



HUMBOLDT STATE UNIVERSITY

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

HUMBOLDT STATE UNIVERSITY

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

Dr. Rollin 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 year ended June 30, 2010, 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 opinion on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for the discretely presented component units, are based solely on the reports of the other auditors.

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

As discussed in note 2 to the financial statements, 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, 2010, the changes in their financial position, or, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In 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 Humboldt State University and of its aggregate discretely presented component units as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

January 24, 2011

HUMBOLDT STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2010

This section of Humboldt State University's (the University) annual financial report presents our discussion and analysis of the financial performance of the University for the fiscal year ended June 30, 2010. 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) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities.

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

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

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

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

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

Analytical Overview

Summary

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

HUMBOLDT STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2010

The University's condensed summary of net assets as of June 30, 2010 and 2009 is as follows:

Condensed Summary of Net Assets

	June 30	
	2010	2009
Assets:		
Current assets	\$ 38,462,738	41,059,142
Capital assets	227,829,627	201,788,762
Other noncurrent assets	16,945,958	56,892,342
Total assets	<u>283,238,323</u>	<u>299,740,246</u>
Liabilities:		
Current liabilities	17,600,962	46,906,508
Long-term debt obligations, net of current portion	61,288,555	62,333,234
Other noncurrent liabilities	20,172,713	18,725,351
Total liabilities	<u>99,062,230</u>	<u>127,965,093</u>
Net assets:		
Invested in capital assets, net of related debt	152,362,982	159,657,668
Restricted, nonexpendable	1,883,681	2,405,397
Restricted, expendable	7,669,858	5,226,893
Unrestricted	22,259,572	4,485,195
Total net assets	<u>\$ 184,176,093</u>	<u>171,775,153</u>

Certain reclassifications have been made to the 2009 condensed financial information to conform to the 2010 financial information presented. The changes were primarily related to the classification of short term and long term investments. There was no impact on the previously reported changes in net assets or total net assets of University.

Assets

Total assets decreased by \$16.5 million from prior year due to a \$2.6 million decrease in current assets, a \$26.0 million increase in capital assets, and a \$39.9 million decrease in other noncurrent assets. The decrease in current assets was primarily due to a decrease in short-term investments of \$2.4 million, a decrease in accounts receivable of \$0.2 million, and a reduction in prepaid expenses of \$0.2 million. This was offset by an increase in cash and cash equivalents of \$0.2 million.

Net capital assets increased \$26.0 million primarily due to \$35.6 million of current year additions, which were partially offset by \$9.3 million in current year depreciation and amortization expense. The \$35.6 million in current year additions is primarily related to the College Creek Housing Complex that will be completed in the 2011 fiscal year.

HUMBOLDT STATE UNIVERSITY

Management's Discussion and Analysis

June 30, 2010

Other noncurrent assets decreased by \$39.9 million primarily due to a \$32.5 million decrease in other long-term investments, which was primarily due to the campus making student housing construction payments of \$29.2 million, and a \$6.7 million decrease in accounts receivable due to a \$6.6 million decrease in noncurrent state appropriations resulting from reduced funding from State of California (the State) and California State University System (the System) budget reductions, and a \$0.5 million decrease in endowment investments primarily due to the transfer of endowments held by the University to the Humboldt State University Advancement Foundation.

Liabilities

Total current liabilities decreased by \$29.3 million primarily due to a \$29.2 million decrease in accounts payable. The decrease in accounts payable is due to a \$19.5 million accrual made in the prior fiscal year, which represented a payable to the State, a decrease of \$7.9 million in payables related to capital projects, and a reduction of operating payables of \$1.6 million related to timing of payments.

Net Assets

Total net assets increased by \$12.4 million from the prior year. In the current year, \$152.4 million is invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt decreased by \$7.3 million from prior year primarily due to an increase in capital assets of \$26.0 million offset by a decrease of unspent bond proceeds by \$33.0 million primarily due to the College Creek Housing construction project. \$7.7 million of net assets is restricted for scholarships and fellowships, loans, capital projects, debt service, and other, which is primarily the HSU Children's Center. This category increased by \$2.4 million from prior year as discussed below. \$22.3 million of net assets is unrestricted. Unrestricted net assets represent all other net resources available to the University for general and educational obligations.

Restricted Resources

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

Restricted Net Assets

	June 30	
	2010	2009
Expendable:		
Scholarships and fellowships	\$ 1,626,171	2,318,128
Loans	820,049	784,095
Capital projects	4,214,865	382,176
Debt service	799,722	1,521,038
Other	209,051	221,456
Total restricted net assets – expendable	\$ <u>7,669,858</u>	<u>5,226,893</u>

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Management's Discussion and Analysis

June 30, 2010

Total restricted net assets – expendable increased by \$2.4 million. This is primarily due to a \$3.8 million increase in net assets restricted for capital projects as a result of bond proceeds for the College Creek Housing project. This was partially offset by a \$0.7 million decrease in net assets restricted for debt service, which represents bond payments to cover upcoming debt service payments, as well as a \$0.7 million decrease in net assets restricted for scholarships and fellowships due to an increased demand for financial aid as a result of a Systemwide tuition increase coupled with the economic conditions of the State and local economies.

