



HUMBOLDT STATE UNIVERSITY

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

HUMBOLDT STATE UNIVERSITY

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Independent Auditors' Report

Dr. Rollin C. Richmond
President
Humboldt State University

We have audited the accompanying financial statements of Humboldt State University (the University), an agency of the State of California, and its aggregate discretely presented component units as of and for the years ended June 30, 2008 and 2007, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the four discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2, the financial statements of the University, an agency of the State of California, are intended to present the financial position, the changes in financial position, and 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 of California that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008 and 2007, the changes in their financial position, or, where applicable, their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2 and 10 to the financial statements, effective July 1, 2007, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs.

Management's discussion and analysis on pages 3 through 17 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

July 7, 2009

HUMBOLDT STATE UNIVERSITY

Statement of Net Assets

June 30, 2008

	Assets	University	Discretely presented component units Auxiliary Organizations	Total
Current assets:				
Cash and cash equivalents		\$ 9,700	1,281,855	1,291,555
Short-term investments		25,539,511	13,725,098	39,264,609
Accounts receivable, net		1,807,736	2,893,639	4,701,375
Pledges receivable, net		30,000	—	30,000
Prepaid expenses and other assets		749,625	1,641,349	2,390,974
Total current assets		<u>28,136,572</u>	<u>19,541,941</u>	<u>47,678,513</u>
Noncurrent assets:				
Accounts receivable, net		17,748,607	—	17,748,607
Student loans receivable, net		3,631,726	—	3,631,726
Pledges receivable, net		30,000	4,176	34,176
Endowment investments		2,374,286	16,072,921	18,447,207
Other long-term investments		3,429,084	5,394,946	8,824,030
Capital assets, net		179,479,225	2,879,735	182,358,960
Other assets		165,353	726,217	891,570
Total noncurrent assets		<u>206,858,281</u>	<u>25,077,995</u>	<u>231,936,276</u>
Total assets		<u>\$ 234,994,853</u>	<u>44,619,936</u>	<u>279,614,789</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable		\$ 8,271,764	375,971	8,647,735
Accrued salaries and benefits payable		6,353,710	98,277	6,451,987
Accrued compensated absences – current portion		3,101,451	327,829	3,429,280
Deferred revenue		1,073,646	125,286	1,198,932
Capitalized lease obligations – current portion		409,946	—	409,946
Long-term debt obligations – current portion		973,064	—	973,064
Other liabilities		466,106	2,565,312	3,031,418
Total current liabilities		<u>20,649,687</u>	<u>3,492,675</u>	<u>24,142,362</u>
Noncurrent liabilities:				
Accrued compensated absences, net of current portion		2,164,049	—	2,164,049
Grants refundable		4,583,945	—	4,583,945
Capitalized lease obligations, net of current portion		5,506,500	—	5,506,500
Long-term debt obligations, net of current portion		16,721,566	—	16,721,566
Depository accounts		217,754	—	217,754
Other liabilities		—	6,429,401	6,429,401
Total noncurrent liabilities		<u>29,193,814</u>	<u>6,429,401</u>	<u>35,623,215</u>
Total liabilities		<u>49,843,501</u>	<u>9,922,076</u>	<u>59,765,577</u>
Net assets:				
Invested in capital assets, net of related debt		155,883,407	2,879,735	158,763,142
Restricted for:				
Nonexpendable – endowments		2,374,286	14,855,220	17,229,506
Expendable:				
Scholarships and fellowships		2,581,132	—	2,581,132
Loans		773,422	—	773,422
Capital projects		13,256,513	—	13,256,513
Debt service		15,203	—	15,203
Other		196,264	6,521,543	6,717,807
Unrestricted		10,071,125	10,441,362	20,512,487
Total net assets		<u>\$ 185,151,352</u>	<u>34,697,860</u>	<u>219,849,212</u>

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Statement of Net Assets

June 30, 2007

Assets	University	Discretely presented component units Auxiliary Organizations	Total
Current assets:			
Cash and cash equivalents	\$ 163,358	1,233,497	1,396,855
Short-term investments	23,616,158	13,216,783	36,832,941
Accounts receivable, net	1,285,197	3,064,884	4,350,081
Pledges receivable, net	31,000	—	31,000
Prepaid expenses and other assets	681,574	1,634,907	2,316,481
Total current assets	<u>25,777,287</u>	<u>19,150,071</u>	<u>44,927,358</u>
Noncurrent assets:			
Restricted cash and cash equivalents	72	—	72
Accounts receivable, net	34,287,652	—	34,287,652
Student loans receivable, net	3,450,570	—	3,450,570
Pledges receivable, net	60,000	—	60,000
Endowment investments	2,335,104	16,461,793	18,796,897
Other long-term investments	3,792,912	5,979,179	9,772,091
Capital assets, net	153,051,662	2,323,838	155,375,500
Other assets	177,205	734,189	911,394
Total noncurrent assets	<u>197,155,177</u>	<u>25,498,999</u>	<u>222,654,176</u>
Total assets	<u>\$ 222,932,464</u>	<u>44,649,070</u>	<u>267,581,534</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 6,691,339	286,008	6,977,347
Accrued salaries and benefits payable	7,181,877	119,761	7,301,638
Accrued compensated absences – current portion	2,619,859	311,859	2,931,718
Deferred revenue	1,041,229	220,454	1,261,683
Capitalized lease obligations – current portion	131,498	—	131,498
Long-term debt obligations – current portion	1,030,636	—	1,030,636
Other liabilities	441,443	2,247,320	2,688,763
Total current liabilities	<u>19,137,881</u>	<u>3,185,402</u>	<u>22,323,283</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,328,080	—	2,328,080
Grants refundable	4,546,641	—	4,546,641
Capitalized lease obligations, net of current portion	2,931,446	—	2,931,446
Long-term debt obligations, net of current portion	17,686,719	—	17,686,719
Depository accounts	208,524	—	208,524
Other liabilities	—	6,143,122	6,143,122
Total noncurrent liabilities	<u>27,701,410</u>	<u>6,143,122</u>	<u>33,844,532</u>
Total liabilities	<u>46,839,291</u>	<u>9,328,524</u>	<u>56,167,815</u>
Net assets:			
Invested in capital assets, net of related debt	131,754,568	2,323,838	134,078,406
Restricted for:			
Nonexpendable – endowments	2,335,104	14,384,850	16,719,954
Expendable:			
Scholarships and fellowships	2,319,610	—	2,319,610
Loans	704,128	—	704,128
Capital projects	30,552,888	—	30,552,888
Debt service	15,563	—	15,563
Other	—	8,016,417	8,016,417
Unrestricted	8,411,312	10,595,441	19,006,753
Total net assets	<u>\$ 176,093,173</u>	<u>35,320,546</u>	<u>211,413,719</u>

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2008

	<u>University</u>	<u>Discretely presented component units Auxiliary Organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$9,608,194)	\$ 24,383,427	2,109,629	—	26,493,056
Grants and contracts, noncapital:				
Federal	—	6,115,627	—	6,115,627
State	—	3,527,142	—	3,527,142
Nongovernmental	—	2,164,538	—	2,164,538
Sales and services of auxiliary enterprises (net of scholarship allowances of \$1,081,266)	7,749,797	16,497,683	—	24,247,480
Other operating revenues	1,762,217	1,769,095	—	3,531,312
Total operating revenues	<u>33,895,441</u>	<u>32,183,714</u>	<u>—</u>	<u>66,079,155</u>
Expenses:				
Operating expenses:				
Instruction	42,517,290	1,795,858	—	44,313,148
Research	—	7,098,847	—	7,098,847
Public service	336,638	3,796,912	—	4,133,550
Academic support	13,203,411	521,478	—	13,724,889
Student services	15,162,171	1,303,694	—	16,465,865
Institutional support	13,631,618	718,960	—	14,350,578
Operation and maintenance of plant	11,579,997	268,453	—	11,848,450
Student grants and scholarships	14,113,692	162,290	—	14,275,982
Auxiliary enterprise expenses	7,214,312	17,279,891	—	24,494,203
Depreciation and amortization	6,733,017	234,715	—	6,967,732
Total operating expenses	<u>124,492,146</u>	<u>33,181,098</u>	<u>—</u>	<u>157,673,244</u>
Operating loss	<u>(90,596,705)</u>	<u>(997,384)</u>	<u>—</u>	<u>(91,594,089)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	77,128,158	—	—	77,128,158
Federal financial aid grants, noncapital	10,975,660	—	—	10,975,660
State and local financial aid grants, noncapital	3,870,236	—	—	3,870,236
Nongovernmental and other financial aid grants, noncapital	342,029	—	—	342,029
Gifts, noncapital	676,248	1,361,667	—	2,037,915
Investment income, net	1,468,063	436,542	—	1,904,605
Endowment income	102,119	(491,670)	—	(389,551)
Interest expense	(887,711)	—	—	(887,711)
Other nonoperating revenues (expenses), net	840,329	(1,062,998)	—	(222,669)
Net nonoperating revenues	<u>94,515,131</u>	<u>243,541</u>	<u>—</u>	<u>94,758,672</u>
Income (loss) before other additions	3,918,426	(753,843)	—	3,164,583
State appropriations, capital	5,080,055	—	—	5,080,055
Grants and gifts, capital	20,868	—	—	20,868
Additions to permanent endowments	38,830	131,157	—	169,987
Increase (decrease) in net assets	9,058,179	(622,686)	—	8,435,493
Net assets:				
Net assets at beginning of year	176,093,173	35,320,546	—	211,413,719
Net assets at end of year	<u>\$ 185,151,352</u>	<u>34,697,860</u>	<u>—</u>	<u>219,849,212</u>

See accompanying notes to financial statements.

