The principal balance of the bonds is due in 2010.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (6) Bonds and Line of Credit (continued)

- (d) In fiscal year 2002, the Foundation entered into an unsecured revolving line of credit for \$2,000,000 for purposes of working capital and a \$1,000,000 unsecured loan limit to provide bridge financing for local real estate purchases of housing (limited to single-family residences) for faculty and staff of the University. The notes are renewable annually and the outstanding principal balances bear interest at the bank's prime rate or 2.5% above the LIBOR rate. The line of credit matures in November 2003. There were no balances outstanding as of June 30, 2003 and June 30, 2002.

Future minimum principal payments on bonds are as follows:

Year ending June 30:	
2004	\$ 730,000
2005	755,000
2006	780,000
2007	815,000
2008	835,000
Thereafter	5,675,000
	<hr/>
	\$ 9,590,000
	<hr/> <hr/>

Interest expense on the bonds payable totaled \$587,718 and \$598,298 for the years ended June 30, 2003 and 2002, respectively.

Note (7) Leasing Commitments

Operating Leases As Lessee

The Foundation has a food service agreement with the trustees of the California State University. The agreement is renegotiated annually and requires that the Foundation pay for the use of Los Olivos Commons, based on 6% of gross annual sales of the residence hall food service facility. For the years ended June 30, 2003 and 2002, such amount totaled \$267,340 and \$246,780, respectively, which was included in rent expense.

Land and certain facilities used in the Foundation operations are leased for a nominal amount from both the state of California and the University. The leases are in effect with various termination dates between 2010 and 2025.

The Foundation has various non-cancelable operating lease agreements for office and conference space and office equipment, with terms ranging from 36 to 60 months.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (7) Leasing Commitments (continued)

Future minimum payments under non-cancelable operating lease agreements at June 30, 2003 are as follows:

Year ending June 30:		
2004	\$	123,396
2005		69,325
2006		60,550
2007		1,317
		<hr/>
Total	\$	<u>254,588</u>

Capital Leases As Lessee

The Foundation has various non-cancelable capital lease agreements for office equipment with terms ranging from 41 to 60 months and interest ranging from 8.5% to 10.0%.

Future minimum payments under non-cancelable capital lease agreements at June 30, 2003 are as follows:

Year ending June 30:		
2004	\$	66,013
2005		73,801
2006		70,881
2007		70,881
2008		70,881
Thereafter		11,815
		<hr/>
Total	\$	<u>364,272</u>

As Lessor

Land, office and certain facilities are leased to the American National Red Cross, state of California and the University. Some of the leases are all-inclusive while other leases require the tenants to pay a pro-rata share of common area maintenance and are in effect with various termination dates between 2005 and 2058.

Future minimum payments under non-cancelable operating lease agreements at June 30, 2003 are as follows:

Year ending June 30:		
2004	\$	671,694
2005		837,451
2006		978,414
2007		359,370
2008		359,370
Thereafter		18,477,608
		<hr/>
Total	\$	<u>21,683,907</u>

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (8) Pension Plan

The Foundation participates in a multi-employer defined benefit plan through the California Public Employees' Retirement System (PERS) which covers substantially all regular full-time employees of the Foundation. PERS acts as a common investment and administrative agent for participating public entities with the state of California and reports information to the Foundation in accordance with reporting standards established by the Governmental Accounting Standards Board. The effects of adopting the reporting provisions of the FASB on the financial statements as of June 30, 2003 versus the information provided by PERS have been determined to be immaterial to the Foundation's financial statements taken as a whole.

The Foundation's policy is to fund pension costs as incurred. No pension expense was recorded in the accompanying statements of activities for the years ended June 30, 2003 and 2002. PERS has notified the Foundation that due to a sluggish economy and lower stock prices the contribution rate for the year ended June 2004 will be 4.012% and is estimated to be 8.1% for fiscal year 2005. The following table sets forth the most recent information provided by PERS which is as of June 30, 2001 (the latest date for which information is available):

Present value of benefits:	
Active members	\$ 15,093,768
Transfers	1,854,920
Separated members	1,278,339
Receiving payments	7,425,579
	<hr/>
Total	25,652,606
Present value of future employer normal costs	6,074,179
Present value of future employee contributions	2,929,264
	<hr/>
Entry age normal accrued liability	\$ 16,649,163
	<hr/>
Actuarial value of assets:	
Employer reserves	\$ 19,621,874
Active employee account balances	2,602,707
	<hr/>
Total valuation assets	\$ 22,224,581
	<hr/>

Note (9) Transactions with the University and University Educational Trust

The Foundation and the University provide various services on each other's behalf. Such services are appropriately billed. At June 30, 2003 and 2002, receivables from other activities and due from the University are approximately \$2,346,802 and \$999,213, respectively. Accounts payable include approximately \$949,932 and \$1,595,886 due to the University at June 30, 2003 and 2002, respectively.

