

HUMBOLDT STATE UNIVERSITY

Financial Statements

June 30, 2011

HUMBOLDT STATE UNIVERSITY

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This section of Humboldt State University's (the University) annual financial report presents the University's discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2011. This discussion should be read in conjunction with the financial statements and notes.

The California State University System (the System), has been audited and has released a report for the year ended June 30, 2011. As one of 23 campuses in the California State University System, the University is included in the financial statements of the System. The report can be accessed at the following location:
http://www.calstate.edu/SFSR/GAAP/financial_statements.shtml

All information presented within this report, including the financial statements and notes, has not been audited. This report has been prepared for internal purposes as well as for specific users. As the report has not been audited, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. No representation can be made to the accuracy and completeness of the information contained herein, however management believes the report presents all information necessary for a fair presentation of the University's financial position.

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) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities.

The financial statements include the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These statements are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the University. All information presented within this report, including the financial statements and notes, has not been audited.

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

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

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

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

Analytical Overview

Summary

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

The University's condensed summary of net assets as of June 30, 2011 and 2010 is as follows:

Condensed Summary of Net Assets

	June 30	
	2011	2010
Assets:		
Current assets	\$ 50,811,867	38,462,738
Capital assets	227,389,752	227,829,627
Other noncurrent assets	<u>12,050,065</u>	<u>16,945,958</u>
Total assets	<u>290,251,684</u>	<u>283,238,323</u>
Liabilities:		
Current liabilities	22,065,215	17,600,962
Long-term debt obligations, net of current portion	59,497,114	61,288,555
Other noncurrent liabilities	<u>17,094,465</u>	<u>20,172,713</u>
Total liabilities	<u>98,656,794</u>	<u>99,062,230</u>
Net assets:		
Invested in capital assets, net of related debt	154,911,468	152,362,982
Restricted, nonexpendable	1,900,371	1,883,681
Restricted, expendable	3,178,283	7,669,858
Unrestricted	<u>31,604,768</u>	<u>22,259,572</u>
Total net assets	<u>\$ 191,594,890</u>	<u>184,176,093</u>

Assets

Total assets increased \$7.0 million from prior year due to a \$12.3 million increase in current assets, offset by a \$0.4 million decrease in capital assets, and a \$4.9 million decrease in other noncurrent assets. Total current assets increased \$12.3 million primarily due to an increase in short-term investments.

Capital assets, net, decreased \$0.4 million primarily due to \$11.0 million of current year additions, which were offset by \$11.1 million in current year depreciation expense and \$0.3 million in capital assets retirements, net of accumulated depreciation.

Other noncurrent assets decreased \$4.9 million primarily due to a \$4.6 million decrease in other long-term investments. The decrease in long-term investments is primarily due to a decline in long-term investments held by the Chancellor's Office as well as payments made from the University's Construction fund, for student housing construction obligations.

Liabilities

Total current liabilities increased \$4.5 million primarily due to a \$1.6 million increase in accounts payable, a \$0.8 million increase in deferred revenue, a \$0.7 million increase in long-term debt obligations, current portion, a \$0.6 million increase in accrued compensated absences, current portion, a \$0.5 million increase in accrued salaries and benefits, and other various small increases of \$0.3 million.

Net Assets

Total net assets increased \$7.4 million from the prior year. A significant portion, \$154.9 million, of net assets at the end of the year is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt increased \$2.5 million from prior year primarily due to the College Creek Housing Apartments. As of June 30, 2011 \$3.2 million of net assets is restricted for scholarships and fellowships, loans, capital projects, debt service, and other, which decreased \$4.5 million from prior year as discussed below. As of June 30, 2011 \$31.6 million of net assets is unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

Restricted Resources

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

Restricted Net Assets

	June 30	
	2011	2010
Expendable:		
Scholarships and fellowships	\$ 1,598,634	1,626,171
Loans	857,303	820,049
Capital projects	537,080	4,214,865
Debt Service	37,484	799,722
Other	147,782	209,051
Total restricted net assets – expendable	\$ 3,178,283	7,669,858

Total restricted net assets – expendable decreased \$4.5 million. This is primarily due to a \$3.7 million decrease in net assets restricted for capital projects as a result of spending proceeds for the College Creek Housing Apartments and a \$0.8 million decrease in net assets restricted for debt service due to recording current year bond financing activities including interest payments and the accrual of interest payable.

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010 is as follows:

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

	Year ended June 30	
	2011	2010
Operating revenues:		
Student tuition and fees, net	\$ 35,033,322	31,628,175
Sales and services of auxiliary enterprises, net	11,266,553	9,474,108
Other operating revenues	<u>6,945,357</u>	<u>4,553,324</u>
Total operating revenues	<u>53,245,232</u>	<u>45,655,607</u>
Operating expenses	<u>(145,219,027)</u>	<u>(133,381,636)</u>
Operating loss	<u>(91,973,795)</u>	<u>(87,726,029)</u>
Nonoperating revenues (expenses):		
State appropriations, noncapital	72,547,201	64,413,172
Federal financial aid grants, noncapital	17,733,913	15,602,936
State financial aid grants, noncapital	6,197,828	5,082,874
Nongovernmental financial aid grants, noncapital	59,402	58,962
Other federal nonoperating grants, noncapital	2,734,000	12,312,200
Investment income, net	134,457	211,326
Other nonoperating expenses, net	<u>(1,002,591)</u>	<u>(1,339,421)</u>
Total nonoperating revenues	<u>98,404,210</u>	<u>96,342,049</u>
Income before other additions	6,430,415	8,616,020
State appropriations, capital	695,437	1,976,673
Grants and gifts, capital	276,255	1,789,247
Additions to permanent endowments	<u>16,690</u>	<u>19,000</u>
Increase in net assets	<u>7,418,797</u>	<u>12,400,940</u>
Beginning net assets	<u>184,176,093</u>	<u>171,775,153</u>
Ending net assets	<u>\$ 191,594,890</u>	<u>184,176,093</u>

Certain reclassifications have been made to the 2010 condensed financial information to conform to the 2011 financial information presented.

