

**HUMBOLDT STATE UNIVERSITY  
ADVANCEMENT FOUNDATION**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Including Schedules Prepared for Inclusion  
in the Financial Statements of the  
California State University**

**Years Ended June 30, 2013 and 2012**

## TABLE OF CONTENTS

<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 7
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 25
<b>OTHER SUPPLEMENTARY INFORMATION:</b>	
Schedule of Net Position	26
Schedule of Revenues, Expenses, and Changes in Net Position	27
Other Information	28 - 33
Note to Supplementary Information	34
<b>ADDITIONAL INFORMATION:</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35 - 36
Schedule of Findings	37
Management Response	38

1315 Fourth Street  
Eureka, California 95501

# Hunter, Hunter & Hunt, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Members of the AICPA

Phone 707-476-0674  
Fax 707-476-0675  
www.hhh-cpa.com

## INDEPENDENT AUDITORS' REPORT

Humboldt State University Advancement Foundation  
Board of Directors  
Arcata, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Humboldt State University Advancement Foundation as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which comprise the Foundation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. According, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Humboldt State University Advancement Foundation as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The schedule of net position, the schedule of revenues, expenses and changes in net position, and other information (supplementary information on pages 26 - 34) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of Humboldt State University Advancement Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Hunter, Hunter & Hunt*

September 26, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Management's Discussion and Analysis

June 30, 2013 and 2012

This section of the annual financial report of Humboldt State University Advancement Foundation (the Foundation) presents the Foundation's discussion and analysis of the financial performance of the Foundation for the fiscal year ended June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

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

This annual report consists of a series of financial statements prepared in accordance with 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*. This standard is applicable to the Foundation as it is a component unit of Humboldt State University (the University). Consistent with the University, the Foundation has adopted the business-type activity (BTA) reporting model to represent its activities.

The financial statements include the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements 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 Foundation.

**Statements of Net Position** – The statements of net position include all assets and liabilities. Assets and liabilities are generally reported on an accrual basis, as of each statement date. The statements also identify major categories of restrictions on the net position of the Foundation.

**Statements of Revenues, Expenses, and Changes in Net Position** – The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the years on an accrual basis.

**Statements of Cash Flows** – The statements of cash flows present the inflows and outflows of cash for the years and are summarized by operating, noncapital financing, capital and related financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for each year's activities.

### **Analytical Overview**

#### **Summary**

The following discussion highlights management's understanding of the key financial aspects of the Foundation's financial activities. Included is an analysis of current and prior year activities and balances; a discussion of the Foundation's net position restrictions; and factors impacting future reporting periods. At the request of the Board of Directors of the Foundation, there are reclassifications to the prior year financial statement balances to display more relevant detail with regards to the financial statement line items.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**  
Management's Discussion and Analysis  
June 30, 2013 and 2012

**Condensed Summary of Net Position**

	June 30		Change (in millions)
	2013	2012	
<b>Assets:</b>			
Current assets	\$ 4,309,970	\$ 1,530,713	\$ 2.78
Long-term assets	27,230,751	24,887,489	2.34
Total assets	<u>31,540,721</u>	<u>26,418,202</u>	<u>5.12</u>
<b>Liabilities:</b>			
Current liabilities	463,698	193,754	0.27
Long-term liabilities	2,000,000	2,535,000	(0.54)
Total liabilities	<u>2,463,698</u>	<u>2,728,754</u>	<u>(0.27)</u>
<b>Net position:</b>			
Restricted for: nonexpendable - endowments	16,185,794	15,591,458	0.59
Restricted for: expendable - other	10,055,488	6,201,128	3.85
Unrestricted	2,835,741	1,896,862	0.94
Total net position	<u>\$ 29,077,023</u>	<u>\$ 23,689,448</u>	<u>\$ 5.39</u>

**Assets**

Current Assets

Total current assets increased \$2.78 million primarily due to an increase in the Local Agency Investment Fund (LAIF) savings account. The increase of funds resulted from a transfer of trust funds from the Humboldt State University Sponsored Programs Foundation (Sponsored Programs Foundation) and the University to the Foundation. These transfers were initiated to support the University direction of having the Foundation provide oversight for all donor related funds. As trusts are not invested with the endowments, their cash is held with the LAIF.

Long-term Assets

Long-term assets increased \$2.34 million; the current investment gain of \$1.61 million was the most significant change. There was also an addition of 27 new endowments to the pool which is a result of both transfers from the University and new endowment gifts to the Foundation.

**Liabilities**

Current Liabilities

Total current liabilities increased \$0.27 million primarily due to timing of when payments were made at year-end. Accrued liabilities include payments related to a business management services agreement of \$0.05 million, a transfer of \$.18 million from the Foundation to the University in support of the University's operations, and a transfer of \$0.10 million from the Foundation to KHSU's operating fund held at the University.

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Management's Discussion and Analysis

June 30, 2013 and 2012

### Long-Term Liabilities

Long-term liabilities consist of a California State University Risk Management Authority (CSURMA) loan granted to the Foundation on August 26, 2008. The proceeds of \$2,535,000 financed the acquisition of property located in Arcata, California. The loan is unsecured. All principal and any remaining unpaid interest was due and payable on October 31, 2013. Management paid \$535,000 of the principal loan balance during the current year and extended the due date of the remaining \$2 million loan balance until October 2017.

The loan is non-amortizing, with interest due and payable quarterly. Principal may be prepaid at any time during the term of the loan. The loan may be assigned to another auxiliary related to the University upon request of the campus President and approval of the CSURMA Chair and Treasurer.

### **Net Position**

Total net position increased \$5.39 million from the prior year. The Foundation's net position as of June 30, 2013 consists of:

#### Restricted for: non-expendable –endowments - \$16,185,794

Represents endowments created by a multitude of donors over time. These endowments are intended to provide a perpetual and consistent level of financial support for the University. Net investment depreciation reduces this net position category if the endowments' market value is below historic gift value. If the endowments' market value is above historic gift value then the net investment appreciation is recorded under the restricted for: expendable – other or unrestricted net position category dependent upon if there is an underlying purpose restriction.

#### Restricted for: expendable - other - \$10,055,488

Represents net position restricted by external restrictions, but available for spending authorized by the Foundation. This category includes quasi and term endowments with a restricted purpose, trusts restricted to a purpose, and investment appreciation above endowment corpus.

#### Unrestricted - \$2,835,741

Represents the Foundation's general operating fund along with any Board designated funds including unrestricted quasi-endowments and unrestricted investment appreciation above endowment corpus. This category is not restricted by external restrictions. Its use is designated by the Board of Directors of the Foundation.