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

	University	Discretely presented component units Auxiliary Organizations	Eliminations	Total
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$6,522,913)	\$ 20,931,354	2,281,285	—	23,212,639
Grants and contracts, noncapital:				
Federal	—	6,395,947	—	6,395,947
State	—	3,312,034	—	3,312,034
Local	—	2,045,819	—	2,045,819
Sales and services of auxiliary enterprises (net of scholarship allowances of \$2,335,641)	6,656,218	15,506,299	—	22,162,517
Other operating revenues	1,654,667	1,736,933	—	3,391,600
Total operating revenues	<u>29,242,239</u>	<u>31,278,317</u>	<u>—</u>	<u>60,520,556</u>
Expenses:				
Operating expenses:				
Instruction	43,759,312	1,651,914	—	45,411,226
Research	—	6,460,916	—	6,460,916
Public service	286,831	3,492,853	—	3,779,684
Academic support	13,138,084	479,305	—	13,617,389
Student services	14,752,845	1,199,548	—	15,952,393
Institutional support	13,658,767	661,760	—	14,320,527
Operation and maintenance of plant	11,235,291	246,973	(97,302)	11,384,962
Student grants and scholarships	13,396,670	199,335	—	13,596,005
Auxiliary enterprise expenses	6,108,835	16,568,630	—	22,677,465
Depreciation and amortization	5,977,607	281,993	—	6,259,600
Total operating expenses	<u>122,314,242</u>	<u>31,243,227</u>	<u>(97,302)</u>	<u>153,460,167</u>
Operating income (loss)	<u>(93,072,003)</u>	<u>35,090</u>	<u>97,302</u>	<u>(92,939,611)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	72,954,616	—	—	72,954,616
Federal financial aid grants, noncapital	10,174,879	—	—	10,174,879
State and local financial aid grants, noncapital	3,326,280	—	—	3,326,280
Nongovernmental and other financial aid grants, noncapital	359,980	—	—	359,980
Gifts, noncapital	420,898	890,112	—	1,311,010
Investment income, net	1,729,516	1,479,319	—	3,208,835
Endowment income	121,113	2,225,317	—	2,346,430
Interest expense	(1,064,316)	—	—	(1,064,316)
Other nonoperating revenues (expenses), net	942,993	(4,222,605)	—	(3,279,612)
Net nonoperating revenues	<u>88,965,959</u>	<u>372,143</u>	<u>—</u>	<u>89,338,102</u>
Income (loss) before other additions	<u>(4,106,044)</u>	<u>407,233</u>	<u>97,302</u>	<u>(3,601,509)</u>
State appropriations, capital	4,835,338	—	—	4,835,338
Grants and gifts, capital	142,738	—	(97,302)	45,436
Additions to permanent endowments	48,711	248,246	—	296,957
Increase in net assets	<u>920,743</u>	<u>655,479</u>	<u>—</u>	<u>1,576,222</u>
Net assets:				
Net assets at beginning of year	175,172,430	34,665,067	—	209,837,497
Net assets at end of year	<u>\$ 176,093,173</u>	<u>35,320,546</u>	<u>—</u>	<u>211,413,719</u>

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	University	
	2008	2007
Cash flows from operating activities:		
Student tuition and fees	\$ 24,187,546	21,401,976
Payments to suppliers	(18,835,861)	(18,068,650)
Payments to employees	(86,233,122)	(84,181,856)
Payments to students	(14,806,795)	(13,921,539)
Collections of student loans	549,251	662,881
Sales and services of auxiliary enterprises	7,868,421	6,429,107
Other receipts	1,195,863	1,019,612
Net cash used in operating activities	(86,074,697)	(86,658,469)
Cash flows from noncapital financing activities:		
State appropriations	77,130,149	74,326,442
Federal financial aid grants	11,132,594	10,514,932
State and local financial aid grants	3,870,236	3,326,280
Nongovernmental and other financial aid grants	342,029	—
Gifts and grants received for other than capital purposes	746,078	500,609
Federal loan program receipts	27,133,669	24,984,380
Federal loan program disbursements	(27,117,434)	(24,984,380)
Monies received on behalf of others	4,978,309	4,738,071
Monies disbursed on behalf of others	(4,896,830)	(4,666,714)
Other	788,523	1,001,944
Net cash provided by noncapital financing activities	94,107,323	89,741,564
Cash flows from capital and related financing activities:		
State appropriations	21,682,683	26,590,485
Capital grants and gifts	20,868	45,436
Acquisition of capital assets	(27,653,832)	(26,803,578)
Principal paid on capital debt and capital leases	(1,162,134)	(1,173,556)
Interest paid on capital debt and capital leases	(1,045,415)	(942,032)
Net cash used in capital and related financing activities	(8,157,830)	(2,283,245)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	68,632,080	23,087,413
Purchases of investments	(68,702,879)	(29,349,826)
Investment income received	42,273	2,322,856
Net cash used in investing activities	(28,526)	(3,939,557)
Net decrease in cash and cash equivalents	(153,730)	(3,139,707)
Cash and cash equivalents at beginning of year	163,430	3,303,137
Cash and cash equivalents at end of year	\$ 9,700	163,430
Summary of cash and cash equivalents at end of year:		
Cash and cash equivalents	\$ 9,700	163,358
Restricted cash and cash equivalents	—	72
Total cash and cash equivalents at end of year	\$ 9,700	163,430

HUMBOLDT STATE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	University	
	2008	2007
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (90,596,705)	(93,072,003)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	6,733,017	5,977,607
Change in assets and liabilities:		
Accounts receivable, net	(676,029)	(342,138)
Student loans receivable, net	(181,156)	103,175
Prepaid expenses and other assets	(68,050)	99,698
Accounts payable	(812,824)	43,846
Accrued salaries and benefits payable	(828,167)	678,291
Accrued compensated absences	317,561	279,778
Deferred revenue	32,417	(49,408)
Self-insurance claims liability	—	(282,000)
Depository accounts	9,230	107,102
Other liabilities	(3,991)	(202,417)
Net cash used in operating activities	\$ (86,074,697)	(86,658,469)
Supplemental schedules of noncash transactions:		
Contributed capital assets	\$ —	97,302
Acquisition of capital asset through capital lease	2,985,000	2,157,000
Construction work in progress acquired from the Office of the Chancellor	135,561	54,376
Change in accrued capital asset costs (purchased but unpaid at year-end)	2,391,548	4,455,707
Amortization of bond premium	27,512	27,512
Amortization of loss on refunding	35,423	35,424

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2008 and 2007

(Unaudited)

This section of Humboldt State University (the University) annual financial report presents our discussion and analysis of the financial performance of the University for fiscal years ended June 30, 2008 and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to the Financial Statements

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

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

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

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

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

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 as of and for the years ended June 30, 2008 and 2007. Included is a comparative analysis of current year and prior 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.

HUMBOLDT STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2008 and 2007

(Unaudited)

The University's condensed summary of net assets as of June 30, 2008, 2007, and 2006 is as follows:

Condensed Summary of Net Assets

	June 30		
	2008	2007	2006
Assets:			
Current assets	\$ 28,136,572	25,777,287	28,036,111
Capital assets	179,479,225	153,051,662	125,707,944
Other noncurrent assets	27,379,056	44,103,515	62,055,001
Total assets	234,994,853	222,932,464	215,799,056
Liabilities:			
Current liabilities	20,649,687	19,137,881	14,140,188
Long-term debt obligations, net of current portion	22,228,066	20,618,165	19,615,387
Other noncurrent liabilities	6,965,748	7,083,245	6,871,051
Total liabilities	49,843,501	46,839,291	40,626,626
Net assets:			
Invested in capital assets, net of related debt	155,883,407	131,754,568	105,277,002
Restricted, nonexpendable	2,374,286	2,335,104	2,286,393
Restricted, expendable	16,822,534	33,592,189	58,814,558
Unrestricted	10,071,125	8,411,312	8,794,477
Total net assets	\$ 185,151,352	176,093,173	175,172,430

As of June 30, 2008

Assets

Total assets increased \$12.1 million from the prior year. This increase was due to a \$2.4 million increase in current assets, a \$26.4 million increase in capital assets, and a \$16.7 million decrease in other noncurrent assets.

Total current assets increased \$2.4 million primarily due to an increase in short-term investments of \$1.9 million and an increase in accounts receivable, current, of \$0.5 million. The primary reason for the increase in short-term investments and the reduction in cash and cash equivalents was due to changes in cash management processes. During fiscal years 2006 and 2007, the California State University System entered into new banking arrangements whereby the campus was permitted to invest daily excess cash, and retain only minimal balances with the State Treasury, resulting in the aforementioned changes in cash and investments.

Capital assets, net, increased \$26.4 million primarily due to \$33.2 million of current year additions, which were partially offset by \$6.7 million in current year depreciation expense. The \$33.2 million in current year additions is primarily related to the capitalization of several major projects, including the Physical Education Complex of \$17.2 million, the Common Management Systems Upgrade of \$4.9 million, the Harry Griffith Hall Building

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Remodel of \$2.3 million, the Behavioral & Social Science Building of \$1.7 million and numerous smaller projects totaling \$7.0 million.

The \$16.7 million decrease in other noncurrent assets was primarily related to a \$16.6 million reduction in noncapital state appropriations receivable as a result of lower current year state appropriations for capital projects.

Liabilities

Total liabilities increased \$3.0 million from the prior year. This increase was due to a \$1.5 million increase in current liabilities and a \$1.6 million increase in capitalized leases and long-term debt obligations, net of current portion, which was partially offset by a \$0.1 million decrease in other noncurrent liabilities.