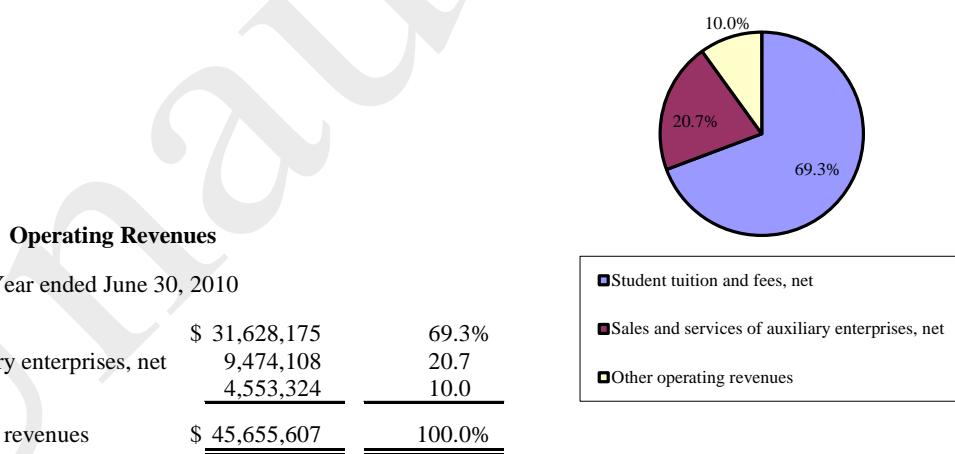
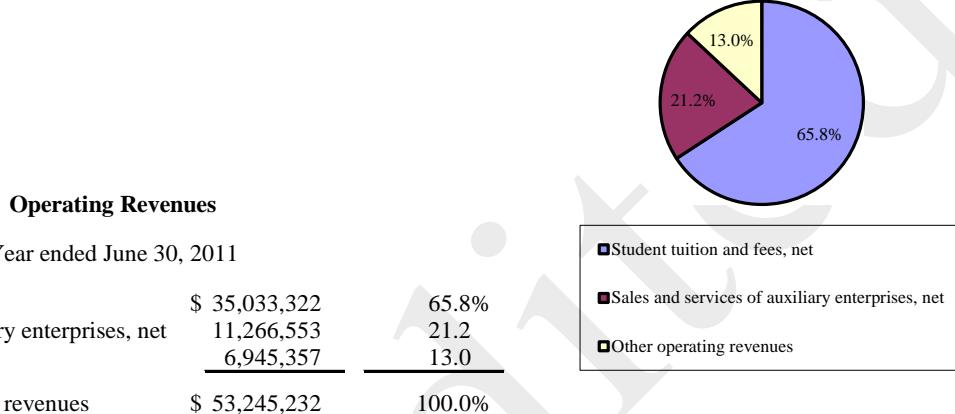
Operating Revenues and Expenses

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

Operating Revenues

Total operating revenues increased \$7.6 million primarily due to a \$3.4 million increase in student tuition and fees, net.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2011 and 2010:



Operating Expenses

Total operating expenses increased by \$11.8 million, or 8.9%, primarily due to a \$4.1 million increase in instruction, a \$2.0 million increase in student services, a \$1.8 million increase in student grants and scholarships, a \$1.8 million increase in depreciation and amortization, a \$1.2 million increase in operation and maintenance of plant, a \$1.0 million increase in academic support, and a \$0.3 million increase in institutional support, offset by a \$0.4 million decrease in auxiliary enterprise expenses.

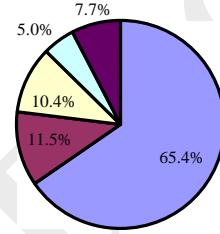
Salaries and benefits costs, within each of these functions, increased by \$7.6 million due to the cancellation of furloughs in fiscal year 2011, offset by nonrenewal of contracts, layoffs, and vacancies brought about by budget cuts in the California State University System. Supplies and other services expense, within each of these functions, increased by \$0.7 million. The increase in student grants and scholarships was primarily due to the state university fee increase during the year. Depreciation and amortization increased as a result of \$11.0 million in depreciable capital assets placed in service during the current year.

The following charts present the distribution of resources in support of the University's mission for fiscal years 2011 and 2010:

Operating Expenses

Year ended June 30, 2011

Instruction	\$ 44,481,597	30.6%
Public service	362,639	0.3
Academic support	13,136,620	9.1
Student services	16,447,032	11.3
Student grants and scholarships	20,537,210	14.1
 Total instruction and educational support activities	 94,965,098	 65.4
Institutional support	16,761,114	11.5
Operation and maintenance of plant	15,150,618	10.4
Auxiliary enterprises expenses	7,255,434	5.0
Depreciation and amortization	11,086,763	7.7
 Total operating expenses	 \$ 145,219,027	 100.0%

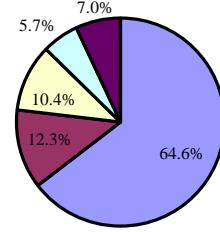


- Instruction and educational support activities
- Institutional support
- Operation and maintenance of plant
- Auxiliary enterprise expenses
- Depreciation and amortization

Operating Expenses

Year ended June 30, 2010

Instruction	\$ 40,376,908	30.3%
Public service	340,580	0.3
Academic support	12,132,144	9.1
Student services	14,461,738	10.8
Student grants and scholarships	18,776,463	14.1
 Total instruction and educational support activities	 86,087,833	 64.6
Institutional support	16,420,770	12.3
Operation and maintenance of plant	13,934,073	10.4
Auxiliary enterprises expenses	7,626,689	5.7
Depreciation and amortization	9,312,271	7.0
 Total operating expenses	 \$ 133,381,636	 100.0%



- Instruction and educational support activities
- Institutional support
- Operation and maintenance of plant
- Auxiliary enterprise expenses
- Depreciation and amortization

Nonoperating Revenues (Expenses)