**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Management's Discussion and Analysis

June 30, 2013 and 2012

**Condensed Summary of Revenues, Expenses, and Changes in Net Position**

	Year ended June 30		Change (in millions)
	2013	2012	
Total operating revenues	\$ 399,150	\$ 334,723	\$ 0.06
Total operating expenses	(1,063,330)	(397,834)	(0.67)
Operating loss	(664,180)	(63,111)	(0.60)
Nonoperating revenues (expenses):			
Gifts	4,107,115	3,268,970	0.84
Non-endowment investment income (loss), net	114,442	(11,941)	0.13
Endowment investment income (loss), net	1,904,951	(395,698)	2.30
Interest expense	(16,347)	(18,407)	0.00
Other nonoperating revenue, net	140,927	415,291	(0.27)
Net nonoperating revenues (expenses)	6,251,088	3,258,215	3.00
Income before other additions	5,586,908	3,195,104	2.39
Additions to permanent endowments	120,956	389,168	(0.27)
Net transfers to other campus entities	(320,289)	(3,239,215)	2.92
Increase in net position	5,387,575	345,057	5.04
Beginning net position	23,689,448	23,344,391	0.35
Ending net position	\$ 29,077,023	\$ 23,689,448	\$ 5.39

**Operating Revenues and Expenses**

Operating revenues and expenses come from sources that are connected directly to the Foundation's primary business function. This includes revenues collected by the Foundation from endowment funds to operate the Foundation. Operating expenses are reported by functional program which are institutional support, public service, academic support, and student services.

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses include gifts, investment income, endowment income, and interest expense. Net nonoperating revenue of \$6.30 million increased \$3.00 million from the prior year due to the following factors:

Gifts increased \$0.84 million due to the establishment of a \$0.50 million quasi-endowment, an increase of \$0.09 million in fundraising, and an increase of \$0.65 million in campus support from the Sponsored Programs Foundation, most of which was used for the payment of the CSURMA loan for the HSU Corporate Yard and Building. These increases were offset by a decrease in private contributions of \$0.04 million.

Net non-endowment investment income increased \$0.13 million and net endowment investment income increased \$2.3 million, due to a general upturn in the financial market.

Due to a current year change in the accounting for transfers from auxiliaries, other nonoperating revenue decreased \$0.27 million. In the prior year, these transfers were recorded as "cost recovery", which are classified as non-operating revenues. In the current year, the transfers were recorded as "non-exchange donations", which are classified as gifts.

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Management's Discussion and Analysis

June 30, 2013 and 2012

Additions to permanent endowments decreased \$0.27 million. The Foundation received \$0.07 million for the establishment of new endowments in the current year, but there was an overall decrease in endowment donations compared to the prior year. In addition, \$0.07 million in charitable remainder trust pledges recognized as endowment additions in prior year were reversed in the current year because recognition is not allowed per GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Net transfers to other campus entities decreased \$2.92 million. During the current year, the Foundation received and recorded transfers of state and auxiliary trusts and endowments totaling \$2.00 million. The transfer of funds into the organization greatly offset transfers out to other campus entities in the current year, resulting in a decreased net transfer out to other campus entities when compared to the prior year. In addition, \$0.90 million of the decrease is due to decreased transfers to the University and related auxiliary organizations to support campus activities and programs.

### **Advancement Foundation Policies and Procedures**

On March 22, 2013, the Foundation Board approved the revised investment policy and procedure. The policy establishes a framework for the investment of Foundation assets, and ensures future growth of these assets. Management believes that this framework is sufficient to allow for normal inflation plus reasonable spending. The goal of this policy is to preserve the constant dollar value and purchasing power of the assets for future generations. The policy establishes appropriate risk and return objectives in light of the fund's risk tolerance and investment time horizon. The policy establishes target asset allocations, performance monitoring procedures, and identifies the roles of key responsible parties.

On March 9, 2012, the Foundation Board approved the earning distribution policy and procedure. The policy establishes a target net return of 4.5% of the Foundation's average total market value during the twelve quarters ending with the last quarter of the previous fiscal year. The actual net return rate will be approved annually by the Board of Directors. Until there are twelve full quarters of history, the average total market value calculation will include as many quarters as possible. Earnings, described as realized and unrealized gains and losses, interest and dividend income, shall generally be available for distribution from those participant accounts invested for two or more quarters. Distributions for participant accounts invested for less than four quarters at the end of the fiscal year, will be prorated based on the number of quarters invested. The actual distribution will occur in July based on the level recommended by the Finance Committee and must be approved annually by the Board of Directors.

### **Factors Impacting Future Periods**

The economy has been very volatile the past couple of years but the fair market value of the total endowment balance is greater than the corpus as of June 30, 2013. The Foundation's Board takes an active role in managing the Foundation's investments. However volatility in the economy impacts the Foundation's investment portfolio and could impact the Foundation's ability to support the University.

## **BASIC FINANCIAL STATEMENTS**

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

**Statements of Net Position  
June 30, 2013 and 2012**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 124,566	\$ 56,091
Short-term investments	3,995,572	1,129,440
Pledges receivable, current	86,715	87,360
Prepaid expenses and other assets	250	-
Interest receivable	2,379	1,026
Other receivable	100,488	256,796
Total current assets	<u>4,309,970</u>	<u>1,530,713</u>
<b>Long-term assets</b>		
Pledges receivable, noncurrent	172,215	258,500
Endowment investments	22,869,959	20,387,125
Long-term investments	3,707,014	3,687,049
Land	474,135	474,135
Other assets	7,428	80,680
Total long-term assets	<u>27,230,751</u>	<u>24,887,489</u>
<b>Total assets</b>	<b><u>\$ 31,540,721</u></b>	<b><u>\$ 26,418,202</u></b>
<b>Liabilities and Net Position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 374,314	\$ 102,041
Other payable	84,177	76,918
Unearned revenue	5,207	14,795
Total current liabilities	<u>463,698</u>	<u>193,754</u>
<b>Long-term liabilities</b>		
CSURMA loan payable	2,000,000	2,535,000
Total liabilities	<u>2,463,698</u>	<u>2,728,754</u>
<b>Net position</b>		
Restricted for: nonexpendable - endowments	16,185,794	15,591,458
Restricted for: expendable - other	10,055,488	6,201,128
Unrestricted	2,835,741	1,896,862
Total net position	<u>29,077,023</u>	<u>23,689,448</u>
<b>Total liabilities and net position</b>	<b><u>\$ 31,540,721</u></b>	<b><u>\$ 26,418,202</u></b>

See accompanying notes.



**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

**Statements of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2013 and 2012**

	2013	2012
Revenues:		
Operating revenues:		
Indirect cost - trusts	\$ 33,783	\$ -
Cost recovery	343,794	305,941
Other operating revenues	21,573	28,782
Total operating revenues	399,150	334,723
Expenses:		
Operating expenses:		
Public service	399,123	10,856
Academic support	89,656	-
Student services	150,956	-
Institutional support	423,595	386,978
Total operating expenses	1,063,330	397,834
Operating loss	(664,180)	(63,111)
Nonoperating revenues (expenses):		
Gifts		
Contributions	2,644,460	3,038,129
Special events and benefits	109,259	16,376
Campus support	789,491	132,582
Additions to quasi- and term-endowments	563,905	81,883
Total Gifts	4,107,115	3,268,970
Non-endowment investment income (loss), net	114,442	(11,941)
Endowment investment income (loss), net	1,904,951	(395,698)
Interest expense	(16,347)	(18,407)
Other nonoperating revenue	140,927	415,291
Net nonoperating revenues (expenses)	6,251,088	3,258,215
Income before other additions	5,586,908	3,195,104
Additions to permanent endowments	120,956	389,168
Net transfers to other campus entities	(320,289)	(3,239,215)
Increase in net position	5,387,575	345,057
Net position:		
Net position at beginning of year, as previously reported	23,689,448	24,941,469
Restatements	-	(1,597,078)
Net position at beginning of year, as restated	23,689,448	23,344,391
Net position at end of year	\$ 29,077,023	\$ 23,689,448

See accompanying notes.

HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Statements of Cash Flows  
Year ended June 30, 2013 and 2012

	2013	2012
<b>Cash flows from operating activities:</b>		
Received for administrative services	\$ 386,749	\$ 340,947
Payments to vendors and suppliers	(1,063,337)	(397,793)
Transfers to other campus entities	(179,362)	(3,239,215)
Other receipts (payments)	-	415,291
<b>Net cash provided by (used in) operating activities</b>	<b>(855,950)</b>	<b>(2,880,770)</b>
<b>Cash flows from noncapital financing activities:</b>		
Noncapital fees paid	-	(64,553)
Noncapital grants received	438,410	-
Noncapital gifts and endowments received	1,652,050	2,035,703
<b>Net cash provided by (used in) noncapital financing</b>	<b>2,090,460</b>	<b>1,971,150</b>
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on capital debt and leases	(535,000)	-
Interest paid on debt and leases	(16,347)	(21,753)
<b>Net cash provided by (used in) capital and related financing</b>	<b>(551,347)</b>	<b>(21,753)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	714,715	1,220,114
Investment income	738,162	674,402
Purchase of investments and related fees	(2,067,565)	(1,009,968)
<b>Net cash provided by (used in) investing activities</b>	<b>(614,688)</b>	<b>884,548</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>68,475</b>	<b>(46,825)</b>
Cash and cash equivalents at beginning of year	56,091	102,916
<b>Cash and cash equivalents at end of year</b>	<b>\$ 124,566</b>	<b>\$ 56,091</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating (loss)	\$ (664,180)	\$ (63,111)
<b>Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:</b>		
Transfers to other campus entities	(179,362)	(3,239,215)
Miscellaneous nonoperating income	-	415,291
<b>Change in assets and liabilities:</b>		
Receivables, net	(2,813)	(8,571)
Accounts payable and accrued liabilities	(7)	41
Deferred revenue	(9,588)	14,795
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (855,950)</b>	<b>\$ (2,880,770)</b>
<b>Supplemental schedule of noncash transactions:</b>		
Assets acquired through a gift	\$ 2,736,203	\$ 1,387,746
Change in fair value of investments	1,034,610	(276,576)
Increase in receivables related to nonoperating income	1,353	168,027

See accompanying notes.

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Notes to Financial Statements

June 30, 2013 and 2012

### (1) Organization

Humboldt State University Advancement Foundation (the Foundation) is organized to promote and assist the Humboldt State University (the University) campus of The California State University to receive gifts and property and to manage these resources and to make them available to the University to further the educational mission and objectives of the University as determined by the duly appointed and acting president of the University.

#### Summary of Significant Accounting Policies

##### (a) Basis of Presentation

Pursuant to the requirements established by The California State University system, the Foundation has adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62). GASB No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, that do not conflict with GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations;
- Accounting Principles Board Opinions; and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

GASB No. 62 also supersedes GASB No. 20, thereby eliminating the election provided in GASB No. 20 for enterprise funds and governments engaged in business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements. Adoption of GASB No. 62 had no impact on the basic financial statements.

As of July 1, 2012, the Foundation adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which specifies that the statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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

The financial statements required by 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*



## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Notes to Financial Statements  
June 30, 2013 and 2012

*Public Colleges and Universities* and GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. The Foundation is a component unit of the University, a public university under The California State University system. The Foundation has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the Foundation prepares its statement of cash flows using the direct method.

**(b) *Classification of Current and Long-term Assets (Other Than Investments) and Liabilities***

The Foundation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within twelve months of the statements of net position date. Liabilities that reasonably can be expected, as part of normal Foundation business operations, to be liquidated within twelve months of the statement of net position date are considered to be current. All other assets and liabilities are considered to be long-term.

**(c) *Cash and Cash Equivalents***

The Foundation considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The Foundation considers amounts included in the Local Agency Investment Fund (LAIF) to be investments.

**(d) *Pledges Receivable***

Unconditional pledges receivable are recorded as receivables and revenue. To be recorded, the pledge must be documented, reasonably measured and probable of collection. The Foundation distinguishes between contributions received for each net position category in accordance with donor-imposed restrictions. Pledges received for endowments are not recorded until received as cash. As GASB requirements neither require nor prohibit discounting pledges receivable for the time value of money, the Foundation has elected to record pledges at the full original pledged amount.

**(e) *Investments***

Investments are reflected at fair value using quoted market prices when available, except for a real estate investment which is reported at historical cost. Realized and unrealized gains and losses are included in the accompanying statements of revenues, expenses, and changes in net position as non-endowment investment income (loss), net and endowment investment income (loss), net.

Investments that are used for current operations are classified as short-term investments. Investments that are restricted for use for other than current operations are classified as other long-term investments.

**(f) *Endowment Investments***

Endowment investments consist of approximately 160 individual funds established for a variety of purposes. Endowment investments are reflected at fair value using quoted market prices when



## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Notes to Financial Statements

June 30, 2013 and 2012

available, except for a plot of land recorded as a real estate investment, which in accordance with GASB 52, is reflected at fair value based on an appraisal. The endowments include true endowment funds, quasi-endowments, and term endowments.

A true endowment is a fund created by a donor (or other external party) with the stipulation, as a condition of the gift instrument, that the principal is to be maintained and invested in perpetuity to produce income, investment growth, or both. This type of endowment is also referred to as a permanent endowment.

A quasi-endowment fund is created when the Foundation's governing board elects to invest currently available resources as if they were subject to endowment restrictions. A determination is made that a portion of currently available resources should be invested for the long term rather than spent for current purposes. The source of quasi-endowments may be unrestricted or restricted expendable. If it is the former, the quasi-endowment will be classified as unrestricted. If it is the latter, the quasi-endowment will be classified as restricted expendable. Quasi-endowments are also referred to as funds functioning as endowments.

Term endowments are created when a donor (or other external party) specifies that the funds must be held and invested until the passage of a specified time or the occurrence of a specified event. The donor (or other external party) also specifies what is to be done with the income and investment growth during the specified period. Term endowments are classified as restricted expendable if the funds will ultimately be made available for spending or if contributions are below a set dollar threshold. If the funds ultimately will be added to a true endowment, the term endowment is classified as restricted nonexpendable.

### **(g) Unearned Revenue**

Unearned revenue consists of payments made in advance for underwriting to be performed by the KHSU radio station at a future date.

### **(h) Net Position**

The Foundation's net position is classified into the following net position categories:

**Restricted for: nonexpendable – endowments** – Net position subject to externally imposed conditions such that the Foundation retains the endowments in perpetuity. Net position in this category consists of endowments held by the Foundation.

**Restricted for: expendable - other** – Net position subject to externally imposed conditions that can be fulfilled by the actions of the Foundation or by the passage of time.