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2010 and 2009 is as follows:

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

	Year ended June 30	
	2010	2009
Operating revenues:		
Student tuition and fees, net	\$ 31,628,175	27,679,085
Sales and services of auxiliary enterprises, net	9,474,108	9,152,406
Other operating revenues	4,553,324	3,403,377
Total operating revenues	45,655,607	40,234,868
Operating expenses	(133,381,636)	(134,802,977)
Operating loss	(87,726,029)	(94,568,109)
Nonoperating revenues (expenses):		
State appropriations, noncapital	64,413,172	54,832,476
Federal financial aid grants, noncapital	15,602,936	12,081,030
State financial aid grants, noncapital	5,082,874	4,443,068
Nongovernmental financial aid grants, noncapital	58,962	—
Other federal nonoperating grants, noncapital	12,312,200	7,314,200
Investment income, net	211,326	1,134,730
Other nonoperating expenses, net	(1,339,421)	(19,857)
Total nonoperating revenues	96,342,049	79,785,647
Income (loss) before other additions	8,616,020	(14,782,462)
State appropriations, capital	1,976,673	(82,109)
Grants and gifts, capital	1,789,247	1,457,382
Additions to permanent endowments	19,000	30,990
Increase (decrease) in net assets	12,400,940	(13,376,199)
Beginning net assets	171,775,153	185,151,352
Ending net assets	\$ 184,176,093	171,775,153

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Management's Discussion and Analysis

June 30, 2010

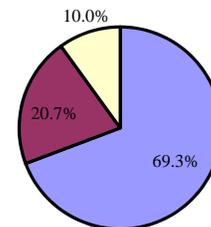
Operating Revenues and Expenses

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, depreciation, and amortization.

Operating Revenues

Total operating revenues increased by \$5.4 million primarily due to a \$3.9 million increase in student tuition and fees, net, a \$1.2 million increase in other operating revenues, and a \$0.3 million increase in sales and services of auxiliary enterprises, net. The state university fee increased 32% from the prior year. Other operating revenues increased \$1.2 million due to miscellaneous revenues received during the year including \$0.7 million reclassification of cost recovery from auxiliary organizations recorded in other nonoperating expenses in the prior year. Sales and services of auxiliary enterprises, net, increased \$0.3 million from the prior year primarily due to increased housing revenue.

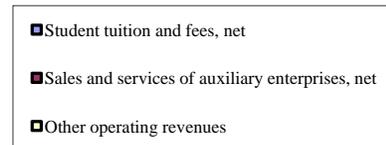
The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2010 and 2009:



Operating Revenues

Year ended June 30, 2010

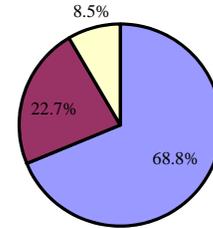
Student tuition and fees, net	\$ 31,628,175	69.3%
Sales and services of auxiliary enterprises, net	9,474,108	20.7
Other operating revenues	<u>4,553,324</u>	<u>10.0</u>
Total operating revenues	<u>\$ 45,655,607</u>	<u>100.0%</u>



HUMBOLDT STATE UNIVERSITY

Management's Discussion and Analysis

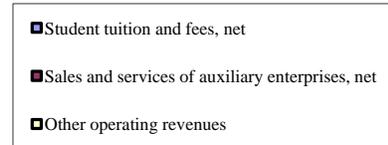
June 30, 2010



Operating Revenues

Year ended June 30, 2009

Student tuition and fees, net	\$ 27,679,085	68.8%
Sales and services of auxiliary enterprises, net	9,152,406	22.7
Other operating revenues	<u>3,403,377</u>	<u>8.5</u>
Total operating revenues	<u>\$ 40,234,868</u>	<u>100.0%</u>



Operating Expenses

Total operating expenses decreased by \$1.4 million, or 1%, primarily due to a \$4.0 million decrease in instructionally related expenses, a \$1.1 million decrease in academic support, a \$0.8 million decrease in auxiliary enterprise expenses, a \$0.7 million decrease in student services, and a \$0.6 million decrease in operation and maintenance of plant, offset by a \$3.1 million increase in student grants and scholarships, a \$1.6 million increase in depreciation and amortization, and a \$1.1 million increase in institutional support.