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

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 \$0.7 million for the fiscal year ended June 30, 2011, down from \$2.0 million for the fiscal year ended June 30, 2010. Capital state appropriations in the prior year included onetime appropriations of \$1.8 million for the Behavioral and Social Sciences Building project. General (noncapital) appropriation revenues totaled \$72.5 million, an increase of \$8.1 million from the prior year due to an increase in the state budget allocation. Federal financial aid grants, noncapital increased by \$2.1 million due to an increase in Pell grant disbursements, ACG/SMART Grant distributions, as well as an increase in tuition which created more eligible recipients having a lower overall expected family contribution. State financial aid grants, noncapital increased by \$1.1 million as a result of increases in Cal Grant A and Cal Grant B fee awards by the California Student Aid Commission to match the CSU State University fee increase. Other federal nonoperating grants, noncapital decreased by \$9.6 million due to a decrease in funds received from the American Recovery & Reinvestment Act (ARRA) grant. Investment income decreased by \$0.1 million primarily relating to lower interest received from Systemwide Investment Fund Trust (SWIFT) and California State University's strategy of keeping investment maturities shorter than normal. Other nonoperating revenues (expenses), net, decreased by \$0.3 million primarily related to the recording of a pollution remediation obligation in the prior year. Grants and gifts, capital, decreased by \$1.5 million due to the contribution of the Schatz Energy Research Center Building in the prior year.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2011	2010
Land and land improvements	\$ 3,965,116	3,934,725
Works of art and historical treasures	152,941	152,941
Buildings and building improvements	175,255,471	127,167,794
Improvements, other than buildings	5,091,180	5,125,718
Infrastructure	24,795,042	25,142,830
Personal property	3,270,618	3,183,490
Intangible assets	9,265,394	10,996,269
Construction work in progress	5,593,990	52,125,860
Total capital assets, net of accumulated depreciation	\$ <u>227,389,752</u>	<u>227,829,627</u>

Capital assets decreased by \$0.4 million primarily due to \$11.0 million of current year additions, which were offset by \$11.1 million in current year depreciation and amortization expense and \$0.3 million in net retirements. Current year additions are primarily related to \$9.1 million in construction work in progress and \$1.3 million in equipment. Construction work in progress primarily related to the College Creek Apartments and the Schatz Energy Research Center.

Capital assets commitments at June 30, 2011 totaled \$4.0 million.

Long-Term Debt Obligations

Debt outstanding at June 30, 2011 and 2010 is summarized below by type of debt instrument:

	June 30	
	2011	2010
Systemwide Revenue Bonds:		
Series 2002A Union	\$ 2,890,000	2,975,000
Series 2004A Union	3,435,000	3,510,000
Series 2005A Housing	1,675,000	1,915,000
Series 2005B Housing	4,520,000	4,820,000
Series 2009A Housing	47,475,000	47,475,000
GE Capital Public Finance, Inc.	2,164,180	2,543,669
Total	62,159,180	63,238,669
Unamortized bond premium	231,968	259,480
Unamortized loss on refunding	<u>(1,067,784)</u>	<u>(1,130,105)</u>
Total long-term debt	61,323,364	62,368,044
Less current portion	<u>(1,826,250)</u>	<u>(1,079,489)</u>
Long-term debt, net of current portion	<u>\$ 59,497,114</u>	<u>61,288,555</u>

The University did not issue Systemwide Revenue Bonds in fiscal year 2011.

Bond Ratings

Moody's Investors Service currently provides an intrinsic rating of Aa2, with a stable outlook, for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides an intrinsic rating of A+, with a stable outlook, for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, Series 2008A, Series 2009A, and all maturities of Series 2010A and 2010B, all Systemwide Revenue Bonds are insured. Since the middle of fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds have been downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the intrinsic ratings of the Systemwide Revenue Bonds, which are Aa2 from the Moody's Investors Service and A+ from the Standard & Poor's Rating Service. See notes 8 and 9 to the financial statements for further information on long-term debt obligations.

Factors Impacting Future Periods

The State Budget Act for fiscal year 2012, approved by the Governor on June 30, 2011, reduces the California State University System (the System) appropriations by \$650 million, or 24% below the fiscal year 2011 enacted budget level. The result will be an approximately \$480 million decrease in noncapital state appropriations for the System in fiscal year 2012 to a total of \$2.1 billion from \$2.6 billion in fiscal year 2011. In December 2011, the System's fiscal year 2012 appropriations were further reduced by an additional \$100 million due to the \$1 billion shortfall in the State revenues.

To mitigate the impact of the appropriation reductions, the System increased tuition fee rates, including a 10% increase approved by the Board of Trustees (the Board) in November 2010 and an additional 12% increase approved by the Board in July 2011, both effective for fiscal year 2012, which together will yield approximately \$265 million in new tuition fee revenue after discounting for financial aid. Moreover, the System reduced its base resident student enrollment target for fiscal year 2012 by roughly 10,000 full-time equivalent students (FTE) to approximately 332,000, and reduced expense measures of approximately \$292 million.

In November 2011, the Board approved an increase in student tuition fees for fiscal year 2013 to raise approximately \$138 million in new tuition fee revenue after discounting for financial aid.

The University's state noncapital appropriations budget enacted for fiscal year 2012 approved by the legislative process is \$59.4 million, a decrease of \$13.1 million over the fiscal year 2011 funding level of \$72.5 million.