**Unrestricted** – All other categories of net position. In addition, unrestricted net position may be designated for use by management or the Board of Directors of the Foundation. These designations limit the area of operations for which expenditures of resources may be made and require that unrestricted resources be designated to support future operations in these areas.

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Notes to Financial Statements

June 30, 2013 and 2012

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, restricted resources are applied first. In the event that restricted resources are fully expended, unrestricted resources are expended to support the activities of restricted, expendable resources.

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

The Foundation considers operating revenues and expenses in the statements of revenues, expenses, and changes in net position to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the Foundation's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services.

Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 35. These nonoperating activities include gifts, net non-endowment investment income or loss, net endowment income or loss, interest expense, and other nonoperating revenues.

**(j) Income Taxes**

The Foundation qualifies as a tax exempt organization under the applicable sections of the Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. The open audit periods are 2009 through 2011. The Foundation has analyzed the tax positions taken for filings with the Internal Revenue Service and the State of California. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the financial statements. Accordingly, the Foundation has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013.

**(k) 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.

**(l) Reclassifications**

Certain items in the 2012 financial statements have been reclassified for comparative purposes to conform to presentation in the current year financial statements. Such reclassifications had no effect on previously reported changes in net position.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(2) Cash and Cash Equivalents and Investments**

The Foundation's cash and cash equivalents and investments as of June 30, 2013 and 2012, are classified in the accompanying statements of net position as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 124,566	\$ 56,091
Short-term investments	3,995,572	1,129,440
Long-term investments	3,707,014	3,687,049
Total investments	<u>7,702,586</u>	<u>4,816,489</u>
Total cash, cash equivalents, and investments	<u>\$ 7,827,152</u>	<u>\$ 4,872,580</u>

**(a) Cash and Cash Equivalents**

At June 30, 2013 and 2012, cash and cash equivalents consist of demand deposits held at commercial banks. At June 30, 2013, total cash and cash equivalents of \$124,566 had a corresponding carrying balance with the commercial banks of \$196,462. At June 30, 2012, total cash and cash equivalents of \$56,091 had a corresponding carrying balance with the commercial banks of \$68,166. The difference for both years is related to outstanding checks.

**Custodial Credit Risk for Deposits**

The Foundation maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. At June 30, 2013 and 2012, the Foundation's uninsured cash balance was \$0.

**(b) Short-term Investments**

At June 30, 2013 and 2012, the Foundation's short-term investment portfolio consists entirely of investments in the Local Agency Investment Fund (LAIF), a voluntary program created by statute as an alternative for California's local governments and special districts that allow affiliates to participate in a major investment portfolio. LAIF is under the administration of The California State Treasurer's Office. There are no significant interest rate risks or credit risks to be disclosed in accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3.

**(c) Long-term Investments**

Long-term investments consist of the Hydrogen Demonstration Trust asset portfolio held by US Bank, a real estate property managed by the Foundation located on Samoa Boulevard in Arcata California, and 18 shares of Baywood Country Club stock. These investments are considered non-endowed investments.



**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

<u>Investment type</u>	<u>2013</u>	<u>2012</u>
Hydrogen Demonstration Trust	\$ 1,172,781	\$ 1,152,816
Samoa Real Estate Property	2,533,016	2,533,016
Baywood Stock	1,217	1,217
Total long-term investments	<u>\$ 3,707,014</u>	<u>\$ 3,687,049</u>

The Foundation is currently holding the Samoa property with the intent to transfer ownership to the University. The Foundation currently leases the Samoa Property to the University. The lease agreement is effective until August 28, 2018; however, the University may terminate the lease at any time by giving written notice at least thirty (30) days prior to the date when such termination shall become effective. For the years ending June 30, 2013 and 2012, \$138,600 was collected in rent payments and included in other nonoperating revenues.

Investment income/(loss) on non-endowed long-term investments consists of the following:

	<u>2013</u>	<u>2012</u>
Interest, dividends, and other income	\$ 39,788	\$ 36,446
Realized gain/(loss)	16,940	(27,751)
Unrealized gain/(loss)	77,985	(190)
Fees	<u>(20,271)</u>	<u>(20,446)</u>
Total non-endowment investment income/(loss), net	<u>\$ 114,442</u>	<u>\$ (11,941)</u>

The calculation of realized gains or losses is independent of a calculation of the net change in the fair value of investments.

**(d) Endowment Investments**

Endowment investments consist of pooled master investment accounts held by US Bank and the Schatz Demonstration Tree Farm Land. The land, consisting of approximately 385 acres, was received by the Foundation in June 2005 to provide a demonstration tree farm operation for the benefit of the instructional and research needs of the students and faculty of the University and as an example for owners of small timberland parcels. Title to the land was given to the Foundation within the Declaration of Trust executed in December 1987 which also dictates ownership transfer and use of the land.

<u>Investment type</u>	<u>2013</u>	<u>2012</u>
Endowment pooled investments	\$ 22,869,959	\$ 20,387,125
Schatz tree farm land	474,135	474,135
Total long-term investments	<u>\$ 23,344,094</u>	<u>\$ 20,861,260</u>



**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

Endowment income/(loss) on endowment investments consists of the following:

	<u>2013</u>	<u>2012</u>
Interest, dividends, and other income	\$ 699,727	\$ 637,712
Realized gain/(loss)	657,008	(390,679)
Unrealized gain/(loss)	956,625	(276,387)
Fees	<u>(408,409)</u>	<u>(366,344)</u>
Total endowment investment income/(loss), net	<u>\$ 1,904,951</u>	<u>\$ (395,698)</u>

The endowment investment accounts are connected to master investment accounts. The master investment accounts record all changes in the market value of the investments including realized and unrealized gains and losses, interest and dividend income, as well as lease income from a real estate investment. The investment returns are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) authorizes the spending of corpus and net appreciation. California adopted this act on September 30, 2008, with the passage of Senate Bill 1329. The Board of Directors understands that UPMIFA requires it to balance the goal of providing a consistent level of support for charitable purposes with the goal of protecting the value of endowment against inflation absent explicit donor stipulations to the contrary. As a result of this interpretation the Foundation classifies the original value of the gift donated along with original value of subsequent gifts donated to the permanent endowment. These are included in the restricted for: nonexpendable – endowment net position category on the statements of net position. The Foundation's objective is to make available for the charitable purposes of the endowment an amount equal to 4.5% of the average total market value during the 12 quarters ending with the last quarter of the previous fiscal year. The Foundation annually reviews its endowment funds taking into account the required prudence evaluation as guided by UPMIFA which requires considering the donor's intent, contractual agreements with donors, as well as several economic factors. For the fiscal years ending June 30, 2013 and 2012, the Board of Directors authorized a distribution rate of 4%.

If the endowments' market value is above corpus then the net investment appreciation, realized and unrealized, is reported in the restricted for: expendable – other or unrestricted net position category on the statements of net position until appropriated for spending pursuant to donor agreements. If the endowments' market value is below corpus then the net investment depreciation, realized and unrealized, is reported in the restricted for: nonexpendable - endowment net position category on the statements of net position.