Total current liabilities increased \$1.5 million primarily due to a \$1.6 million increase in accounts payable primarily associated with the construction work in progress for the Physical Education Complex, the Common Management System Upgrade, and the Harry Griffith Hall Building project. In addition, capitalized leases increased \$0.3 million due to the reclassification of the Common Management System lease payment from long-term to current. These increases were partially offset by a \$0.3 million decrease in accrued salaries, benefits, and compensated absences as a result of \$0.4 million in retro pay that was paid in fiscal year 2008 but was accrued in fiscal year 2007.

Capitalized lease obligation, net of current portion, saw an increase of \$2.6 million. This was the result of a \$2.6 million increase in the Common Management System project. Total long-term debt obligations, net of current portion, decreased \$1.0 million due to current year principal payments. Total other noncurrent liabilities decreased \$0.1 million.

Net Assets

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of \$9.1 million from the prior year is primarily related to an increase of \$24.1 million in invested in capital assets and, a decrease of \$17.3 million in net assets restricted for capital projects due to increases in amounts invested in capital assets. Additionally, there was an increase of \$0.1 million in net assets restricted for endowments and net assets restricted for loans, and an increase of \$0.3 million in net assets restricted for scholarships and fellowships. Unrestricted net assets and other expendable net assets increased \$1.7 million

As of June 30, 2007

Assets

The \$7.1 million increase in total assets is primarily due to a \$23.1 million decrease in state appropriations receivable as a result of lower current year state appropriations, a \$0.4 million increase in receivables due from auxiliary organizations, a \$0.7 million increase in receivables related to government grants and contracts, an increase of \$0.2 million in student receivables, a reduction of \$0.8 million of other receivables, a reduction in miscellaneous assets of \$0.2 million, a decrease in bad debt allowance of \$0.2 million, and the following change in cash and cash equivalents and capital assets.

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Cash and cash equivalents decreased \$3.1 million and investments increased \$5.7 million mainly due to changes in cash management processes. During fiscal years 2006 and 2007, the California State University System entered into new banking arrangements whereby the campus was permitted to invest daily excess cash, and retain only minimal balances with the State Treasury, resulting in the aforementioned changes in cash and investments.

The \$27.3 million increase in capital assets is due to the capitalization of several major projects, including the Behavioral and Social Science Building of \$10.9 million, the Physical Education Complex of \$13.2 million, the Mai Kai Land Acquisition of \$4.0 million, and numerous smaller projects totaling \$5.2 million which were offset by \$6.0 million in depreciation. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System, which are not reflected in the accompanying financial statements.

Liabilities

The \$6.2 million increase in total liabilities from the prior year is primarily due to a \$4.4 million increase in accounts payable mainly due to the \$4.5 million capital asset purchases at the end of the year, a \$1.0 million decrease in long-term debt obligations as a result of current year payments on capital lease obligations and bonds outstanding, a \$2.0 million increase in capital lease obligations due to an increase of \$2.2 million for the addition of the Common Management Systems (CMS) new capital lease, a \$0.3 million decrease in the self-insurance liability as a result of the University prepaying the estimated amount for fiscal year 2008 as of June 30, 2007, a \$0.7 million increase in accrued salaries and benefits, a \$0.3 million increase in accrued compensated absences, and \$0.1 million increase in other miscellaneous liabilities.

Net Assets

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of \$0.9 million from the prior year is primarily related to an increase of \$26.5 million in invested in capital assets and, a decrease of \$25.1 million in net assets restricted for capital projects due to increases in amounts invested in capital assets. Additionally, there was an increase of \$0.1 million in net assets restricted for endowments and net assets restricted for loans, and an increase of \$0.3 million in net assets restricted for scholarships and fellowships. Unrestricted net assets decreased \$0.4 million.

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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		
	2008	2007	2006
Expendable:			
Scholarships and fellowships	\$ 2,581,132	2,319,610	1,994,634
Loans	773,422	704,128	685,205
Capital projects	13,256,513	30,552,888	55,645,284
Debt service	15,203	15,563	489,435
Other	196,264	—	—
Total restricted net assets – expendable	\$ <u>16,822,534</u>	<u>33,592,189</u>	<u>58,814,558</u>

As of June 30, 2008

Total restricted net assets – expendable decreased \$16.8 million. This is primarily due to a \$17.3 million decrease in net assets restricted for capital projects as a result of spending bond proceeds for the Physical Education Complex project.

As of June 30, 2007

Restricted capital projects decreased \$25.1 million as amounts were invested in capital assets which resulted in a corresponding increase in invested in capital assets, net of related debt.

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The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2008, 2007, and 2006 is as follows:

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

	Year ended June 30		
	2008	2007	2006
Operating revenues:			
Student tuition and fees, net	\$ 24,383,427	20,931,354	21,838,825
Sales and services of auxiliary enterprises, net	7,749,797	6,656,218	5,956,177
Other operating revenues	1,762,217	1,654,667	478,463
Total operating revenues	33,895,441	29,242,239	28,273,465
Operating expenses	(124,492,146)	(122,314,242)	(112,745,819)
Operating loss	(90,596,705)	(93,072,003)	(84,472,354)
Nonoperating revenues (expenses):			
State appropriations, noncapital	77,128,158	72,954,616	68,802,930
Federal financial aid grants, noncapital	10,975,660	10,174,879	9,772,248
State and local financial aid grants, noncapital	3,870,236	3,326,280	3,280,170
Nongovernmental financial aid grants, noncapital	342,029	359,980	553,081
Investment income, net	1,468,063	1,729,516	729,344
Other nonoperating revenues, net	730,985	420,688	1,729,659
Total nonoperating revenues	94,515,131	88,965,959	84,867,432
Income (loss) before other additions	3,918,426	(4,106,044)	395,078
State appropriations, capital	5,080,055	4,835,338	51,187,000
Grants and gifts, capital	20,868	142,738	161,248
Additions to permanent endowments	38,830	48,711	11,822
Increase in net assets	9,058,179	920,743	51,755,148
Beginning net assets	176,093,173	175,172,430	123,417,282
Ending net assets	\$ 185,151,352	176,093,173	175,172,430

Certain reclassifications have been made to the 2007 and 2006 condensed financial information to conform to the 2008 financial information presented. The changes were primarily related to the classification of certain financial aid grant revenues from operating revenues to nonoperating revenues. There was no impact on the previously reported changes in net assets or total net assets of the University.

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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

Year Ended June 30, 2008

The University recognized \$33.9 million in operating revenue during this fiscal year as compared to \$29.2 million in the prior year. The increase of \$4.7 million was primarily due to a \$3.2 million increase in student tuition and fees, net, a \$1.3 million increase in sales and services of auxiliary enterprises, net and a \$0.1 million increase in other operating revenue. Student tuition and fees, net of scholarship allowances increased by \$3.2 million, or 15% from prior year primarily due to a 10% California State University student university fee increase. Sales and services of auxiliary enterprises, net, increased \$1.3 million, or 21% from the prior year primarily due to the result of the increase in the Instructionally Related Activities fees from \$49 to \$250 of which \$201 went directly to athletics which is an auxiliary organization.

Year Ended June 30, 2007

The University recognized \$29.2 million in operating revenues during this fiscal year, as compared to \$28.3 million in the prior year. This comprised 24.7% of total revenues for the year ended June 30, 2007, compared to 25.0% of total revenues for the year ended June 30, 2006.

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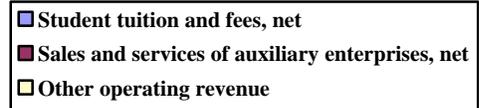
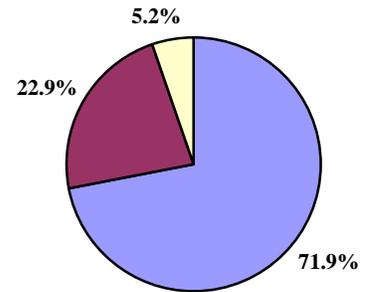
(Unaudited)

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2008, 2007, and 2006:

Operating Revenues

Year ended June 30, 2008

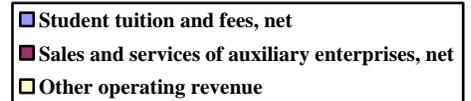
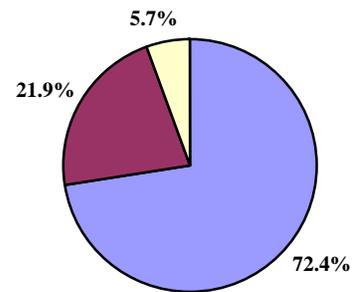
Student tuition and fees, net	\$ 24,383,427	71.9
Sales and services of auxiliary enterprises, net	7,749,797	22.9
Other operating revenues	<u>1,762,217</u>	<u>5.2</u>
Total operating revenues	\$ <u><u>33,895,441</u></u>	<u><u>100.0%</u></u>



Operating Revenues

Year ended June 30, 2007

Student tuition and fees, net	\$ 20,931,354	71.6
Sales and services of auxiliary enterprises, net	6,656,218	22.8
Other operating revenues	<u>1,654,667</u>	<u>5.7</u>
Total operating revenues	\$ <u><u>29,242,239</u></u>	<u><u>100.1%</u></u>



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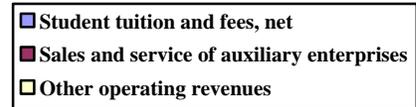
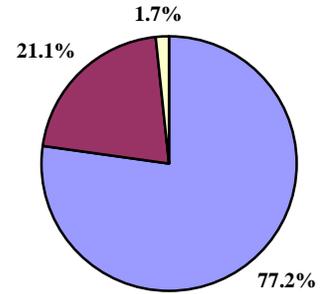
June 30, 2008 and 2007

(Unaudited)

Operating Revenues

Year ended June 30, 2006

Student tuition and fees, net	\$ 21,838,825	77.2
Sales and services of auxiliary enterprises, net	5,956,177	21.1
Other operating revenues	<u>478,463</u>	<u>1.7</u>
Total operating revenues	<u>\$ 28,273,465</u>	<u>100.0%</u>



Operating Expenses

Year Ended June 30, 2008

The University's operating expenses consist of salaries and benefits of \$85.7 million, supplies and services of \$17.9 million, scholarships and fellowships of \$14.1 million, and depreciation of \$6.7 million. Total operating expenses increased by \$2.2 million, or 1.8%, primarily due to a \$1.4 million increase in auxiliary enterprises and a \$0.8 million increase in depreciation and amortization expense. The increase in the auxiliary enterprises was the direct result of the increase in operational expenses related to the increase in the athletics IRA fee. As for the increase in depreciation and amortization expense, this can be traced to the increase in new buildings, improvement and infrastructure additions.