HUMBOLDT STATE UNIVERSITY

Statement of Net Assets

June 30, 2011

Assets	Discretely presented component units		
	University	FASB Auxiliary Organizations	Total
Current assets:			
Cash and cash equivalents	\$ 76,445	6,025,223	6,101,668
Short-term investments	48,683,517	8,373,294	57,056,811
Accounts receivable, net	1,019,943	4,739,358	5,759,301
Prepaid expenses and other assets	1,031,962	1,253,687	2,285,649
Total current assets	50,811,867	20,391,562	71,203,429
Noncurrent assets:			
Restricted cash and cash equivalents	-	19,688	19,688
Accounts receivable, net	1,542,627	-	1,542,627
Student loans receivable, net	3,553,779	-	3,553,779
Pledges receivable, net	-	1,788,929	1,788,929
Endowment investments	1,900,371	20,106,342	22,006,713
Other long-term investments	5,053,288	9,086,860	14,140,148
Capital assets, net	227,389,752	2,552,013	229,941,765
Other assets	-	518,717	518,717
Total noncurrent assets	239,439,817	34,072,549	273,512,366
Total assets	290,251,684	54,464,111	344,715,795
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	6,002,669	1,055,235	7,057,904
Accrued salaries and benefits payable	6,028,203	506,368	6,534,571
Accrued compensated absences - current portion	3,222,902	227,480	3,450,382
Deferred revenue	1,763,322	2,329,088	4,092,410
Capitalized lease obligations - current portion	2,010,920	-	2,010,920
Long-term debt obligations - current portion	1,826,250	-	1,826,250
Depository accounts - current portion	4,660	323,213	327,873
Other liabilities	1,206,289	561,078	1,767,367
Total current liabilities	22,065,215	5,002,462	27,067,677
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	1,898,267	14,843	1,913,110
Deferred revenue	-	184,257	184,257
Grants refundable	4,546,146	-	4,546,146
Capitalized lease obligations, net of current portion	9,144,000	-	9,144,000
Long-term debt obligations, net of current portion	59,497,114	2,535,000	62,032,114
Other postemployment benefits obligation	1,506,052	4,308,526	5,814,578
Other liabilities	-	659,083	659,083
Total noncurrent liabilities	76,591,579	7,701,709	84,293,288
Total liabilities	98,656,794	12,704,171	111,360,965
Net assets:			
Invested in capital assets, net of related debt	154,911,468	2,552,013	157,463,481
Restricted for:			
Nonexpendable - endowments	1,900,371	19,509,902	21,410,273
Expendable:			
Scholarships and fellowships	1,598,634	-	1,598,634
Loans	857,303	-	857,303
Capital projects	537,080	-	537,080
Debt service	37,484	-	37,484
Other	147,782	8,816,789	8,964,571
Unrestricted	31,604,768	10,881,236	42,486,004
Total net assets	\$ 191,594,890	41,759,940	233,354,830

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY
 Statement of Revenues, Expenses, and Changes in Net Assets
 Year ended June 30, 2011

	Discretely presented component units		FASB Auxiliary Organizations	Eliminations	Total
	University		University	Eliminations	Total
Revenues:					
Operating revenues:					
Student tuition and fees (net of scholarship allowances of \$ 16,743,565)	35,033,322		1,635,004		36,668,326
Grants and contracts, noncapital:					
Federal	-		8,034,071		8,034,071
State	-		4,614,051		4,614,051
Local	-		250,933		250,933
Nongovernmental	-		3,320,763		3,320,763
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ 1,943,149)	11,266,553		17,529,311	(73,296)	28,722,568
Other operating revenues	6,945,357		1,583,253	(893,207)	7,635,403
Total operating revenues	53,245,232		36,967,386	(966,503)	89,246,115
Expenses:					
Operating expenses:					
Instruction	44,481,597		916,972	(10,478)	45,388,091
Research	-		7,428,118	(169,721)	7,258,397
Public service	362,639		6,092,426	(15,403)	6,439,662
Academic support	13,136,620		344,786		13,481,406
Student services	16,447,032		1,051,770	(100,235)	17,398,567
Institutional support	16,761,114		844,783	(131,593)	17,474,304
Operation and maintenance of plant	15,150,618		242,268		15,392,886
Student grants and scholarships	20,537,210		1,510,258		22,047,468
Auxiliary enterprise expenses	7,255,434		19,820,995		27,076,429
Depreciation and amortization	11,086,763		429,613		11,516,376
Total operating expenses	145,219,027		38,681,989	(427,430)	183,473,586
Operating income (loss)	(91,973,795)		(1,714,603)	(539,073)	(94,227,471)
Nonoperating revenues (expenses):					
State appropriations, noncapital	72,547,201		-		72,547,201
Federal financial aid grants, noncapital	17,733,913		-		17,733,913
State financial aid grants, noncapital	6,197,828		-		6,197,828
Nongovernmental and other financial aid grants, noncapital	59,402		-		59,402
Other federal nonoperating grants, noncapital	2,734,000		-		2,734,000
Gifts, noncapital	495,011		2,246,880	(59,308)	2,682,583
Investment income (loss), net	134,457		438,250		572,707
Endowment income (loss), net	7,172		2,776,061		2,783,233
Interest expense	(3,625,114)		(9,608)		(3,634,722)
Other nonoperating revenues (expenses)	2,120,340		2,805,814	598,381	5,524,535
Net nonoperating revenues (expenses)	98,404,210		8,257,397	539,073	107,200,680
Income (loss) before other additions	6,430,415		6,542,794		12,973,209
State appropriations, capital	695,437		-		695,437
Grants and gifts, capital	276,255		-		276,255
Additions (reductions) to permanent endowments	16,690		1,017,810		1,034,500
Increase (decrease) in net assets	7,418,797		7,560,604		14,979,401
Net assets:					
Net assets at beginning of year, as previously reported	184,176,093		34,965,060		219,141,153
Restatements	-		(765,724)		(765,724)
Net assets at beginning of year, as restated	184,176,093		34,199,336		218,375,429
Net assets at end of year	\$ 191,594,890		41,759,940		233,354,830

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:

Student tuition and fees	\$ 35,942,670
Payments to suppliers	(20,335,593)
Payments to employees	(91,040,710)
Payments to students	(20,888,660)
Collections of student loans	580,880
Sales and services of auxiliary enterprises	11,366,328
Other receipts (payments)	6,761,688
Net cash provided by (used in) operating activities	(77,613,397)

Cash flows from noncapital financing activities:

State appropriations	72,547,201
Federal financial aid grants	17,898,084
State financial aid grants	6,197,828
Nongovernmental and other financial aid grants	59,402
Other federal nonoperating grants	2,734,000
Gifts and grants received for other than capital purposes	511,701
Federal loan program receipts	32,395,007
Federal loan program disbursements	(32,395,007)
Monies received on behalf of others	6,546,083
Monies disbursed on behalf of others	(6,553,313)
Other noncapital financing activities	2,156,113
Net cash provided by (used in) noncapital financing activities	102,097,099

Cash flows from capital and related financing activities:

State appropriations	624,119
Capital grants and gifts	276,255
Proceeds from sale of capital assets	-
Acquisition of capital assets	(11,223,205)
Principal paid on capital debt and leases	(3,023,170)
Interest paid on capital debt and leases	(3,608,579)
Net cash provided by (used in) capital and related financing activities	(16,954,580)