Endowment distributions of \$738,773 were made in the current year compared to \$744,288 in the prior year. The Board of Directors of the Foundation has approved a distribution for the upcoming fiscal year ending June 30, 2014.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(e) Composition of Investments**

	<b>2013</b>	
	<b>Current Unrestricted</b>	<b>Noncurrent Restricted</b>
State of California Local Agency Investment Fund (LAIF)	\$ 3,995,572	\$ -
Equity securities	-	9,290,234
Fixed income securities (Treasury notes, GNMA's)	-	6,040,660
Land and other real estate	-	5,789,070
Mutual funds	-	5,844,677
Money market funds	-	86,467
Total investments	<u>3,995,572</u>	<u>27,051,108</u>
Less endowment investments	-	(23,344,094)
Total non-endowment investments	<u>\$ 3,995,572</u>	<u>\$ 3,707,014</u>

	<b>2012</b>	
	<b>Current Unrestricted</b>	<b>Noncurrent Restricted</b>
State of California Local Agency Investment Fund (LAIF)	\$ 1,129,440	\$ -
Equity securities	-	8,654,385
Fixed income securities (Treasury notes, GNMA's)	-	6,232,141
Land and other real estate	-	5,724,304
Mutual funds	-	3,777,365
Money market funds	-	160,114
Total investments	<u>1,129,440</u>	<u>24,548,309</u>
Less endowment investments	-	(20,861,260)
Total non-endowment investments	<u>\$ 1,129,440</u>	<u>\$ 3,687,049</u>

**(f) Investment Costs and Fair Market Value**

All investments are stated at their fair market value other than the Samoa real estate investment which is reported at historical cost based on the purchase price on August 29, 2008.

The fair value of all investments other than the Schatz tree farm land and Baywood Country Club stock are based on the current market value reported from the financial institution where they are held. These values are based on quoted market prices if available, then using quotes that are observable in the market or if the quotes are unobservable in the market then the value reflects assumptions based on the best information available.

The fair value of the Schatz tree farm land is based on an independent appraisal performed on July 15, 2008, with an internal review to update the fair value as of June 30, 2013. The fair value of the Baywood Country Club stock is based on estimated current selling price per share.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

	<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>
State of California Local Agency Investment Fund (LAIF)	\$ 3,995,572	\$ 3,995,572
Equity securities	7,359,255	9,290,234
Fixed income securities (Treasury notes, GNMA's)	6,151,961	6,040,660
Land and other real estate	5,964,382	5,789,070
Mutual funds	5,310,496	5,844,677
Money market funds	86,467	86,467
Total investments	<u>\$ 28,868,133</u>	<u>\$ 31,046,680</u>

  

	<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>
State of California Local Agency Investment Fund (LAIF)	\$ 1,129,440	\$ 1,129,440
Equity securities	7,891,492	8,654,385
Fixed income securities (Treasury notes, GNMA's)	6,020,156	6,232,141
Land and other real estate	5,964,382	5,724,304
Mutual funds	3,371,521	3,777,365
Money market funds	160,115	160,114
Total investments	<u>\$ 24,537,106</u>	<u>\$ 25,677,749</u>

**(g) Investment Risk**

The Foundation invests 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 statements of net position.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of the failure of a counterparty, the Foundation would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Financial instruments that potentially subject the Foundation to custodial risk are investments in excess of amounts insured by the FDIC or the Securities Investor Protector Corporation (SIPC). No policy exists related to custodial risk specifically. The Foundation's investment policy does not prohibit deposits in single institutions that expose the Foundation to custodial credit risk.

At June 30, 2013, the Foundation had 89% of its long-term investments with US Bank, the Foundation's investment bank. The investments are managed by the Foundation's consultant, RV Kuhns & Associates. US Bank carries \$25 million coverage for loss due to fraudulent acts and \$25 million coverage for errors and omissions.



**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

**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 Foundation has mutual funds and fixed income securities that are subject to interest rate risk. The risk is mitigated by investing in a diversified portfolio.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Foundation investment policy contains no limitations on the amount that can be invested in any one issuer. As of June 30, 2013, 89% of the Foundation's investments are in an external investment pool and are invested in a diversified portfolio. The portfolio includes fixed income funds. The credit quality ratings of these funds range from AA to Aa3.

**(3) Pledges Receivable**

Pledges Receivable are considered to be fully collectible and accordingly, an allowance for uncollectible pledges receivable has not been recorded.

	<u>2013</u>	
	<u>Current</u>	<u>Noncurrent</u>
To be collected by:		
Fiscal year ending June 30, 2014	\$ 86,715	\$ -
Fiscal year ending June 30, 2015 - June 30, 2017	-	172,215
Thereafter	-	-
	<u>86,715</u>	<u>172,215</u>
Less allowance for doubtful accounts	-	-
Total pledges receivable, net	<u>\$ 86,715</u>	<u>\$ 172,215</u>

	<u>2012</u>	
	<u>Current</u>	<u>Noncurrent</u>
To be collected by:		
Fiscal year ending June 30, 2013	\$ 87,360	\$ -
Fiscal year ending June 30, 2014 - June 30, 2017	-	258,500
Thereafter	-	-
	<u>87,360</u>	<u>258,500</u>
Less allowance for doubtful accounts	-	-
Total pledges receivable, net	<u>\$ 87,360</u>	<u>\$ 258,500</u>



**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(4) Interest and Other Receivables**

Interest and other receivable at June 30, 2013 and 2012, consists of the following:

	<b>2013</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Operations endowment fees receivable	\$ 89,104	\$ -	\$ 89,104
KHSU radio station underwriting fees	11,384	-	11,384
Total other receivables	100,488	-	100,488
Operations interest receivable on LAIF account	2,379	-	2,379
Total	<u>\$ 102,867</u>	<u>\$ -</u>	<u>\$ 102,867</u>

  

	<b>2012</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Operations endowment fees receivable	\$ 80,775	\$ -	\$ 80,775
Donations in transit from depositing bank	167,450	-	167,450
KHSU radio station underwriting fees	8,571	-	8,571
Total other receivables	256,796	-	256,796
Operations interest receivable on LAIF account	1,026	-	1,026
Total	<u>\$ 257,822</u>	<u>\$ -</u>	<u>\$ 257,822</u>

The operations endowment fee receivable is thirty-seven and one half basis points of the market value of invested funds. This is an administrative fee charged each quarter to recover costs incurred by the Foundation to operate.

There is no allowance for uncollectible accounts deemed necessary for the year ended June 30, 2013 and 2012.

**(5) Other Assets**

The Foundation records an interest in two charitable gift annuities contracts issued by the CSU Foundation. The Foundation considers these to be related parties, not third parties as all entities are component units of The California State University System. The Foundation records its interest for these annuities at their estimated net present value. The net present value of these charitable gift annuities are determined by the CSU Foundation, a component unit of The California State University system.

**(6) Current Liabilities**

As of June 30, 2013, current liabilities total \$0.46 million, consisting of \$0.37 million in payables due from the Foundation to the University in support of the University's operations as well as payables due to external vendors. In addition, \$0.08 million is a liability from endowment funds to the Foundation Operations. Also included is \$0.01 million in unearned revenue from payments received for future underwriting to be performed by the KHSU radio station.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

As of June 30, 2012, current liabilities total \$0.19 million. They consist of \$0.10 million in payables due to the University in support of the University's operations. In addition, \$0.08 million was due from endowment funds to the Foundation Operations. Also included was \$0.01 million in unearned revenue from payments received for future underwriting to be performed by the KHSU radio station.