Year Ended June 30, 2007

The University's operating expenses consist of salaries and fringe benefits of \$85.1 million, supplies and services of \$17.8 million, scholarships and fellowships of \$13.4 million, and depreciation of \$6.0 million. Total operating expenses, excluding depreciation, increased by \$9.6 million, or 8.9%, primarily due to grants and scholarships, academic support, and student services. Salaries and benefits costs increased by \$5.8 million due to salary rate increases and health and retirement benefit increases for all employees. The University contribution to the California Employees' Retirement System (CalPERS) alone increased by \$1.1 million, or 13%. Student grants and scholarships increased by \$0.4 million, primarily due to increased enrollment generating more eligibility and granting of financial aid.

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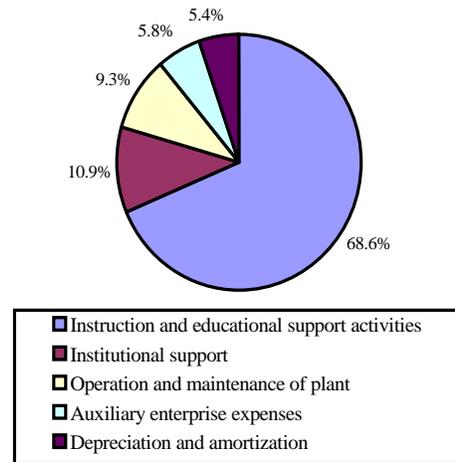
(Unaudited)

The following charts present the distribution of resources in support of the University's mission for fiscal years 2008, 2007, and 2006:

Operating Expenses

Year ended June 30, 2008

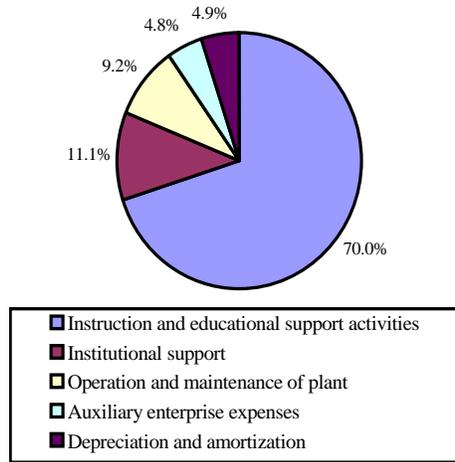
Instruction	\$ 42,517,290	34.2%
Public service	336,638	0.3
Academic support	13,203,411	10.6
Student services	15,162,171	12.2
Student grants and scholarships	<u>14,113,692</u>	<u>11.3</u>
Total instruction and educational support activities	85,333,202	68.6
Institutional support	13,631,618	10.9
Operation and maintenance of plant	11,579,997	9.3
Auxiliary enterprises expenses	7,214,312	5.8
Depreciation and amortization	<u>6,733,017</u>	<u>5.4</u>
Total operating expenses	<u>\$ 124,492,146</u>	<u>100.0%</u>



Operating Expenses

Year ended June 30, 2007

Instruction	\$ 43,759,312	35.8%
Public service	286,831	0.2
Academic support	13,138,084	10.7
Student services	14,999,849	12.3
Student grants and scholarships	<u>13,396,670</u>	<u>11.0</u>
Total instruction and educational support activities	85,580,746	70.0
Institutional support	13,658,767	11.1
Operation and maintenance of plant	11,235,291	9.2
Auxiliary enterprises expenses	5,861,831	4.8
Depreciation and amortization	<u>5,977,607</u>	<u>4.9</u>
Total operating expenses	<u>\$ 122,314,242</u>	<u>100.0%</u>



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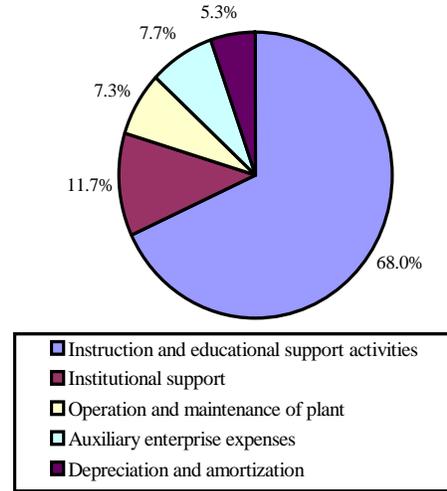
June 30, 2008 and 2007

(Unaudited)

Operating Expenses

Year ended June 30, 2006

Instruction	\$ 41,217,548	36.5%
Public service	323,374	0.3
Academic support	11,408,431	10.1
Student services	10,725,207	9.5
Student grants and scholarships	<u>13,040,800</u>	<u>11.6</u>
Total instruction and educational support activities	76,715,360	68.0
Institutional support	13,200,405	11.7
Operation and maintenance of plant	8,207,383	7.3
Auxiliary enterprises expenses	8,654,218	7.7
Depreciation and amortization	<u>5,968,453</u>	<u>5.3</u>
Total operating expenses	<u>\$ 112,745,819</u>	<u>100.0%</u>



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, certain financial aid grants, noncapital, grants and gifts, capital, investment income, and interest on capital-related debt.

Year Ended June 30, 2008

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 \$5.1 million for the fiscal year ended June 30, 2008, up from \$4.8 million for the fiscal year ended June 30, 2007. General (noncapital) appropriation revenues totaled \$77.1 million, an increase of \$4.2 million from the prior year. Federal and state financial aid grants (noncapital) increased \$1.3 million from prior year. This increase was related to an increase of \$1.0 million in the federal Pell Grants and a \$0.3 million increase in the state Cal Grants. Investment income was \$1.5 million, a decrease of \$0.3 million from prior year primarily due to lower interest rates.

Year Ended June 30, 2007

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 apportionments. Appropriations used for purposes of acquisition of capital assets totaled \$4.8 million for the fiscal year ended June 30, 2007, down from \$51.2 million for the fiscal year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$73.0 million, an increase of \$4.2 million from the prior year. Federal and state financial aid grants

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(noncapital) increased \$0.4 million from prior year. This increase was related to an increase of \$0.9 million in the federal Smart/ACG Grants offset by a decrease of \$0.5 million in the federal Pell Grants.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30		
	2008	2007	2006
Land and land improvements	\$ 3,934,725	3,934,725	3,474,725
Works of art and historical treasures	152,941	152,941	152,941
Buildings and building improvements	87,605,044	61,590,015	54,660,919
Improvements, other than buildings	4,890,582	4,625,211	4,457,764
Infrastructure	25,675,183	26,444,919	27,186,642
Personal property	3,925,469	4,500,504	5,020,147
Intangible assets	179,441	26,952	35,310
Construction work in progress	53,115,840	51,776,395	30,719,496
Total capital assets, net of accumulated depreciation	<u>\$ 179,479,225</u>	<u>153,051,662</u>	<u>125,707,944</u>

As of June 30, 2008

Capital assets increased \$26.4 million primarily due to \$33.2 million of current year additions, which was partially offset by \$6.7 million in current year depreciation expense. The \$33.2 million in current year additions is primarily due to the following projects.

Major capital projects additions during fiscal year 2008 are as follows (in millions):

Physical Education Complex	\$ 17.2
CMS Upgrade	4.9
Harry Griffith Hall Building Remodel	2.3
Behavioral & Social Science Building	1.7
New Student Housing Project	1.6
Nelson Hall Select Systems Renewal	1.5
All other projects and equipment purchases	4.0
	<u>\$ 33.2</u>

These expenditures were funded primarily from state capital appropriations. Capital assets commitments at June 30, 2008 totaled \$17.8 million.

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As of June 30, 2007

At June 30, 2007 and 2006, the University had \$153.1 million and \$125.7 million, respectively, in capital assets, net of accumulated depreciation of \$144.6 million and \$139.8 million, respectively. Depreciation expense totaled \$6.0 million for the years ended June 30, 2007 and 2006.

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

Long-Term Debt Obligations

Debt outstanding at June 30, 2008, 2007, and 2006 is summarized below by type of debt instrument:

	June 30		
	2008	2007	2006
Systemwide Revenue Bonds:			
Series 2002A	\$ 3,125,000	3,200,000	3,265,000
Series 2004A	3,650,000	3,715,000	3,780,000
Series 2005A	2,365,000	2,580,000	2,790,000
Series 2005B	5,370,000	5,625,000	5,870,000
Series B	—	87,294	231,185
GE Capital Public Finance, Inc.	3,255,170	3,588,512	3,907,755
Capital Leases	5,916,446	3,062,944	1,031,366
Total	23,681,616	21,858,750	20,875,306
Unamortized bond premium	314,504	342,016	369,528
Unamortized loss on refunding	(385,044)	(420,467)	(455,891)
Total long-term debt	23,611,076	21,780,299	20,788,943
Less current portion	(1,383,010)	(1,162,134)	(1,173,556)
Long-term debt, net of current portion	\$ 22,228,066	20,618,165	19,615,387

As of June 30, 2008

During fiscal year 2008, the University did not issue any new debt or refinance any existing debt. See note 7 of the notes to the financial statements for further information on capital leases.