Cash flows from investing activities:

Proceeds from sales and maturities of investments	191,024,727
Purchases of investments	(198,807,041)
Investment income received	141,628
Net cash provided by (used in) investing activities	(7,640,686)

Net increase (decrease) in cash and cash equivalents	(111,564)
Cash and cash equivalents at beginning of year	188,009
Cash and cash equivalents at end of year	\$ 76,445

HUMBOLDT STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2011

Reconciliation of operating (loss) to net cash provided by (used in) operating activities:

Operating (loss) \$ (91,973,795)

Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:

Depreciation and amortization 11,086,763

Change in assets and liabilities:

Accounts receivable, net 15,459

Student loans receivable, net 347,772

Prepaid expenses and other assets (252,052)

Accounts payable 2,189,963

Accrued salaries and benefits 513,056

Accrued compensated absences (581,095)

Deferred revenue 809,995

Depository accounts (94,366)

Other postemployment benefits obligation 372,003

Other liabilities (47,100)

Net cash provided by (used in) operating activities \$ (77,613,397)**Supplemental schedule of noncash transactions:**

Contributed capital/donated assets \$ 288,993

Acquisition of capital asset through capital lease 63,957

Change in accrued capital asset costs (purchased but unpaid at year-end) (550,995)

Amortization of bond premium / (discount) 27,512

Amortization of loss on refundings 62,321

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

(1) Organization

As one of 23 campuses in the California State University System (the System), the University is included in the financial statements of the System. The report can be accessed at the following location:
http://www.calstate.edu/SFSR/GAAP/financial_statements.shtml

All information presented within this report, including the financial statements and notes, has not been audited. For further information see Management Discussion and Analysis on page 2.

Humboldt State University, (the University), an agency of the State of California (the State), was established as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. 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 four recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The recognized auxiliary organizations are as follows:

- Humboldt State University Sponsored Programs Foundation
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Advancement Foundation

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

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

	Humboldt State				
	University Sponsored Programs Foundation	Associated Students of Humboldt State University	Humboldt State University Center Board of Directors	Humboldt State University Advancement Foundation	Total
June 30, 2011					
Current assets	\$ 9,270,741	903,783	8,878,464	1,338,574	20,391,562
Capital assets, net	1,658,199	2,257	891,557	—	2,552,013
Other noncurrent assets	339,188	10,000	4,954,663	26,216,685	31,520,536
Total assets	11,268,128	916,040	14,724,684	27,555,259	54,464,111
Current liabilities	3,468,869	387,734	1,067,069	78,790	5,002,462
Noncurrent liabilities	212,046	—	4,954,663	2,535,000	7,701,709
Total liabilities	3,680,915	387,734	6,021,732	2,613,790	12,704,171
Invested in capital assets, net of related debt	1,658,199	2,257	891,557	—	2,552,013
Restricted	5,591,719	—	—	22,734,972	28,326,691
Unrestricted	337,295	526,049	7,811,395	2,206,497	10,881,236
Total net assets	\$ 7,587,213	528,306	8,702,952	24,941,469	41,759,940
 Year ended June 30, 2011					
Operating revenues:					
Student tuition and fees, net	\$ —	785,004	850,000	—	1,635,004
Grants and contracts, noncapital	16,219,818	—	—	—	16,219,818
Sales and services of auxiliary enterprises, net	—	758,740	16,770,571	—	17,529,311
Other	1,583,253	—	—	—	1,583,253
Total operating revenues	17,803,071	1,543,744	17,620,571	—	36,967,386

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

Year ended June 30, 2011	Humboldt State University Sponsored Programs Foundation	Associated Students of Humboldt State University	Humboldt State University Center Board of Directors	Humboldt State University Advancement Foundation	Total
Operating expenses:					
Instruction	\$ 916,972	—	—	—	916,972
Research	7,428,118	—	—	—	7,428,118
Public service	6,092,426	—	—	—	6,092,426
Academic support	344,786	—	—	—	344,786
Student services	1,051,770	—	—	—	1,051,770
Institutional support	844,783	—	—	—	844,783
Operation and maintenance of plant	242,268	—	—	—	242,268
Student grants and scholarships	1,510,258	—	—	—	1,510,258
Auxiliary enterprise expenses	1,453,445	1,563,376	16,804,174	—	19,820,995
Depreciation and amortization	218,374	2,773	208,466	—	429,613
Total operating expenses	<u>20,103,200</u>	<u>1,566,149</u>	<u>17,012,640</u>	—	<u>38,681,989</u>
Operating income (loss)	(2,300,129)	(22,405)	607,931	—	(1,714,603)
Net nonoperating revenues (expenses)	2,008,243	11,248	2,542,091	3,695,815	8,257,397
Income (loss) before other additions	(291,886)	(11,157)	3,150,022	3,695,815	6,542,794
Additions to permanent endowments	—	—	—	1,017,810	1,017,810
Increase (decrease) in net assets	(291,886)	(11,157)	3,150,022	4,713,625	7,560,604
Beginning net assets, July 1, 2010	8,644,823	539,463	5,552,930	20,227,844	34,965,060
Restatements	<u>(765,724)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(765,724)</u>
Ending net assets, June 30, 2011	<u>\$ 7,587,213</u>	<u>528,306</u>	<u>8,702,952</u>	<u>24,941,469</u>	<u>41,759,940</u>

The auxiliary organizations are presented in the accompanying financial statements as discretely presented 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, food

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

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service, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the University and the financial statements do not purport to, and do not, present fairly the financial position of the State or the System as of June 30, 2011 and the changes in their financial position, or, where applicable, their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. In addition, the financial statements have not been audited (see Note 1).

(b) Basis of Presentation

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

(d) Classification of Current and Noncurrent Assets (Other Than Investments) and Liabilities

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

HUMBOLDT STATE UNIVERSITY

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

(e) ***Cash Equivalents and Statement of Cash Flows***

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

(f) ***Investments***

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

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

(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 and intangible assets, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such costs include, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the State. 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, construction work in progress, and certain intangible assets, are depreciated or amortized 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 and amortization 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.