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (9) Transactions with the University and University Educational Trust (continued)

Amounts billed by the Foundation and included in revenues for the years ended June 30, 2003 and 2002 totaled approximately \$6,569,617 and \$6,650,416, respectively. Amounts billed to the Foundation and included in expenses for the years ended June 30, 2003 and 2002 totaled approximately \$4,293,358 and \$4,002,703 respectively.

During the year ended June 30, 2003 and 2002, the Foundation transferred fixed assets totaling \$1,077,169 and \$12,321,380, comprised of newly constructed buildings and renovations for various colleges to the University. The University assumed ownership and management of these facilities.

Note (10) Other Postretirement Benefits

In addition to the Foundation's multi-employer defined benefit pension plan, the Foundation sponsors a defined benefit health care plan that provides postretirement medical benefits to full-time employees who have at least 5 years of service and attained age 50 while in service with the Foundation. The plan is contributory up to a predetermined cap. The Foundation's maximum contribution will increase by no more than 5% per year. The Foundation's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. The following table summarizes the Foundation's accrued postretirement benefit cost recorded in accrued liabilities in the accompanying statements of financial position:

	<u>2003</u>	<u>2002</u>
Benefit obligation at June 30	\$ 9,215,402	\$ 6,704,039
Fair value of plan assets at June 30	<u>—</u>	<u>—</u>
Funded status	<u>\$ (9,215,402)</u>	<u>\$ (6,704,039)</u>
Accrued benefit cost recognized in the statements of financial position	<u>\$ (3,733,938)</u>	<u>\$ (2,928,094)</u>
Weighted average assumptions as of June 30:		
Discount rate	6.50%	7.00%
Expected long-term rate of return on plan assets	N/A	N/A

CAL POLY POMONA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2003 and 2002

Note (10) Other Postretirement Benefits

For measurement purposes, the 2003 annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is 9% for those younger than 65 years of age and 10% for those age 65 and older for 2003, and is assumed to decrease gradually to a maximum of 5.5% in 2005 and thereafter.

	<u>2003</u>		<u>2002</u>
Benefit cost	\$ 1,079,736	\$	977,529
Employer contributions	273,891		297,088
Plan participants' contributions	0		0
Benefits paid	273,891		297,088

Note (11) Temporarily Restricted Net Assets

Temporarily restricted net assets totaling \$22,758,254 and \$22,274,883 at June 30, 2003 and 2002, respectively, are restricted for campus programs activities.

CAL POLY POMONA FOUNDATION, INC.

Statements of Net Assets

June 30, 2003 and 2002

Assets:	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 4,588,096	\$ 5,071,778
Short-term investments	15,001,842	12,251,379
Accounts receivable, net	7,015,308	5,660,890
Pledges receivable, net	1,201,466	1,607,099
Prepaid expenses and other assets	2,213,407	2,348,738
Total current assets	<u>30,020,119</u>	<u>26,939,884</u>
Noncurrent assets:		
Pledges receivable, net	3,378,629	4,443,756
Other long-term investments	9,821,974	13,104,949
Capital assets, net	28,409,254	24,919,609
Other assets		546,736
Total noncurrent assets	<u>41,609,857</u>	<u>43,015,050</u>
Total assets	<u>\$ 71,629,976</u>	<u>\$ 69,954,934</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,762,807	\$ 4,678,323
Accrued salaries and benefits payable	984,302	1,253,156
Accrued compensated absences	312,596	139,831
Deferred revenue	1,268,861	766,106
Capitalized lease obligations	66,013	9,067
Long-term debt obligations – current portion	730,000	775,000
Other liabilities	3,127,297	2,594,324
Total current liabilities	<u>10,251,876</u>	<u>10,215,807</u>
Noncurrent liabilities:		
Accrued compensated absences	130,188	310,094
Capitalized lease obligations	298,259	9,865
Long-term debt obligations	8,860,000	9,590,000
Other liabilities	4,242,515	3,019,997
Total noncurrent liabilities	<u>13,530,962</u>	<u>12,929,956</u>
Total liabilities	<u>23,782,838</u>	<u>23,145,763</u>

See accompanying independent auditors' report.

CAL POLY POMONA FOUNDATION, INC.