As of June 30, 2007

During fiscal year 2007, the University did not issue any new debt or refinance any existing debt. See note 7 of the notes to the financial statements for further information on capital leases.

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Bond Ratings

Moody's Investors Service currently provides intrinsic ratings of Aa3, with a "stable outlook," for the Systemwide Revenue Bonds. Standard & Poor's Rating Service currently provides intrinsic ratings of A+, with a "positive outlook," for the Systemwide Revenue Bonds. With the exception of certain maturities of Series 2005C, Series 2007A, and Series 2008A, all Systemwide Revenue Bonds are insured. At the time of issuance, all providers of insurance for Systemwide Revenue Bonds were rated Aaa/AAA by Moody's Investors Service and Standard & Poor's Rating Service, respectively. During fiscal year 2008, some providers of insurance for Systemwide Revenue Bonds were downgraded to ratings below Aaa/AAA. Those bonds that are uninsured bear the same rating as the Systemwide Revenue Bonds, which are Aa3 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 legislative process has approved the State General Fund allocation to the California State University for fiscal year 2009. The allocation provided to the University is \$106.0 million, a decrease of \$1.0 million from fiscal year 2008. Soon after the state budget was enacted, the State reduced California State University's appropriation by \$97.6 million. The University's share of this decrease amounted to \$2.6 million. Additional mid-year reductions may be enacted, the amount of which is unclear at this time.

Budgeted full-time equivalent enrollment targets for fiscal year 2009 are 7,150, representing no change from fiscal year 2008.

The University dedicated the new Kinesiology and Athletics Physical Education building. This project included classrooms, a dance studio, and faculty offices. A new entry plaza integrated the existing East Gym, the Recreation Center, and the new building. This project links the Physical Education facilities to the campus core, adding an additional 82,695 assignable square feet to the campus facilities. This project was designed to Leadership in Energy and Environment Design Silver standards as defined by the U.S. Green Building Council.

The University expended approximately \$4.0 million on renovations of Harry Griffith Hall and Nelson Hall.

During the fiscal year 2009, the University began construction on two major projects, the Campus Creek Apartments and the Schatz Energy Research Center projects. The housing project is anticipated to be completed in fiscal year 2010 at a cost of \$47.9 million, providing the campus with housing for approximately 400 students as well as providing dining services to the south end of campus. The energy research center project is anticipated to be completed in fiscal year 2010 at a cost of \$3.0 million.

The University anticipates the completion of an upgrade to the CMS Finance application in spring 2009. Additionally, the campus anticipates completing implementation of the Student Administration application of the Common Management System during summer 2009. Functionality will include application, degree audits, advising, enrollment, and payments for the students. These implementations will complete the multi-year conversion of the University's major administrative systems to the systemwide CMS.

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Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 94.3% in the California State University's Investment Pool and 5.7% in the State of California's Surplus Money Investment Fund (SMIF). Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

Due to the State's budget crisis and its difficulty in issuing bonds in the current financial market, the State of California issued a Budget Letter on December 18, 2008, suspending all State-funded capital projects, including General Obligation and Lease Revenue bond projects, and freezing disbursements on these projects beginning December 17, 2008. Capital projects that are financed by non-State sources, such as the Systemwide Revenue Bonds, are not affected by this suspension. Campuses continue to assess the costs of suspending these construction contracts, including any related legal costs or penalties incurred to suspend the projects. These costs, as well as any restart costs, will be paid from a project's contingency allowance, through a reduction in scope and/or augmentation approved by the State Public Works Board, and from other funding sources, where applicable.

On April 22, 2009, the State of California lifted the suspension of general obligation (GO) bond projects. All GO bond funded projects are going to be restarted; this includes projects that were in the design phase as well as equipment, capital renewal and minor capital outlay projects.

HUMBOLDT STATE UNIVERSITY

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(1) Organization

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

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

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's 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 discretely presented 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

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

June 30, 2008	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
Current assets	\$ 6,951,704	970,625	11,421,892	197,720	19,541,941
Capital assets, net	1,876,996	15,319	987,420	—	2,879,735
Other noncurrent assets	727,780	10,000	—	21,460,480	22,198,260
Total assets	9,556,480	995,944	12,409,312	21,658,200	44,619,936
Current liabilities	1,992,173	380,448	962,652	157,402	3,492,675
Noncurrent liabilities	—	—	6,429,401	—	6,429,401
Total liabilities	1,992,173	380,448	7,392,053	157,402	9,922,076
Invested in capital assets, net of related debt	1,876,996	15,319	987,420	—	2,879,735
Restricted	—	—	—	21,376,763	21,376,763
Unrestricted	5,687,311	600,177	4,029,839	124,035	10,441,362
Total net assets	\$ 7,564,307	615,496	5,017,259	21,500,798	34,697,860
Year Ended June 30, 2008					
Operating revenues:					
Student tuition and fees	\$ 443,327	741,597	924,705	—	2,109,629
Grants and contracts, noncapital	11,807,307	—	—	—	11,807,307
Sales and services of auxiliary enterprises, net	1,504,925	682,963	14,309,795	—	16,497,683
Other	1,769,095	—	—	—	1,769,095
Total operating revenues	15,524,654	1,424,560	15,234,500	—	32,183,714

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<u>Year Ended June 30, 2008</u>	<u>Humboldt State University, Sponsored Programs Foundation</u>	<u>Associated Students of Humboldt State University</u>	<u>Humboldt State University, Center Board of Directors</u>	<u>Humboldt State University Advancement Foundation</u>	<u>Total</u>
Operating expenses:					
Instruction	\$ 1,795,858	—	—	—	1,795,858
Research	7,098,847	—	—	—	7,098,847
Public service	3,796,912	—	—	—	3,796,912
Academic support	521,478	—	—	—	521,478
Student services	1,303,694	—	—	—	1,303,694
Institutional support	718,960	—	—	—	718,960
Operation and maintenance of plant	268,453	—	—	—	268,453
Student grants and scholarships	162,290	—	—	—	162,290
Auxiliary enterprise expenses	1,009,930	1,411,293	14,858,668	—	17,279,891
Depreciation and amortization	36,668	5,117	192,930	—	234,715
Total operating expenses	<u>16,713,090</u>	<u>1,416,410</u>	<u>15,051,598</u>	<u>—</u>	<u>33,181,098</u>
Operating income (loss)	(1,188,436)	8,150	182,902	—	(997,384)
Net nonoperating revenues (expenses)	<u>942,477</u>	<u>23,862</u>	<u>432,863</u>	<u>(1,155,661)</u>	<u>243,541</u>
Income (loss) before other additions	(245,959)	32,012	615,765	(1,155,661)	(753,843)
Additions to permanent endowments	<u>—</u>	<u>—</u>	<u>—</u>	<u>131,157</u>	<u>131,157</u>
Increase (decrease) in net assets	(245,959)	32,012	615,765	(1,024,504)	(622,686)
Beginning net assets, July 1, 2007	<u>7,810,266</u>	<u>583,484</u>	<u>4,401,494</u>	<u>22,525,302</u>	<u>35,320,546</u>
Ending net assets, June 30, 2008	<u>\$ 7,564,307</u>	<u>615,496</u>	<u>5,017,259</u>	<u>21,500,798</u>	<u>34,697,860</u>

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<u>June 30, 2007</u>	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
Current assets	\$ 7,164,799	897,468	10,927,695	160,109	19,150,071
Capital assets, net	1,517,917	12,002	793,919	—	2,323,838
Other noncurrent assets	727,780	17,972	—	22,429,409	23,175,161
Total assets	9,410,496	927,442	11,721,614	22,589,518	44,649,070
Current liabilities	1,600,230	343,958	1,176,998	64,216	3,185,402
Noncurrent liabilities	—	—	6,143,122	—	6,143,122
Total liabilities	1,600,230	343,958	7,320,120	64,216	9,328,524
Invested in capital assets, net of related debt	1,517,917	12,002	793,919	—	2,323,838
Restricted	—	—	—	22,401,267	22,401,267
Unrestricted	6,292,349	571,482	3,607,575	124,035	10,595,441
Total net assets	\$ 7,810,266	583,484	4,401,494	22,525,302	35,320,546
<u>Year Ended June 30, 2007</u>					
Operating revenues:					
Student tuition and fees	\$ 590,850	715,435	975,000	—	2,281,285
Grants and contracts, noncapital	11,753,800	—	—	—	11,753,800
Sales and services of auxiliary enterprises, net	1,128,971	678,989	13,698,339	—	15,506,299
Other	1,736,933	—	—	—	1,736,933
Total operating revenues	15,210,554	1,394,424	14,673,339	—	31,278,317