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(h) Deferred Revenue

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

(i) Compensated Absences

Compensated absences are recognized when the right to receive the compensation is earned by the employees. Vacation is accrued on a monthly basis. The University uses an employee's current pay rate as of July 1, 2011 to calculate the liability for accrued compensated absences. The University employees pay rates are based on length of service and job classifications.

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

(k) Net Assets

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

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

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

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

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

(l) Classification of Revenues and Expenses

The University considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or

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

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

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

In fiscal year 2011, the State received federal education grants that were passed on to school districts and the State's universities to restore state appropriations. The Governor had filed an application with the federal government to receive the State's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The federal education grants have been appropriated to the System by the State and reported separately under the caption of other federal nonoperating grants, noncapital in nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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

(m) Internal Services Activities

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

(n) Income Taxes

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

HUMBOLDT STATE UNIVERSITY

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June 30, 2011

trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

(o) *Eliminations*

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

(p) *Use of Estimates*

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

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2011 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 76,445
Short-term investments	48,683,517
Other long-term investments	<u>5,053,288</u>
Total investments	<u>53,736,805</u>
Total cash, cash equivalents and investments	\$ <u>53,813,250</u>

(a) *Cash and Cash Equivalents*

At June 30, 2011, cash and cash equivalents consisted of demand deposits held at commercial banks and petty cash. Total cash and cash equivalents of \$0.08 million had a corresponding carrying balance with the commercial banks of \$0.6 million at June 30, 2011. 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.

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Notes to Financial Statements

June 30, 2011

(b) Investments

At June 30, 2011, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the 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, high grade corporate and fixed income securities, 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. The University has formal duration guidelines to manage its interest rate risk. The duration guidelines include limits on the maximum maturity of any individual investment in the portfolio and average duration of the investment portfolio. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University identifies and manages the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that the callable investments will not be called. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2011 is presented in the table on page 24.

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.

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's allocated share of the California State University Investment Pool and the SMIF as of June 30, 2011:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end					Not rated
			AAA	AA	A	BBB		
Money Market Mutual Funds	\$ 94,000	---	\$ 94,000	—	—	127,655	—	—
Repurchase Agreements	127,655	0.003	—	—	—	—	—	—
Commercial Paper (CP)	4,007,527	0.075	—	—	—	4,007,527	—	—
Certificates of Deposit (CD)	7,493,460	0.410	—	501,958	4,880,748	—	—	2,110,754
US Agencies	16,763,493	1.204	11,526,908	—	5,236,585	—	—	—
US Treasury	7,185,548	1.445	—	—	—	—	—	7,185,548
Corporate and Fixed Income Securities	17,705,643	1.700	6,666,375	4,610,802	6,398,354	30,112	—	—
Mortgage Backed Securities	287,484	7.550	243,104	44,380	—	—	—	—
SMIF	1,972,366	0.640	—	—	—	—	—	1,972,366
Total investments	<u>\$ 55,637,176</u>		<u>\$ 18,530,387</u>	<u>5,157,140</u>	<u>20,650,869</u>	<u>30,112</u>	<u>—</u>	<u>11,268,668</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, 2011, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Federal Home Loan Bank notes guaranteed by the federal government \$6.3 million (11.3%), Federal Home Loan Mortgage Corporation notes \$6.3 million (11.2%), and Federal National Mortgage Association notes guaranteed by the federal government \$3.5 million (6.3%).

Risk and Uncertainties

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

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

For information regarding the investments of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

(4) Accounts Receivable

Accounts receivable at June 30, 2011 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	1,147,418	1,147,418
Auxiliary organizations	370,016	—	370,016
Student accounts	726,361	—	726,361
Government grants and contracts	7,752	—	7,752
Other	450,078	395,209	845,287
	1,554,207	1,542,627	3,096,834
Less allowance for doubtful accounts	(534,264)	—	(534,264)
Total	\$ 1,019,943	1,542,627	2,562,570

(5) Student Loans Receivable

Student loans receivable, net at June 30, 2011 consisted of the following:

Perkins loans	\$ <u>4,575,819</u>
Total student loans receivable, gross	4,575,819
Less allowance for doubtful accounts	<u>(1,022,040)</u>
Total student loans receivable, net	<u>\$ 3,553,779</u>

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2011

(6) Capital Assets

Capital assets activity for the year ended June 30, 2011 consisted of the following:

	<u>Balance, June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2011</u>
Nondepreciable/nonamortizable capital assets:					
Land and land improvements	\$ 3,934,725	—	—	30,391	3,965,116
Works of art and historical treasures	152,941	—	—	—	152,941
Construction work in progress	<u>52,125,860</u>	<u>9,140,837</u>	<u>—</u>	<u>(55,672,707)</u>	<u>5,593,990</u>
Total nondepreciable/nonamortizable capital assets	<u>56,213,526</u>	<u>9,140,837</u>	<u>—</u>	<u>(55,642,316)</u>	<u>9,712,047</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	251,961,190	11,360	—	55,245,338	307,217,888
Improvements, other than buildings	10,156,256	—	—	396,978	10,553,234
Infrastructure	37,046,154	448,260	—	—	37,494,414
Personal property:					
Equipment	12,097,729	1,261,937	(683,147)	—	12,676,519
Library books and materials	13,507,806	153,928	(31,431)	—	13,630,303
Intangible assets	<u>12,132,128</u>	<u>8,838</u>	<u>—</u>	<u>—</u>	<u>12,140,966</u>
Total depreciable/amortizable capital assets	<u>336,901,263</u>	<u>1,884,323</u>	<u>(714,578)</u>	<u>55,642,316</u>	<u>393,713,324</u>
Total cost	393,114,789	11,025,160	(714,578)	—	403,425,371

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Notes to Financial Statements

June 30, 2011

	<u>Balance, June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2011</u>
Less accumulated depreciation/ amortization:					
Buildings and building improvements	\$ (124,793,396)	(7,169,021)	—	—	(131,962,417)
Improvements, other than buildings	(5,030,538)	(431,516)	—	—	(5,462,054)
Infrastructure	(11,903,324)	(796,048)	—	—	(12,699,372)
Personal property:					
Equipment	(9,672,076)	(765,901)	282,375	—	(10,155,602)
Library books and materials	(12,749,969)	(184,564)	53,931	—	(12,880,602)
Intangible assets	(1,135,859)	(1,739,713)	—	—	(2,875,572)
Total accumulated depreciation/ amortization	<u>(165,285,162)</u>	<u>(11,086,763)</u>	<u>336,306</u>	<u>—</u>	<u>(176,035,619)</u>
Net capital assets	<u>\$ 227,829,627</u>	<u>(61,603)</u>	<u>(378,272)</u>	<u>—</u>	<u>227,389,752</u>

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

(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 \$13.0 million at June 30, 2011. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.6% to 5.9% and have terms expiring in various years through 2017.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2014. The leases can be canceled if the State does not provide adequate funding.