Statements of Net Assets

June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Net assets:		
Invested in capital assets, net of related debt	18,454,982	14,535,677
Restricted for:		
Instruction	18,008,625	16,088,389
Other	4,668,370	6,186,494
Unrestricted	<u>6,715,161</u>	<u>9,998,611</u>
Total net assets	<u>47,847,138</u>	<u>46,809,171</u>
Total liabilities and net assets	<u>\$ 71,629,976</u>	<u>\$ 69,954,934</u>

See accompanying independent auditors' report.

CAL POLY POMONA FOUNDATION, INC.

Statements of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003 and 2002

Revenues:	<u>2003</u>	<u>2002</u>
Operating revenues:		
Student tuition and fees	\$ 2,875,747	\$ 2,260,743
Grants and contracts, noncapital:		
Federal	7,506,326	7,514,653
State and local	3,066,310	3,318,021
Nongovernmental	1,670,735	2,993,499
Sales and services of educational activities	4,023,416	2,978,037
Sales and services of auxiliary enterprises	26,879,940	26,545,803
Other operating revenues	1,276,023	1,020,807
Total operating revenues	<u>47,298,497</u>	<u>46,631,563</u>
Expenses:		
Operating expenses:		
Instruction	9,209,406	10,286,907
Research	3,922,280	2,806,847
Public service	291,711	294,125
Academic support	1,515,557	1,936,970
Student services	660,603	646,303
Institutional support	1,746,480	1,391,700
Operation and maintenance of plant	462,554	230,173
Student grants and scholarships	670,278	616,487
Auxiliary enterprise expenses	30,887,746	29,992,383
Total operating expenses	<u>49,366,615</u>	<u>48,201,895</u>
Operating loss	<u>(2,068,118)</u>	<u>(1,570,332)</u>
Nonoperating revenues (expenses):		
Gifts, noncapital	3,321,632	4,564,345
Investment income, net	1,419,380	1,755,028
Other nonoperating expenses	(1,634,927)	(13,445,640)
Net nonoperating revenues (expenses)	<u>3,106,085</u>	<u>(7,126,267)</u>
Change in net assets	1,037,967	(8,696,599)
Net assets:		
Net assets at beginning of year	<u>46,809,171</u>	<u>55,505,770</u>
Net assets at end of year	<u>\$ 47,847,138</u>	<u>\$ 46,809,171</u>

See accompanying independent auditors' report.

CAL POLY POMONA FOUNDATION, INC.

Combining Statement of Financial Position

June 30, 2003

Assets	General	Designated	Auxiliary activities	Sponsored programs	Campus programs	Total
Current assets:						
Cash and cash equivalents:						
On hand and in commercial accounts	\$ 9,898,105	\$ 1,200	\$ 84,547	\$ 1,000	\$ 7,680	\$ 9,992,532
Cash equivalents	1,897,027	212,809	579,804		6,861	2,696,501
Total cash and cash equivalents	11,795,132	214,009	664,351	1,000	14,541	12,689,033
Marketable securities, at fair value	75,584				157,430	233,014
Short-term investments, at fair value	5,591,115				115,333	5,706,448
Investments restricted as to use – debt service, at fair value			961,443			961,443
	5,666,699	—	961,443	—	272,763	6,900,905
Receivables:						
Sponsored programs				3,026,260		3,026,260
Contributions, net					1,201,466	1,201,466
Other activities, net of allowance for doubtful accounts	462,059	3,500	2,859,317		664,172	3,989,048
Total receivables, net	462,059	3,500	2,859,317	3,026,260	1,865,638	8,216,774
Inventories			1,899,169		11,478	1,910,647
Prepaid expenses and deferred charges	194,256		106,625	375	1,504	302,760
Due (to) from other activities	(24,466,757)	8,131,251	(155,258)	787,558	15,703,206	—
Total current assets	(6,348,611)	8,348,760	6,335,647	3,815,193	17,869,130	30,020,119
Property, plant, and equipment:						
Land		3,701	212,000		728,910	944,611
Buildings and improvements	2,302,195		25,842,276	1,184,868	2,005,583	31,334,922
Equipment, furniture, and fixtures	1,005,966		6,475,541		8,692	7,490,199
Orchards			131,863			131,863
Construction in progress	76,032		2,268,483		805,252	3,149,767
	3,384,193	3,701	34,930,163	1,184,868	3,548,437	43,051,362
Less accumulated depreciation and amortization	(1,695,046)		(12,391,817)		(555,245)	(14,642,108)
Total property, plant, and equipment	1,689,147	3,701	22,538,346	1,184,868	2,993,192	28,409,254
Other assets:						
Long-term investments, at fair value	9,821,974					9,821,974
Contributions receivable, net of current portion					3,378,629	3,378,629
Total other assets	9,821,974	—	—	—	3,378,629	13,200,603
Total assets	\$ 5,162,510	\$ 8,352,461	\$ 28,873,993	\$ 5,000,061	\$ 24,240,951	\$ 71,629,976
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 486,861	\$ 63,793	\$ 1,459,318	\$ 1,011,166	\$ 606,587	\$ 3,627,725
Accrued liabilities	1,109,117		409,648	12,729	30,674	1,562,168
Deferred income	562,263		705,738		860	1,268,861
Deposits held in custody for others					335,999	335,999
Current portion of lease obligations	65,354		659			66,013
Current portion of bonds and note payable			730,000			730,000
Receipts in excess of expenditures on specific sponsored programs				2,791,298		2,791,298
Total current liabilities	2,223,595	63,793	3,305,363	3,815,193	974,120	10,382,064
Noncurrent liabilities:						
Accrued liabilities		3,733,938				3,733,938
Noncurrent portion of bonds and note payable			8,860,000			8,860,000
Unitrust liability					508,577	508,577
Lease obligations	298,259					298,259
Total noncurrent liabilities	298,259	3,733,938	8,860,000	—	508,577	13,400,774
Total liabilities	2,521,854	3,797,731	12,165,363	3,815,193	1,482,697	23,782,838
Net assets:						
Unrestricted	2,640,656	4,554,730	16,708,630	1,184,868		25,088,884
Temporarily restricted					22,758,254	22,758,254
Total net assets	2,640,656	4,554,730	16,708,630	1,184,868	22,758,254	47,847,138
Total liabilities and net assets	\$ 5,162,510	\$ 8,352,461	\$ 28,873,993	\$ 5,000,061	\$ 24,240,951	\$ 71,629,976