**(7) Long-term Liabilities**

Long-term liabilities of \$2,000,000 as of June 30, 2013, consist of The California State University Risk Management Authority (CSURMA) loan. All principal and any remaining unpaid interest will be due and payable on October 31, 2017. The loan is non-amortizing, with interest due and payable quarterly. The interest rate charged is equal to the monthly interest rate CSURMA earns from investments held in the Systemwide Investment Fund Trust (SWIFT) pool. Principal may be prepaid at any time during the term of the loan. For the year ended June 30, 2013, the Foundation paid \$0.02 million in interest expense.

At June 30, 2012, the CSURMA loan was \$2,535,000 and all principal and any remaining unpaid interest was due and payable on October 31, 2013. In February 2013, the CSURMA loan was revised and on March 1, 2013, the Foundation paid \$535,000 toward the principal, bringing the loan balance to \$2,000,000. At this time the loan was extended to be due and payable on October 31, 2017.

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion	Long-term Portion
CSURMA loan	\$ 2,535,000	\$ -	\$ (535,000)	\$ 2,000,000	\$ -	\$ 2,000,000

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

	Principal	Interest	Total
Year ending June 30:			
2014	\$ -	\$ 13,500	\$ 13,500
2015	-	13,500	13,500
2016	-	13,500	13,500
2017	-	13,500	13,500
2018	2,000,000	4,500	2,004,500
	<u>\$ 2,000,000</u>	<u>\$ 58,500</u>	<u>\$ 2,058,500</u>

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(8) Classification of Operating Expenses**

The Foundation has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net position, and to provide the natural classification of those expenses as an additional disclosure.

For the years ended June 30, 2013 and 2012, operating expenses by natural classification consists of the following:

<b>2013</b>						
Functional Classification	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Academic support	\$ -	\$ -	\$ 63,750	\$ 25,906	\$ -	\$ 89,656
Institutional support	14,161	1,022	25,300	383,112	-	423,595
Public Service	207,481	94,605	-	97,037	-	399,123
Student Services	7,545	332	4,650	138,429	-	150,956
	<u>\$ 229,187</u>	<u>\$ 95,959</u>	<u>\$ 93,700</u>	<u>\$ 644,484</u>	<u>\$ -</u>	<u>\$ 1,063,330</u>

  

<b>2012</b>						
Functional Classification	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Academic support	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Institutional support	-	-	-	10,856	-	10,856
Public Service	-	-	-	386,978	-	386,978
Student Services	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 397,834</u>	<u>\$ -</u>	<u>\$ 397,834</u>

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2013 and 2012

**(9) Calculation of Net Position**

The change in net position is as follows:

	Restricted for: Expendable - Other	Restricted for: Nonexpendable - Endowments	Unrestricted	Total
Beginning net position as of June 30, 2012	\$ 6,201,128	\$ 15,591,458	\$ 1,896,862	\$ 23,689,448
Current year increase in net position	3,854,360	594,336	938,879	5,387,575
Ending net position as of June 30, 2013	<u>\$ 10,055,488</u>	<u>\$ 16,185,794</u>	<u>\$ 2,835,741</u>	<u>\$ 29,077,023</u>

**Calculation of net position restricted for nonexpendable endowments**

	<u>2013</u>	<u>2012</u>
Endowment investments	\$ 23,344,094	\$ 20,861,260
Other adjustments:		
Quasi- and term-endowments that are restricted expendable or unrestricted	(5,488,433)	(4,559,187)
Charitable remainder trusts in other assets related to permanent endowments	-	74,165
Payables due from permanent endowments to operations	(65,181)	(59,354)
Permanent endowment appreciation included in restricted expendable net position	(1,601,870)	(724,377)
Permanent endowment appreciation included in unrestricted net position	(2,816)	(1,049)
<b>Net position - Restricted for: nonexpendable - endowments per SNP</b>	<u>\$ 16,185,794</u>	<u>\$ 15,591,458</u>

**(10) Transactions with Related Entities**

The Foundation maintains an agreement with the University for business management services. The Foundation paid the University \$0.08 million and \$0.08 million for the year ended June 30, 2013, and 2012, respectively.

The Foundation is the beneficiary of gift annuities that are held by the CSU Foundation. These gift annuities are reported as a receivable for the Foundation and are included in other assets in the statements of net position, as they have met eligibility requirements per GASB Statement No. 33.

The Foundation receives donations on behalf of the University and all related auxiliary organizations. In the current year, the Foundation recognized and immediately transferred \$0.82 million in donations to the University or auxiliaries. In the prior year this transfer was \$1.20 million. This amount is included in contributions, fundraising, and transfers from/to other campus entities on the statements of revenues, expenses and changes in net position. Of the \$0.82 million in donations for the year ended June 30, 2013, \$0.03 million was for Associated Students, \$0.02 million was for the University Center, \$0.19 million was for Sponsored Programs Foundation and \$0.59 million was for the University. Of the \$1.24 million in donations for the year ended June 30, 2012, \$0.05 million was for Associated Students, \$0.02 million was for the University Center, \$0.37 million was for Sponsored Programs Foundation and \$0.80 million was for the University.



## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Notes to Financial Statements

June 30, 2013 and 2012

The accompanying financial statements also include the following transactions with the University and related auxiliary organizations as of and for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Payments to University for salaries of University personnel working on contracts, grants and other programs	\$ 63,865	\$ 156,000
Payments to University for other than salaries of University personnel	228,488	123,803
Payments received from University for services, space, and programs	314,898	313,166
Gifts-in-kind to the University from Auxiliary Organizations	147,362	136,399
Gifts (cash or assets) to the University from recognized Auxiliary Organizations	925,715	1,106,418
Accounts payable to University	(335,866)	(102,000)
Accounts receivable from University	4,927	71,306
Other transfers to University Center	63,575	15,938
Other transfers to Associated Students	30,252	600
Other transfers to Sponsored Programs Foundation	919,470	762,521

**OTHER SUPPLEMENTARY INFORMATION**

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Schedule of Net Position

June 30, 2013

(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 124,566
Short-term investments	3,995,572
Accounts receivable, net	102,867
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	86,715
Prepaid expenses and other assets	250
Total current assets	<u>4,309,970</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Leases receivable, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	172,215
Endowment investments	23,344,094
Other long-term investments	3,707,014
Capital assets, net	-
Other assets	7,428
Total noncurrent assets	<u>27,230,751</u>
Total assets	<u>31,540,721</u>
Deferred outflows of resources:	
Unamortized loss on refunding(s)	-
Total deferred outflows of resources	<u>-</u>
Liabilities:	
Current liabilities:	
Accounts payable	374,314
Accrued salaries and benefits payable	-
Accrued compensated absences- current portion	-
Unearned revenue	5,207
Capitalized lease obligations - current portion	-
Long-term debt obligations - current portion	-
Self-insurance claims liability - current portion	-
Depository accounts	-
Other liabilities	84,177
Total current liabilities	<u>463,698</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue	-
Grants refundable	-
Capitalized lease obligations, net of current portion	-
Long-term debt obligations, net of current portion	2,000,000
Self-insurance claims liabilities, net of current portion	-
Depository accounts	-
Other postemployment benefits obligation	-
Other liabilities	-
Total noncurrent liabilities	<u>2,000,000</u>
Total liabilities	<u>2,463,698</u>
Deferred inflows of resources:	
Deferred service concession arrangement receipts	-
Total deferred inflows of resources	<u>-</u>
Net Position:	
Net investment in capital assets	-
Restricted for:	
Nonexpendable - endowments	16,185,794
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Other	10,055,488
Unrestricted	2,835,741
Total net position	<u>\$ 29,077,023</u>