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<u>Year Ended June 30, 2007</u>	<u>Humboldt State University, Sponsored Programs Foundation</u>	<u>Associated Students of Humboldt State University</u>	<u>Humboldt State University, Center Board of Directors</u>	<u>Humboldt State University Advancement Foundation</u>	<u>Total</u>
Operating expenses:					
Instruction	\$ 1,651,914	—	—	—	1,651,914
Research	6,460,916	—	—	—	6,460,916
Public service	3,492,853	—	—	—	3,492,853
Academic support	479,305	—	—	—	479,305
Student services	1,199,548	—	—	—	1,199,548
Institutional support	661,760	—	—	—	661,760
Operation and maintenance of plant	246,973	—	—	—	246,973
Student grants and scholarships	199,335	—	—	—	199,335
Auxiliary enterprise expenses	1,111,500	1,394,743	14,062,387	—	16,568,630
Depreciation and amortization	47,140	4,628	230,225	—	281,993
Total operating expenses	<u>15,551,244</u>	<u>1,399,371</u>	<u>14,292,612</u>	<u>—</u>	<u>31,243,227</u>
Operating income (loss)	(340,690)	(4,947)	380,727	—	35,090
Net nonoperating revenues (expenses)	<u>629,750</u>	<u>52,108</u>	<u>(2,937,772)</u>	<u>2,628,057</u>	<u>372,143</u>
Income (loss) before other additions	289,060	47,161	(2,557,045)	2,628,057	407,233
Additions to permanent endowments	<u>—</u>	<u>—</u>	<u>—</u>	<u>248,246</u>	<u>248,246</u>
Increase (decrease) in net assets	289,060	47,161	(2,557,045)	2,876,303	655,479
Beginning net assets, July 1, 2006	<u>7,521,206</u>	<u>536,323</u>	<u>6,958,539</u>	<u>19,648,999</u>	<u>34,665,067</u>
Ending net assets, June 30, 2007	\$ <u>7,810,266</u>	<u>583,484</u>	<u>4,401,494</u>	<u>22,525,302</u>	<u>35,320,546</u>

The auxiliary organizations are presented in the accompanying financial statements as component units due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to the activities that the organizations carry out on behalf of the University, such as research, grant administration, food 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 statements of net assets; statements of revenues, expenses, and changes in net assets; and statements 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 of California that is attributable to the transactions of the University and the

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financial statements do not purport to, and do not, present fairly the financial position of the State of California or the California State University System as of June 30, 2008 and 2007 and the changes in their financial position, or, where applicable, their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

(b) *Basis of Presentation*

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

The financial statements required by GASB Statement Nos. 34 and 35 include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement No. 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the University to be reported in a single column in each of the financial statements, accompanied by aggregated financial information for the auxiliary organizations. In accordance with the business-type activities reporting model, the University prepares its statements of cash flows using the direct method.

The auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB).

(c) *Election of Applicable FASB Statements*

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

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

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

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

(f) ***Investments***

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

Investments that are restricted for withdrawal or use, for other than current operations, are designated for the acquisition of construction or noncurrent assets, or are segregated for the liquidation of long-term debt are classified within 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, 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 of California (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, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

(h) ***Deferred Revenue***

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

(i) ***Compensated Absences***

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

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(j) **Grants Refundable**

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins and Nursing Loan programs, approved Title IV loan programs. The federal government has the ability to terminate its support of these programs at any time and to request the University to return those contributions that it has made on a cumulative basis. Accordingly, the federal contributions received and retained by the University at year-end are considered to be liabilities of the University, and are reflected as such in the accompanying statements 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 statements of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. 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 statements of revenues, expenses, and changes in net assets.

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

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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.

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

(o) New Accounting Pronouncements

On July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs. The University participates in a postretirement healthcare program sponsored by the State administered by CalPERS. The State provides medical and prescription drug (healthcare benefits) to retired statewide employees, including retirees from the University (OPEB Plan). Currently, the majority of the University's retiree premium payments are paid by the State and not reflected within the University's financial statements. The other postemployment benefits (OPEB) liability and expense related to GASB Statement No. 45 for the System has been reported in the System's consolidated financial statements. Since breakdown by campus information is not available, the OPEB liability and expense are not reflected within the University's financial statements. See note 10 for a description of the OPEB plan.

On July 1 2007, the University adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets*, which requires additional disclosures related to pledged future revenues. The University has pledged future student union and auxiliary

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revenues to repay system revenue bonds. The bonds are payable solely from student union and auxiliary revenues. See note 8(b) for further details.

(p) 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 statements of revenues, expenses, and changes in net assets.

(q) Use of Estimates

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

(r) Reclassifications

Certain reclassifications have been made to the 2007 financial statement information to conform to the 2008 financial statement presentation. The reclassifications had no impact on the previously reported changes in net assets of the University.

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2008 and 2007 are classified in the accompanying statements of net assets as follows:

	June 30	
	2008	2007
Cash and cash equivalents	\$ 9,700	163,358
Restricted cash and cash equivalents	—	72
Total cash and cash equivalents	<u>9,700</u>	<u>163,430</u>
Short-term investments	25,539,511	23,616,158
Endowment investments	2,374,286	2,335,104
Other long-term investments	3,429,084	3,792,912
Total investments	<u>31,342,881</u>	<u>29,744,174</u>
Total cash, cash equivalents and investments	<u>\$ 31,352,581</u>	<u>29,907,604</u>

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(a) Cash and Cash Equivalents

At June 30, 2008 and 2007, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$9,700 and \$163,430 had a corresponding carrying value balance with the State Treasury of \$0 and \$202,409 at June 30, 2008 and 2007, respectively. The differences related primarily to deposits in transit and outstanding checks.

Custodial Credit Risk for Deposits

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

(b) Investments

At June 30, 2008 and 2007, the University's investment portfolio consists primarily of investments in the State of California 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 University's 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. 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 monitors the interest rate risk inherent in its portfolio by measuring the weighted average

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maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2008 and 2007 is presented on the tables below.

Credit Risk

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

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2008:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	BBB	Not rated
Money market	\$ 11,708	0.00	\$ 11,708	—	—	—	—
Commercial paper	7,961,244	0.05	—	—	7,961,244	—	—
Certificates of deposit	6,763,627	0.13	—	—	6,763,627	—	—
Repurchase agreements	745,550	0.50	—	—	745,550	—	—
U.S. agency securities	3,892,810	0.17	3,297,708	—	595,102	—	—
Corporate and fixed income securities	10,848,689	1.68	3,345,460	3,576,795	3,669,052	90,515	166,867
Mortgage-backed securities	1,044,758	11.97	1,044,758	—	—	—	—
U.S. Treasury	74,495	1.68	74,495	—	—	—	—
Total investments	\$ 31,342,881		\$ 7,774,129	3,576,795	19,734,575	90,515	166,867

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

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	AA	A	Not rated	
Money market	\$ 8,848	0.01	\$ —	—	—	—	8,848
Commercial paper	6,934,321	0.01	—	—	6,934,321	—	—
Certificates of deposit	7,061,706	0.38	—	5,179,628	1,882,078	—	—
Corporate and fixed income securities	10,428,192	1.45	1,074,179	4,408,673	4,945,340	—	—
State of California SMIF	5,281,907	0.48	—	—	—	—	5,281,907
Mortgage-backed securities	29,200	15.56	29,200	—	—	—	—
Total investments	\$ 29,744,174		\$ 1,103,379	9,588,301	13,761,739	5,290,755	

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, 2008, 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

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bonds and mortgage-backed security \$2,196,499, (7.0%) and Freddie Mac debts guaranteed by the Federal government \$1,841,963, (5.9%).

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 statements of net assets.

The University 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 value, 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 the separately issued auxiliary organizations' reports.

(4) Accounts Receivable

Accounts receivable at June 30 consisted of the following:

	2008		
	Current	Noncurrent	Total
State appropriations	\$ 4,985	17,304,280	17,309,265
Auxiliary organizations	936,771	—	936,771
Student accounts	644,202	—	644,202
Government grants and contracts	614,576	362,521	977,097
Other	18,576	81,806	100,382
	<u>2,219,110</u>	<u>17,748,607</u>	<u>19,967,717</u>
Less allowance for doubtful accounts	(411,374)	—	(411,374)
Total	<u>\$ 1,807,736</u>	<u>17,748,607</u>	<u>19,556,343</u>

HUMBOLDT STATE UNIVERSITY

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	2007		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ 6,976	33,906,908	33,913,884
Auxiliary organizations	684,254	—	684,254
Student accounts	840,880	—	840,880
Government grants and contracts	340,234	367,957	708,191
Other	140,895	12,787	153,682
	<u>2,013,239</u>	<u>34,287,652</u>	<u>36,300,891</u>
Less allowance for doubtful accounts	<u>(728,042)</u>	<u>—</u>	<u>(728,042)</u>
Total	<u>\$ 1,285,197</u>	<u>34,287,652</u>	<u>35,572,849</u>

(5) Student Loans Receivable

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

	<u>2008</u>	<u>2007</u>
Perkins loans	\$ 4,558,741	4,397,522
Less allowance for doubtful accounts	<u>(927,015)</u>	<u>(946,952)</u>
Total student loans receivable, net	<u>\$ 3,631,726</u>	<u>3,450,570</u>

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(6) Capital Assets

Capital assets activity for the year ended June 30, 2008 consisted of the following:

	<u>Balance, June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2008</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 3,934,725	—	—	—	3,934,725
Works of art and historical treasures	152,941	—	—	—	152,941
Construction work in progress	<u>51,776,395</u>	<u>32,233,774</u>	<u>—</u>	<u>(30,894,329)</u>	<u>53,115,840</u>
Total nondepreciable capital assets	<u>55,864,061</u>	<u>32,233,774</u>	<u>—</u>	<u>(30,894,329)</u>	<u>57,203,506</u>
Depreciable capital assets:					
Buildings and building improvements	170,983,923	—	—	30,144,960	201,128,883
Improvements, other than buildings	8,585,910	—	—	559,433	9,145,343
Infrastructure	35,831,345	—	—	189,936	36,021,281
Personal property:					
Equipment	13,055,967	636,709	(378,138)	—	13,314,538
Library books and materials	13,263,136	115,950	(64,813)	—	13,314,273
Intangible assets	<u>120,644</u>	<u>191,360</u>	<u>—</u>	<u>—</u>	<u>312,004</u>
Total depreciable capital assets	<u>241,840,925</u>	<u>944,019</u>	<u>(442,951)</u>	<u>30,894,329</u>	<u>273,236,322</u>
Total cost	<u>297,704,986</u>	<u>33,177,793</u>	<u>(442,951)</u>	<u>—</u>	<u>330,439,828</u>
Less accumulated depreciation:					
Buildings and building improvements	(109,393,908)	(4,129,931)	—	—	(113,523,839)
Improvements, other than buildings	(3,960,699)	(294,062)	—	—	(4,254,761)
Infrastructure	(9,386,426)	(959,672)	—	—	(10,346,098)
Personal property:					
Equipment	(9,798,227)	(971,424)	360,925	—	(10,408,726)
Library books and materials	(12,020,372)	(339,057)	64,813	—	(12,294,616)
Intangible assets	<u>(93,692)</u>	<u>(38,871)</u>	<u>—</u>	<u>—</u>	<u>(132,563)</u>
Total accumulated depreciation	<u>(144,653,324)</u>	<u>(6,733,017)</u>	<u>425,738</u>	<u>—</u>	<u>(150,960,603)</u>
Net capital assets	\$ <u>153,051,662</u>	<u>26,444,776</u>	<u>(17,213)</u>	<u>—</u>	<u>179,479,225</u>

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

	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2007</u>
Nondepreciable capital assets:					
Land and land improvements	\$ 3,474,725	460,000	—	—	3,934,725
Works of art and historical treasures	152,941	—	—	—	152,941
Construction work in progress	<u>30,719,496</u>	<u>31,991,502</u>	<u>—</u>	<u>(10,934,603)</u>	<u>51,776,395</u>
Total nondepreciable capital assets	<u>34,347,162</u>	<u>32,451,502</u>	<u>—</u>	<u>(10,934,603)</u>	<u>55,864,061</u>
Depreciable capital assets:					
Buildings and building improvements	160,527,428	—	—	10,456,495	170,983,923
Improvements, other than buildings	8,147,491	—	—	438,419	8,585,910
Infrastructure	35,813,222	—	—	18,123	35,831,345
Personal property:					
Equipment	12,962,666	841,843	(784,232)	35,690	13,055,967
Library books and materials	13,617,940	99,718	(454,522)	—	13,263,136
Intangible assets	<u>120,644</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120,644</u>
Total depreciable capital assets	<u>231,189,391</u>	<u>941,561</u>	<u>(1,238,754)</u>	<u>10,948,727</u>	<u>241,840,925</u>
Total cost	<u>265,536,553</u>	<u>33,393,063</u>	<u>(1,238,754)</u>	<u>14,124</u>	<u>297,704,986</u>
Less accumulated depreciation:					
Buildings and building improvements	(105,866,509)	(3,527,399)	—	—	(109,393,908)
Improvements, other than buildings	(3,689,727)	(270,972)	—	—	(3,960,699)
Infrastructure	(8,626,580)	(759,846)	—	—	(9,386,426)
Personal property:					
Equipment	(9,440,832)	(1,055,765)	712,494	(14,124)	(9,798,227)
Library books and materials	(12,119,627)	(355,267)	454,522	—	(12,020,372)
Intangible assets	<u>(85,334)</u>	<u>(8,358)</u>	<u>—</u>	<u>—</u>	<u>(93,692)</u>
Total accumulated depreciation	<u>(139,828,609)</u>	<u>(5,977,607)</u>	<u>1,167,016</u>	<u>(14,124)</u>	<u>(144,653,324)</u>
Net capital assets	\$ <u>125,707,944</u>	<u>27,415,456</u>	<u>(71,738)</u>	<u>—</u>	<u>153,051,662</u>

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

(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.

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Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$5,916,446 and \$979,366 at June 30, 2008 and 2007, respectively. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 4.5% to 5.0% 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 2011. The leases can be canceled if the State does not provide adequate funding.

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

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2009	\$ 509,173	21,244
2010	986,533	21,244
2011	948,879	19,881
2012	949,122	—
2013	939,080	—
2014 – 2018	<u>2,535,909</u>	<u>—</u>
Total minimum lease payments	6,868,696	\$ <u><u>62,369</u></u>
Less amount representing interest	<u>(952,250)</u>	
Present value of future minimum lease payments	5,916,446	
Less current portion	<u>(409,946)</u>	
Capital lease obligations, net of current portion	\$ <u><u>5,506,500</u></u>	

Rent expense under operating leases for the years ended June 30, 2008 and 2007 totaled \$24,380 and \$125,561, respectively.

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, 2008 and 2007 totaled \$536,727,000 and \$570,858,000, respectively.

(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

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the University of California, the California State University 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 \$1,494,093,000 and \$1,393,141,000 as of June 30, 2008 and 2007, respectively.

(b) Revenue Bond Programs

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

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

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

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

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

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

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

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

The Systemwide Revenue Bond (SRB) program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the revenue producing projects.

The University participates in the SRB program and its allocated share of outstanding SRB debt as of June 30, 2008 is \$14,510,000, which has been used to finance certain projects.

The System has pledged future continuing education, health care 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 \$2,804,033,000 in Systemwide Revenue Bonds issued through fiscal year 2008. The bonds are payable solely from continuing education, health care 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 \$4,939,829,000. In fiscal year 2008, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$148,395,000 and \$213,695,000, respectively.

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

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding at June 30	
				2008	2007
Systemwide Revenue Bonds:					
Student Union 2002A	4.00% – 5.50%	2030/31	\$ 3,490,000	3,125,000	3,200,000
Student Union 2004A	3.00% – 5.25%	2034/35	3,845,000	3,650,000	3,715,000
Housing Series B	3.00%	2007/08	1,718,059	—	87,294
Housing Series 2005A	2.75% – 5.00%	2016/17	2,985,000	2,365,000	2,580,000
Housing Series 2005B	5.00%	2021/22	6,145,000	5,370,000	5,625,000
Other:					
GE Capital Public Finance, Inc.	4.40%	2015/16	4,545,167	3,255,170	3,588,512
Total				17,765,170	18,795,806
Unamortized bond premium				314,504	342,016
Unamortized loss on refunding				(385,044)	(420,467)
Total long-term debt				17,694,630	18,717,355
Less current portion				(973,064)	(1,030,636)
Long-term debt, net of current portion				\$ 16,721,566	17,686,719

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

	Principal	Interest	Total
Year ending June 30:			
2009	\$ 973,064	836,077	1,809,141
2010	1,028,437	794,704	1,823,141
2011	1,079,489	747,909	1,827,398
2012	1,111,250	698,600	1,809,850
2013	1,168,752	647,728	1,816,480
2014 – 2018	5,474,178	2,354,867	7,829,045
2019 – 2023	3,230,000	1,287,674	4,517,674
2024 – 2028	1,630,000	726,837	2,356,837
2029 – 2033	2,070,000	315,000	2,385,000
	\$ 17,765,170	8,409,396	26,174,566

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(9) Long-Term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2008 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 4,947,939	3,385,845	(3,068,284)	5,265,500	3,101,451
Capitalized lease obligations (note 7):	<u>3,062,944</u>	<u>2,985,000</u>	<u>(131,498)</u>	<u>5,916,446</u>	<u>409,946</u>
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds	15,207,295	—	(697,295)	14,510,000	625,000
Other	<u>3,588,511</u>	<u>—</u>	<u>(333,341)</u>	<u>3,255,170</u>	<u>348,064</u>
Total	18,795,806	—	(1,030,636)	17,765,170	973,064
Unamortized bond premium	342,016	—	(27,512)	314,504	—
Unamortized loss on refunding	<u>(420,467)</u>	<u>—</u>	<u>35,423</u>	<u>(385,044)</u>	<u>—</u>
Total long-term debt obligations	<u>18,717,355</u>	<u>—</u>	<u>(1,022,725)</u>	<u>17,694,630</u>	<u>973,064</u>
Total long-term liabilities	<u>\$ 26,728,238</u>	<u>6,370,845</u>	<u>(4,222,507)</u>	<u>28,876,576</u>	<u>4,484,461</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 4,668,161	279,778	—	4,947,939	2,619,859
Capitalized lease obligations (note 7):	<u>1,031,366</u>	<u>2,157,000</u>	<u>(125,422)</u>	<u>3,062,944</u>	<u>131,498</u>
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds	15,936,185	—	(728,890)	15,207,295	697,294
Other	<u>3,907,755</u>	<u>—</u>	<u>(319,244)</u>	<u>3,588,511</u>	<u>333,342</u>
Total	19,843,940	—	(1,048,134)	18,795,806	1,030,636
Unamortized bond premium	369,528	—	(27,512)	342,016	—
Unamortized loss on refunding	<u>(455,891)</u>	<u>—</u>	<u>35,424</u>	<u>(420,467)</u>	<u>—</u>
Total long-term debt obligations	<u>19,757,577</u>	<u>—</u>	<u>(1,040,222)</u>	<u>18,717,355</u>	<u>1,030,636</u>
Total long-term liabilities	<u>\$ 25,457,104</u>	<u>2,436,778</u>	<u>(1,165,644)</u>	<u>26,728,238</u>	<u>3,781,993</u>

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(10) Pension Plan and Postretirement Benefits

(a) *Pension Plan*

Plan Description

The University, as an agency of the State, contributes to CalPERS. The State's plan with CalPERS is an agent multiple-employer defined benefit retirement plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan which provides a defined benefit pension and postretirement program for substantially all eligible University employees.