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

	Capital leases	Operating leases
Year ending June 30:		
2012	\$ 2,463,537	362,455
2013	2,432,585	9,821
2014	2,420,823	4,910
2015	2,399,343	—
2016 - 2017	2,828,557	—
Total minimum lease payments	12,544,845	\$ 377,186
Less amount representing interest	(1,389,925)	
Present value of future minimum lease payments	11,154,920	
Less current portion	(2,010,920)	
Capital lease obligations, net of current portion	\$ 9,144,000	

Lease financing is provided to the System for the construction of various System and campus facilities through its participation with the State in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2011 totaled \$804.7 million.

(8) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the System, and the Community Colleges. Financing provided to the University through State General Obligation Bonds is not allocated to the System by the State. This debt remains the obligation of the State and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the State related to System projects is approximately \$2.7 billion as of June 30, 2011.

(b) Revenue Bond Programs

The Revenue Bond Act of 1947 provides the Trustees with the ability to issue revenue bonds to fund specific self-supporting programs. The statute has enabled the Trustees to finance student housing,

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

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

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

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

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

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

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lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects.

The University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2011 was \$59,995,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,618,713,000 in Systemwide Revenue Bonds issued through fiscal year 2011. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$6,048,938,884. In fiscal year 2011, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$226,515,000 and \$309,165,000, respectively.

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Long-term debt obligations of the University as of June 30, 2011 consist of the following:

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding at June 30
Systemwide revenue bonds:				
Student Union Series 2002A	4.25% – 5.50%	2030/31	\$ 3,490,000	2,890,000
Student Union Series 2004A	3.50% - 5.25%	2034/35	3,845,000	3,435,000
Housing Series 2005A	3.25% – 5.00%	2016/17	2,985,000	1,675,000
Housing Series 2005B	5.00%	2021/22	6,145,000	4,520,000
Housing Series 2009A	2.50% - 6.00%	2040/41	47,475,000	47,475,000
Other:				
GE Capital Public Finance, Inc.	4.40%	2015	4,248,167	<u>2,164,180</u>
		Total		62,159,180
Unamortized bond premium				231,968
Unamortized loss on refunding				<u>(1,067,784)</u>
		Total long-term debt		61,323,364
Less current portion				<u>(1,826,250)</u>
		Long-term debt, net of current portion		<u>\$ 59,497,114</u>

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

	Principal	Interest	Total
Year ending June 30:			
2012	\$ 1,826,250	3,152,793	4,979,043
2013	1,903,752	3,081,959	4,985,711
2014	2,002,028	2,997,246	4,999,274
2015	2,096,111	2,903,240	4,999,351
2016	2,196,039	2,803,474	4,999,513
2017 – 2021	8,560,000	12,668,972	21,228,972
2022 – 2026	8,225,000	10,538,098	18,763,098
2027 – 2031	10,010,000	8,192,388	18,202,388
2032 – 2036	11,505,000	5,330,210	16,835,210
2037 – 2041	<u>13,835,000</u>	<u>2,023,436</u>	<u>15,858,436</u>
	<u>\$ 62,159,180</u>	<u>53,691,816</u>	<u>115,850,996</u>

For information regarding the long-term debt obligations of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

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(9) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2011 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Accrued compensated absences	\$ 5,702,263	2,641,808	(3,222,902)	5,121,169	3,222,902
Capitalized lease obligations (note 7)	13,098,601	—	(1,943,681)	11,154,920	2,010,920
Long-term debt obligations (note 8):					
Systemwide Revenue					
Bonds – Student Union	6,485,000	—	(160,000)	6,325,000	160,000
Systemwide Revenue					
Bonds – Housing	54,210,000	—	(540,000)	53,670,000	1,270,000
Other	2,543,669	—	(379,489)	2,164,180	396,250
Total	63,238,669	—	(1,079,489)	62,159,180	1,826,250
Unamortized bond premium	259,480	—	(27,512)	231,968	—
Unamortized loss on refunding	(1,130,105)	—	62,321	(1,067,784)	—
Total long-term debt obligations	<u>62,368,044</u>	<u>—</u>	<u>(1,044,680)</u>	<u>61,323,364</u>	<u>1,826,250</u>
Total long-term liabilities	<u>\$ 81,168,908</u>	<u>2,641,808</u>	<u>(6,211,263)</u>	<u>77,599,453</u>	<u>7,060,072</u>

(10) Pension Plan and Postretirement Benefits

(a) Pension Plan

Plan Description

The University, as an agency of the State, contributes to the California Public Employees' Retirement System (CalPERS). The State's plan with CalPERS is an agent multiple-employer defined benefit pension 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. The plan also provides survivor, death, and disability benefits. Eligible

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employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits.

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

Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 18.2% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2009	\$ 9,585,652
2010	8,925,392
2011	10,263,588

(b) Postretirement Healthcare Plan

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

Plan Description

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

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

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

Funding Policy

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

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

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

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Annual OPEB Cost and Net OPEB Obligation

The following table shows the total annual required contribution (ARC) for the University's allocated portion of the postretirement healthcare plan, net of dental benefit portion, the amount contributed to the plan by the University, and changes in the University's net OPEB obligation (NOO) for billable accounts for the fiscal year ended 2011:

Billable accounts only:		
Annual required contribution (ARC)	\$ 610,549	
Contributions during the year	<u>(238,547)</u>	
Increase in net OPEB obligation (NOO)	372,002	
NOO – beginning of year	<u>1,134,050</u>	
NOO – end of year	\$ <u>1,506,052</u>	
Percentage of annual OPEB cost contributed during the year ended June 30, 2011		39%

Actuarial Methods and Assumptions and Plan Funding Information

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

Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2011 and 9.00% in 2012, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011.