See accompanying independent auditors' report and accompanying notes to combining statement of financial position.

CAL POLY POMONA FOUNDATION, INC.

Notes to Combining Statement of Financial Position

June 30, 2003

The Foundation groups its assets, liabilities, revenue, and expenses into certain classifications within net assets. A description of each classification follows to more clearly present the Foundation's activities:

(a) General

General activities include management of all financial resources of the Foundation that are not required to be accounted for in other areas. Revenues are generated through investment of excess cash, rental of office space, and fees for administration and financial services.

(b) Designated

Designated represents the activity from appropriations of certain assets, which the Foundation's board of directors has set aside for specific purposes.

(c) Auxiliary Activities

Auxiliary activities represent transactions related to the Foundation's ongoing revenue producing, self-supporting activities, which are conducted in support of the University's activities. It is the Foundation's policy to allocate certain administration expenses from general activities to the auxiliary operations. The auxiliary activities account for the activities of the bookstore, food service, and vending operations at the University, Kellogg West Education Center, Continuing Education, University Village, and Agriculture Aid-to-Instruction Programs.

(d) Sponsored Programs

The Foundation provides fiscal services for grants and contracts received from outside sources on behalf of the University. These research activities enable the campus community to further study fields of interest with funding from government and private institutions.

(e) Campus Programs

Campus programs represent funds administered by the Foundation in support of University activities. The source of funds is derived from contributions, investment income and exchange transactions (i.e., memberships, ticket sales, outreach programs, advertising revenues, and cash sales). Program activities in which the Foundation acts as an agent on behalf of the University-Affiliated auxiliary organizations are recorded as assets and deposits held in custody for others in the accompanying statements of financial position.

CAL POLY POMONA FOUNDATION, INC.

Disaggregated Information

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Real estate income	\$ 752,804	\$ 719,607
As of June 30 of the current year, disaggregated information on capital assets is as follows:		
Land and land improvements	\$ 1,076,474	\$ 379,564
Buildings and building improvements	30,668,594	28,667,520
Improvements other than buildings		
Infrastructure		
Leasehold improvements		
Personal property:		
Equipment	7,490,199	6,738,554
Library books and materials		
Works of art and historical treasures		
Intangible assets	666,328	658,312
Construction, work in progress	3,149,767	1,862,749
Total	\$ <u>43,051,362</u>	\$ <u>38,306,699</u>
As of June 30 of the current year, disaggregated information on long-term debt is as follows:		
Revenue bonds	\$ 9,590,000	\$ 10,365,000
Capital leases	364,272	18,932
Commercial paper		
Interest rate range on outstanding long-term debt	<u>4.3% to 5.4%</u>	<u>4.3% to 5.4%</u>
As of June 30 of the current year, disaggregated information on investments is as follows:		
Local Agency Investment Fund	\$ 1,897,028	\$ 1,334,394
Debt equity securities	233,014	1,498,064
Fixed income	13,631,394	18,519,676
Other		
Total	\$ <u>15,761,436</u>	\$ <u>21,352,134</u>

See the accompanying independent auditors' report.