See the accompanying auditors' report and note to supplementary information.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Schedule of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2013

(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$_____)	\$ -
Grants and contracts, noncapital:	
Federal	-
State	-
Local	-
Nongovernmental	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$_____)	-
Other operating revenues	399,150
Total operating revenues	<u>399,150</u>
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	399,123
Academic support	89,656
Student services	150,956
Institutional support	423,595
Operation and maintenance of plant	-
Student grants and scholarships	-
Auxiliary enterprise expenses	-
Depreciation and amortization	-
Total operating expenses	<u>1,063,330</u>
Operating income (loss)	<u>(664,180)</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Federal financial aid grants, noncapital	-
State financial aid grants, noncapital	-
Local financial aid grants, noncapital	-
Nongovernmental and other financial aid grants, noncapital	-
Other federal nonoperating grants, noncapital	-
Gifts, noncapital	4,107,115
Investment income (loss), net	114,442
Endowment income (loss), net	1,904,951
Interest Expenses	(16,347)
Other nonoperating revenues (expenses)	140,927
Net nonoperating revenues (expenses)	<u>6,251,088</u>
Income (loss) before other additions	5,586,908
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	120,956
Transfers from/to other campus entities	(320,289)
Increase (decrease) in net position	<u>5,387,575</u>
Net position:	
Net position at beginning of year, as previously reported	23,689,448
Restatements	-
Net position at beginning of year, as restated	<u>23,689,448</u>
Net position at end of year	\$ <u>29,077,023</u>

See the accompanying auditors' report and note to supplementary information.



HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Other Information

June 30, 2013

(for inclusion in the California State University)

	Current Unrestricted	Current Restricted	Total Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
1 Restricted cash and cash equivalents at June 30, 2013:							
Portion of restricted cash and cash equivalents related to endowments	\$ —	—	—	—	—	—	—
All other restricted cash and cash equivalents	—	—	—	—	—	—	—
Total restricted cash and cash equivalents	\$ —	—	—	—	—	—	—
2.1 Composition of investments at June 30, 2013:							
State of California Surplus Money Investment Fund (SMIF)	3,995,572	—	3,995,572	—	—	—	3,995,572
State of California Local Agency Investment Fund (LAIF)	—	—	—	—	—	—	—
Wachovia Short Term Fund	—	—	—	—	—	—	—
Wachovia Medium Term Fund	—	—	—	—	—	—	—
Wachovia Equity Fund	—	—	—	—	—	—	—
CSU Consolidated Investment Pool (includes SWIFT and 0948 SMIF)	—	—	—	—	—	—	—
Common Fund - Short Term Fund	—	—	—	—	—	—	—
Common Fund - Others	—	—	—	—	—	—	—
Debt securities	—	—	—	—	—	—	—
Equity securities	—	—	—	—	—	—	—
Fixed income securities (Treasury notes, GNMA's)	—	—	—	—	9,290,234	9,290,234	9,290,234
Land and other real estate	—	—	—	—	6,040,660	6,040,660	6,040,660
Certificates of deposit	—	—	—	—	5,789,070	5,789,070	5,789,070
Notes receivable	—	—	—	—	—	—	—
Mutual funds	—	—	—	—	5,844,677	5,844,677	5,844,677
Money Market funds	—	—	—	—	86,467	86,467	86,467
Collateralized mortgage obligations:	—	—	—	—	—	—	—
Inverse floaters	—	—	—	—	—	—	—
Interest-only strips	—	—	—	—	—	—	—
Agency pass-through	—	—	—	—	—	—	—
Partnership interests (includes private pass-through)	—	—	—	—	—	—	—
Alternative investments	—	—	—	—	—	—	—
Hedge funds	—	—	—	—	—	—	—
Other major investments:	—	—	—	—	—	—	—
Add description	—	—	—	—	—	—	—
Add description	—	—	—	—	—	—	—
Total investments	3,995,572	—	3,995,572	—	27,051,108	27,051,108	31,046,680
Less endowment investments (enter as negative number)	—	—	—	—	(23,344,094)	(23,344,094)	(23,344,094)
Total investments	\$ 3,995,572	\$ —	\$ 3,995,572	\$ —	\$ 3,707,014	\$ 3,707,014	\$ 7,702,586
2.2 Investments held by the University under contractual agreements at June 30, 2013:							
Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2013:							
2.3 Restricted current investments at June 30, 2013 related to:	Amount						Amount
Add description	—	2.4	Restricted noncurrent investments at June 30, 2013 related to:	—	—	—	—
Add description	—		Endowment investment	—	—	—	\$ 23,344,094
Add description	—		Hydrogen demonstration trust	—	—	—	1,172,781
Add description	—		Saucoo real estate property	—	—	—	2,533,016
Add description	—		Baywood stock	—	—	—	1,217
Add description	—		Add description	—	—	—	—
Add description	—		Add description	—	—	—	—
Total restricted current investments at June 30, 2013	\$ —		Total restricted noncurrent investments at June 30, 2013	—	—	\$ —	\$ 27,051,108

See the accompanying auditors' report and note to supplementary information.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**  
 Other Information  
 June 30, 2013  
 (for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2013:

	Balance June 30, 2012	Prior period Adjustments	Reclassifications	Balance June 30, 2012 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2013
<b>Nondepreciable/nonamortizable capital assets:</b>	\$	\$	\$	\$	\$	\$	\$	\$
Land and land improvements								
Works of art and historical treasures								
Construction work in progress (CWIP)								
<b>Intangible assets:</b>								
Rights and easements								
Patents, copyrights and trademarks								
Internally generated intangible assets in progress								
Licenses and permits								
Other intangible assets:								
<b>Total intangible assets</b>								
<b>Total nondepreciable/nonamortizable capital assets</b>								
<b>Depreciable/amortizable capital assets:</b>								
Buildings and building improvements								
Improvements, other than buildings								
Infrastructure								
Leasehold improvements								
Personal property:								
Equipment								
Library books and materials								
<b>Intangible assets:</b>								
Software and websites								
Rights and easements								
Patents, copyright and trademarks								
Licenses and permits								
Other intangible assets:								
<b>Total intangible assets</b>								
<b>Total depreciable/amortizable capital assets</b>								
<b>Total capital assets</b>								
<b>Less accumulated depreciation/amortization:</b>								
Buildings and building improvements								
Improvements, other than buildings								
Infrastructure								
Leasehold improvements								
Personal property:								
Equipment								
Library books and materials								
<b>Intangible assets:</b>								
Software and websites								
Rights and easements								
Patents, copyright and trademarks								
Licenses and permits								
Other intangible assets:								
<b>Total intangible assets</b>								
<b>Total accumulated depreciation/amortization</b>								
<b>Total capital assets, net</b>								