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(11) Self-Insurance Program

The System and certain auxiliary organizations have established the California State University Risk Management Authority (CSURMA), a blended component unit of the System, to centrally manage workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The liability included in the accompanying financial statements reflects the estimated ultimate cost of settling claims related to events that have occurred on or before June 30, 2011. The liability includes estimated amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is also reduced by estimated amounts recoverable from the reinsurer that are related to the liabilities for unpaid claims and claim adjustment expenses. The liability is estimated through an actuarial calculation using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2011.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2011 are as follows:

Liability at June 30, 2009	\$ 70,748,000
Incurred claims and changes in estimates	43,097,000
Claim payments	<u>(26,536,000)</u>
Long-term liability at June 30, 2010	87,309,000
Incurred claims and changes in estimates	21,270,000
Claim payments	<u>(20,338,000)</u>
Long-term liability at June 30, 2011	88,241,000
Less current portion	<u>(25,473,000)</u>
Long-term liability at June 30, 2011, net of current portion	\$ <u>62,768,000</u>

For the year ended June 30, 2011, the CSURMA purchased excess insurance to protect the Members from catastrophic losses. The CSURMA maintained excess public entity liability insurance coverage provided by School Excess Liability Fund (SELF), a Joint Power Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence until December 2009, Ironshore Specialty Insurance Company and other various insurers with coverage for individual claims above \$5,000,000 and up to \$200,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (Chartis) to statutory limits in excess of the \$2,500,000 self-insured retention. For the Auxiliary Organizations' Risk Management Authority (AORMA) Workers' Compensation Program, the CSURMA purchased excess workers' compensation insurance provided by Safety National to Statutory limit in excess of \$500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

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Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2011 was approximately 2%, or \$1,425,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2011. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

There is no amount due to or from CSURMA as of June 30, 2011.

(12) Commitments and Contingencies

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

Authorized but unexpended expenditures for construction projects as of June 30, 2011 totaled \$4.0 million. These expenditures will be funded primarily from state appropriations and Systemwide Revenue Bonds.

As of June 30, 2011, in order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts of natural gas and electricity operated by the Department of General Services (DGS) and Shell Energy North America (Shell), respectively. The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$5.3 million and \$2.4 million of natural gas and electricity at fixed prices through 2017 and 2014, respectively.

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(13) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2011, operating expenses by natural classification consisted of the following:

	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:						
Instruction	\$ 29,385,568	10,978,892	—	4,117,137	—	44,481,597
Public service	281,096	56,924	—	24,619	—	362,639
Academic support	7,721,172	3,196,046	—	2,219,402	—	13,136,620
Student services	9,151,614	3,857,955	—	3,437,463	—	16,447,032
Institutional support	9,244,848	3,865,061	—	3,651,205	—	16,761,114
Operation and maintenance of plant	6,254,410	2,924,343	—	5,971,865	—	15,150,618
Student grants and scholarships	—	—	20,537,210	—	—	20,537,210
Auxiliary enterprise expenses	2,771,269	1,283,474	—	3,200,691	—	7,255,434
Depreciation and amortization	—	—	—	—	11,086,763	11,086,763
Total	\$ 64,809,977	26,162,695	20,537,210	22,622,382	11,086,763	145,219,027

(14) Transactions with Related Entities

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$73.2 million for the year ended June 30, 2011. The University also received lottery fund distributions from the State in the amount of \$0.9 million for the year ended June 30, 2011, which is included in other nonoperating revenues (expenses) in the accompanying statement of revenues, expenses, and changes in net assets.

As discussed in notes 7 and 8, the University has recorded capital assets that have been financed by System or State obligations. These obligations are not reflected in the accompanying financial statements. For the year ended June 30, 2011, \$4.3 million 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, 2011:

Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 1,810,680
Payments from recognized auxiliary organizations for other than salaries of University employees	2,026,128
Payments to recognized auxiliary organizations for services, space and programs	1,437,026
Gifts in kind to the University from recognized Auxiliary Organizations	200,915
Gifts (cash or assets) to the University from recognized auxiliary organizations	425,435
Accounts receivable from recognized auxiliary organizations	370,016
Other amounts receivable from recognized auxiliary organizations	32,105
Accounts payable to recognized auxiliary organizations	(279,938)
Other amounts payable to recognized auxiliary organizations	(439,500)
Payments to the Office of the Chancellor for administrative activities	90,801
Payments to the Office of the Chancellor for State pro rata charges	258,084
Amounts receivable from the Office of the Chancellor	23,811
Amounts receivable from Campuses other than the Office of the Chancellor	1,228
State lottery appropriations received	946,550

(15) Subsequent Events

In July 2011, the state legislature created a new investment vehicle at the state level in which the System may invest funds. Senate Bill 79 created the State Agency Investment Fund (SAIF), under new Government Code section 16330, which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. Pursuant to a memorandum of understanding between the System and the State, the System transferred \$700 million from the California State University Investment Pool to the SAIF in September 2011. The System will earn interest income at an annual rate of 2.0% through April 2013.

In August, 2011, Standard & Poor's Rating Services lowered the long-term debt rating of the U.S. government and federal agencies from AAA to AA+. The University has \$7.8 million, or 14% of total investment in US Agency and Treasury securities as of June 30, 2011.

In September 2011, Standard & Poor's Ratings Services changed its outlook on the Systemwide Revenue Bonds from stable to positive. With the change in outlook, Standard & Poor's Ratings Services affirmed its A+ rating on the Systemwide Revenue Bonds.

In September 2011, the System issued its Systemwide Revenue Bond Series 2011A in the amount of \$429,855,000. In addition to providing funding for projects around the System, proceeds of the Systemwide Revenue Bond Series 2011A were also used to pay off \$71,000,000 of Bond Anticipation Notes and refund \$80,710,000 of previously outstanding Systemwide Revenue Bond Series 2002A and \$112,350,000 of previously outstanding Systemwide Revenue Bond Series 2003A.