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

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

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

Funding Policy

The benefit structure for state employees (including the University) is defined by statute. CalPERS uses contributions of the employer and the employee as well as income from investments to pay for employee retirement benefits. Employee and employer contributions are a percentage of applicable employee compensation. The employee contribution is 5% of salary for Miscellaneous Tier 1 members as defined by the plan and 8% for Peace Officer/Firefighter members (Public Safety Management and Firefighters only) less an exclusion allowance for coordination with Social Security. For eligible University Public Safety employees, the University pays for both the employer and employee contributions. The University is required to contribute at an actuarially determined rate; the current rate is approximately 16.67% 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.

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

2006	\$	8,184,335
2007		9,254,625
2008		9,422,693

(b) *Postretirement Healthcare Plan*

The GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, relating to OPEB which is effective July 1, 2007. Under this statement, public employers sponsoring and subsidizing retiree healthcare benefit programs are required 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.

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.

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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.

Annual OPEB Cost and Net OPEB Obligation

In fiscal year 2008, total annual OPEB cost (ARC) and net OPEB obligation for the System were \$51.2 million and \$29.1 million respectively, which include the OPEB for the billable accounts and the dental benefit only for the nonbillable accounts. The accrued OPEB liability and expense for the System were not broken down by campus and therefore were not allocated to the University. Refer to the issued System's consolidated financial report for fiscal year ended 2008 for more details.

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 SCO and allocated to the System. The dental portion of the ARC for the nonbillable accounts was estimated based on the percentage of dental contributions compared to the total contributions. 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 2008.

(11) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2008 and 2007.

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Changes in the System's self-insurance claims liability for the two years ended June 30, 2008 are as follows:

Liability at June 30, 2006	\$ 112,376,000
Incurred claims and changes in estimates	35,794,000
Claim payments	<u>(39,978,000)</u>
Liability at June 30, 2007	108,192,000
Incurred claims and changes in estimates	28,487,000
Claim payments	<u>(32,682,000)</u>
Liability at June 30, 2008	103,997,000
Less current portion	<u>(25,480,000)</u>
Long-term liability at June 30, 2008, net of current portion	<u>\$ 78,517,000</u>

For the year ended June 30, 2008, the CSURMA purchased a program of excess insurance to protect the members from catastrophic losses. The CSURMA maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchases excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of \$2,500,000 self-insured retention. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the CSURMA maintains excess policies with SELF, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the CSURMA.

Prior to July 1, 2004, the CSURMA maintained excess workers' compensation insurance coverage provided by SELF. The CSURMA remains liable for assessments from SELF in settlement of claims incurred prior to July 1, 2004. For the years ended June 30, 2008 and 2007, this assessment totaled \$19,834,000 and \$17,509,000, respectively.

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, 2008 and 2007 was approximately 2% for each, or \$1,808,000 and \$2,531,000, respectively. 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, 2008 and 2007. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

(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.

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Contractual commitments for construction projects unexpended as of June 30, 2008 and 2007 totaled \$17,803,631 and \$24,873,699, respectively. These expenditures will be funded primarily from state capital appropriations (see note 15).

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

(13) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the years ended June 30, 2008 and 2007, operating expenses by natural classification consisted of the following:

<u>2008</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 28,188,089	11,548,207	—	2,780,994	—	42,517,290
Public service	268,751	55,068	—	12,819	—	336,638
Academic support	7,904,188	3,429,556	—	1,869,667	—	13,203,411
Student services	8,247,905	3,540,751	—	3,373,515	—	15,162,171
Institutional support	7,602,268	3,326,966	—	2,702,384	—	13,631,618
Operation and maintenance of plant	5,763,913	2,732,019	—	3,084,065	—	11,579,997
Student grants and scholarships	—	—	14,113,692	—	—	14,113,692
Auxiliary enterprise expenses	2,271,329	843,506	—	4,099,477	—	7,214,312
Depreciation and amortization	—	—	—	—	6,733,017	6,733,017
Total	<u>\$ 60,246,443</u>	<u>25,476,073</u>	<u>14,113,692</u>	<u>17,922,921</u>	<u>6,733,017</u>	<u>124,492,146</u>
<u>2007</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation and amortization</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 29,274,544	11,731,448	—	2,753,320	—	43,759,312
Public service	224,407	50,448	—	11,976	—	286,831
Academic support	7,828,142	3,323,919	—	1,986,023	—	13,138,084
Student services	7,809,453	3,306,964	—	3,883,432	—	14,999,849
Institutional support	7,430,041	3,303,221	—	2,925,505	—	13,658,767
Operation and maintenance of plant	5,221,103	2,593,477	—	3,420,711	—	11,235,291
Student grants and scholarships	—	—	13,396,670	—	—	13,396,670
Auxiliary enterprise expenses	2,221,169	821,588	—	2,819,074	—	5,861,831
Depreciation and amortization	—	—	—	—	5,977,607	5,977,607
Total	<u>\$ 60,008,859</u>	<u>25,131,065</u>	<u>13,396,670</u>	<u>17,800,041</u>	<u>5,977,607</u>	<u>122,314,242</u>

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As discussed in note 2(m), the internal services activities between the University departments and the sales and service units have been eliminated in the accompanying financial statements. As a result, salaries and benefits of those internal services activities and sales and service units are reported as supplies and other services in the University departments, which received the services.

(14) Transactions with Related Entities

The System is an agency of the State and receives more than half of its total revenues through state appropriations. While its operating expenses are paid out of the State University Trust Fund through commercial banks as a result of the Revenue Management Program implemented in fiscal year 2008, payroll and capital outlay activities are processed through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$82,208,213 and \$77,789,954 for the years ended June 30, 2008 and 2007, respectively. State appropriations receivable aggregated \$17,309,265 and \$33,913,884 at June 30, 2008 and 2007, respectively. The University also received lottery fund distributions from the State in the amount of \$850,000 and \$771,000 for the years ended June 30, 2008 and 2007, respectively, which is included in other nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net assets.

Moreover, the State recovers statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from the University. Central service agencies (e.g., Department of Finance, Office of the State Controller, State Personnel Board, and Legislature) provide budgeting, accounting, auditing, payroll, and other services to all state agencies. The State's pro rata process apportions the costs of providing central administrative services to all state departments that benefit from the services. This apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund. The amount allocated to each fund is classified as "billable" accounts or "nonbillable" accounts. Billable accounts (1) have special revenue sources such as fees, licenses, penalties, assessments, interest, etc. and (2) support a state department.

The State's indirect costs associated with the billable funds are allocated to the individual universities through the Office of the Chancellor of the System. As headquarters for the System, the Office of the Chancellor administers not only the State pro rata charges, but also management of capital projects, and pooled investments centrally for the individual campuses and charges the campuses administrative or overhead fees. These fees are included in the various functional categories of operating expenses in the accompanying statements of revenues, expenses, and changes in net assets. Other activities such as debt administration and risk pool administration associated with the operations of the Office of the Chancellor are not allocated to the individual universities' financial statements.

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The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the years ended June 30 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 765,985	822,826
Reimbursements from recognized auxiliary organizations for other than salaries of University employees	1,310,021	1,323,482
Payments to recognized auxiliary organizations for services, office space rental, and programs	7,946,017	7,035,332
Gifts-in-kind to the University from recognized auxiliary organizations	—	142,728
Payments to the Office of the Chancellor for State pro rata charges	291,241	—
Payments to the Office of the Chancellor for administrative activities	169,603	—
Amounts receivable from the Office of the Chancellor	57,544	49,482
Amounts payable to the Office of the Chancellor	(235,168)	(19,518)
Accounts receivable from campuses (other than CO)	6,073	—
Amounts receivable from recognized auxiliary organizations	936,771	684,254
Amounts payable to recognized auxiliary organizations	(73,934)	—

(15) Subsequent Events

In September 2008, a \$49.4 million Revenue BAN was authorized for Student Housing at the University. In November 2008, \$11.2 million of commercial paper was issued, leaving an available amount of commercial paper amounting to \$38.2 million.

The University entered into a construction project, the Schatz Energy Research Center following the end of fiscal year 2008. This project has an estimated cost of \$3.0 million and an estimated completion date of summer 2010.

In September and December 2008, the University entered into a capital lease agreement to participate in the capital financing program of the California State University Institute. The program is funded by commercial paper. The \$8.8 million will be used to fund the University's equipment financing.

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Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with investments. As of June 30, 2008, the University's investments were invested 94.3% in the California State University's Investment Pool and 5.7% in the State of California's SMIF. Permitted investments consist primarily of highly rated, fixed-income securities, which could include variable rate instruments. Both the California State University's investment policy and the State of California's SMIF investment policy state that the primary objective of the University's investments shall be the safeguarding of principal, with liquidity a secondary objective. Because of this emphasis on asset quality and liquidity, the University has not had, nor expect to have, any material exposure to the value of investments as a result of illiquidity or volatility in certain investment sectors of the financial markets. Although neither investment pool has experienced significant declines in the value of the component investment securities since June 30, 2008, it is at least reasonably possible that some changes in the values of investment securities could occur because of changing market conditions.

Due to the State's budget crisis and its difficulty in issuing bonds in the current financial market, the State of California issued a Budget Letter on December 18, 2008, suspending all State-funded capital projects, including General Obligation and Lease Revenue bond projects, and freezing disbursements on these projects beginning December 17, 2008. Capital projects that are financed by non-State sources, such as the Systemwide Revenue Bonds, are not affected by this suspension. Campuses continue to assess the costs of suspending these construction contracts, including any related legal costs or penalties incurred to suspend the projects. These costs, as well as any restart costs, will be paid from a project's contingency allowance, through a reduction in scope and/or augmentation approved by the State Public Works Board, and from other funding sources, where applicable.

On April 22, 2009, the State of California lifted the suspension of general obligation (GO) bond projects. All GO bond funded projects are going to be restarted; this includes projects that were in the design phase as well as equipment, capital renewal and minor capital outlay projects.