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2013:

Depreciation and amortization expense related to capital assets	\$
Amortization expense related to other assets	\$
<b>Total depreciation and amortization</b>	\$

HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Other Information

June 30, 2013

(for inclusion in the California State University)

4 Long-term liabilities activity schedule:

	Balance June 30, 2012	Prior period adjustments	Reclassifications	Balance June 30, 2012 (restated)	Additions	Reductions	Balance June 30, 2013	Current portion	Long-term portion
Accrued compensated absences	\$	\$		\$	\$		\$	\$	
Capitalized lease obligations:									
Gross balance									
Unamortized premium on capitalized lease obligations									
Total capitalized lease obligations									
Long-term debt obligations:									
Revenue Bonds									
Other bonds (non-Revenue Bonds)									
Commercial Paper									
Note Payable related to SRB									
Other:									
California State University Risk Management Loan	2,535,000			2,535,000		(535,000)	2,000,000		2,000,000
Description									
Total long-term debt obligations	2,535,000			2,535,000		(535,000)	2,000,000		2,000,000
Unamortized bond premium / (discount)									
Unamortized loss on refunding									
Total long-term debt obligations, net	2,535,000			2,535,000		(535,000)	2,000,000		2,000,000
Total long-term liabilities	2,535,000	\$		2,535,000	\$	(535,000)	2,000,000	\$	2,000,000

5 Future minimum lease payments - capital lease obligations:

Year ending June 30:	Principal	Interest	Principal and Interest
2014	\$	\$	\$
2015			
2016			
2017			
2018			
2019 - 2023			
2024 - 2028			
2029 - 2033			
2034 - 2038			
2039 - 2043			
2044 - 2048			
2049 - 2053			
2054 - 2058			
2059 - 2063			
Total minimum lease payments			
Less amounts representing interest			
Present value of future minimum lease payments			
Less: current portion			
Capitalized lease obligation, net of current portion			\$

See the accompanying auditors' report and note to supplementary information.





**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Other Information

June 30, 2013

(for inclusion in the California State University)

**8 Transactions with Related Entities**

	<u>Amount</u>
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 63,865
Payments to University for other than salaries of University personnel	228,488
Payments received from University for services, space, and programs	314,898
Gifts-in-kind to the University from Auxiliary Organizations	147,362
Gifts (cash or assets) to the University from recognized Auxiliary Organizations	925,715
Accounts (payable to) University (enter as negative number)	(335,866)
Other amounts (payable to) University (enter as negative number)	—
Accounts receivable from University	4,927
Other amounts receivable from University	—
Other transfers to University Center	63,575
Other transfers to Associated Students	30,252
Other transfers to Sponsored Programs	919,470

**9 Other Postemployment Benefits Obligation (OPEB)**

Annual required contribution (ARC)	\$ —
Contributions during the year	—
Increase (decrease) in net OPEB obligation (NOO)	<u>—</u>
NOO - beginning of year	—
NOO - end of year	\$ <u>—</u>

**10 Pollution remediation liabilities under GASB Statement No. 49:**

<u>Description</u>	<u>Amount</u>
Add description	\$ —
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Total pollution remediation liabilities	<u>—</u>
Less: current portion	—
Pollution remediation liabilities, net of current portion	\$ <u>—</u>

**11 The nature and amount of the prior period adjustment(s) recorded to beginning net position**

	<u>Net Position</u>	<u>Amount</u>
	<u>Class</u>	<u>Dr. (Cr.)</u>
Net position as of June 30, 2012, as previously reported	\$	23,689,448
Prior period adjustments:		
1 (list description of each adjustment)		—
2 (list description of each adjustment)		—
3 (list description of each adjustment)		—
4 (list description of each adjustment)		—
5 (list description of each adjustment)		—
6 (list description of each adjustment)		—
7 (list description of each adjustment)		—
8 (list description of each adjustment)		—
9 (list description of each adjustment)		—
10 (list description of each adjustment)		—
Net position as of June 30, 2012, as restated	\$	<u>23,689,448</u>

See the accompanying auditors' report and note to supplementary information.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Other Information

June 30, 2013

(for inclusion in the California State University)

**Provide a detailed breakdown of the journal entries (at the financial statement line item level) booked to record each prior period adjustment:**

	<u>Debit</u>	<u>Credit</u>
Net position class: _____ 1 (breakdown of adjusting journal entry)	\$ —	\$ —
Net position class: _____ 2 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 3 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 4 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 5 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 6 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 7 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 8 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 9 (breakdown of adjusting journal entry)	—	—
Net position class: _____ 10 (breakdown of adjusting journal entry)	—	—

See the accompanying auditors' report and note to supplementary information.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Note to Supplementary Information

June 30, 2013

**NOTE 1 – SUPPLEMENTARY SCHEDULES**

As an auxiliary organization of The California State University (CSU), Humboldt State University Advancement Foundation (Foundation) is required to include audited supplementary information in its financial statements in the form and content specified by CSU. As a result, there are differences in reporting format between the Foundation's financial statements and the supplementary schedules for CSU.

## **ADDITIONAL INFORMATION**



1315 Fourth Street  
Eureka, California 95501

# Hunter, Hunter & Hunt, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Members of the AICPA

Phone 707-476-0674  
Fax 707-476-0675  
www.hhh-cpa.com

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Humboldt State University Advancement Foundation

We have audited, in accordance with the 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, the financial statements of the business-type activities of Humboldt State University Advancement Foundation (the Foundation), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise the Foundation's basic financial statements, and have issued our report thereon dated September 26, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hunter, Hunter & Hunt*

September 26, 2013

## Schedule of Findings

### Significant deficiency:

2013-1

Criteria - The Foundation contracts with Humboldt State University Financial Services (Financial Services) to prepare and review the financial statements. Although the internal controls over financial reporting were adequately designed, they did not operate properly during the year ended June 30, 2013.

Condition - The financial statements initially prepared and reviewed by Financial Services contained errors and omissions, including the lack of comparative disclosures, and disclosures that compromised the understandability of the financial statements. Based on auditor recommendations and further review by Foundation personnel, the financial statements were corrected prior to issuance.

Cause - The Financial Services office experienced turnover in the two key positions assigned the responsibilities for the preparation and review of the annual financial statements for the Foundation. As such, these responsibilities were reassigned to individuals not as familiar with the Foundation's accounting records, policies and procedures, internal controls, and the specific reporting requirements. The turnover occurred during June and August of 2013, and given the reporting deadlines, there was insufficient time to adequately train the newly assigned individuals.

Effect or Potential Effect - As the items noted above were corrected, there is no effect upon the financial statements issued.

Recommendation - We recommend that the Foundation work with Financial Services to ensure that personnel assigned the financial statement preparation and review responsibilities are appropriately trained in the related internal control processes.

Actions Taken - See management's response on page 38.