Salaries and benefits costs, within all operating expense functions, decreased by \$6.1 million primarily due to the State imposed furloughs, and changes in headcount and pay rates. The instruction function decreased by \$4.0 million primarily due a reduction of \$3.8 million in salaries and benefits. The academic support function decreased by \$1.1 million due to a reduction of \$1.0 million in salaries and benefits. The student services function decreased by \$0.7 million as a result of a reduction of \$0.6 million in salaries and benefits. Supplies and other services expense, within all operating expense functions, remained consistent with a slight decrease of \$0.07 million.

Student grants and scholarships increased by \$3.1 million due to increased funding of Pell Grants, Academic Competitiveness Grant (ACG), The National Science & Mathematics Access to Retain Talent Grant (SMART), and Supplemental Educational Opportunity Grants as well as about 200 more students receiving federal financial aid in the current year over the prior year.

The increase in depreciation and amortization expense of \$1.6 million relates to current year capital asset additions primarily due to the capitalization of the Common Management System Project (CMS).

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Management's Discussion and Analysis

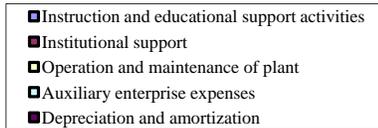
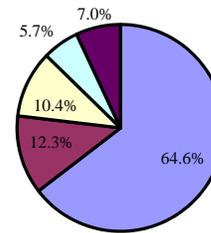
June 30, 2010

The following charts present the distribution of resources in support of the University's mission for fiscal years 2010 and 2009:

Operating Expenses

Year ended June 30, 2010

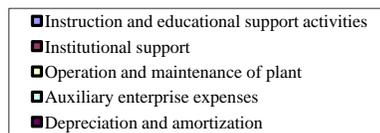
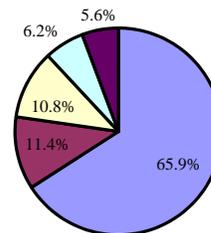
Instruction	\$ 40,376,908	30.3%
Public service	340,580	0.3
Academic support	12,132,144	9.1
Student services	14,461,738	10.8
Student grants and scholarships	18,776,463	14.1
<hr/>		
Total instruction and educational support activities	86,087,833	64.6
Institutional support	16,420,770	12.3
Operation and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



Operating Expenses

Year ended June 30, 2009

Instruction	\$ 44,449,502	33.0%
Public service	309,908	0.2
Academic support	13,281,739	9.9
Student services	15,147,490	11.2
Student grants and scholarships	15,637,055	11.6
<hr/>		
Total instruction and educational support activities	88,825,694	65.9
Institutional support	15,322,956	11.4
Operation and maintenance of plant	14,539,910	10.8
Auxiliary enterprises expenses	8,445,833	6.3
Depreciation and amortization	7,668,584	5.6
<hr/>		
Total operating expenses	\$ 134,802,977	100.0%



Nonoperating Revenues (Expenses)

Nonoperating revenues and expenses consist of state appropriations, financial aid and other federal nonoperating grants, noncapital gifts, investment and endowment income, interest expense, and other nonoperating revenues and expenses.

General (noncapital) state appropriation revenues totaled \$64.4 million, an increase of \$9.6 million from the prior year primarily due to a \$5.6 million increase in State appropriations and a \$3.5 million increase in reimbursements for activities supported by the Chancellor's Office. These actions all relate to State and System budget reductions.

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Management's Discussion and Analysis

June 30, 2010

As the University is part of the California State University System, which is an agency of the State, the University's operations are funded primarily from appropriations of state tax revenues. Appropriations used for purposes of acquisition of capital assets totaled \$2.0 million for the fiscal year ended June 30, 2010, up from \$(0.1) million for the fiscal year ended June 30, 2009. Capital state appropriations in the current year included onetime appropriations of \$1.8 million for the Behavioral and Social Sciences Building. Investment income was \$0.2 million, a decrease of \$0.9 million from prior year primarily due to lower interest rates and a decrease in the total investment balance. Other nonoperating revenues, net, increased \$0.4 million primarily due to the Chancellor's Office Infrastructure Terminal Resource Project. Grants and gifts, capital, increased \$0.3 million due to increases in the Schatz Energy Research Center Building Project.

Capital Assets and Long-Term Debt Obligations

Capital Assets

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

	June 30	
	2010	2009
Land and land improvements	\$ 3,934,725	3,934,725
Works of art and historical treasures	152,941	152,941
Buildings and building improvements	127,167,794	128,473,618
Improvements, other than buildings	5,125,718	5,400,922
Infrastructure	25,142,830	25,493,713
Personal property	3,183,490	3,862,452
Intangible assets	10,996,269	147,877
Construction work in progress	52,125,860	34,322,514
Total capital assets, net of accumulated depreciation	<u>\$ 227,829,627</u>	<u>201,788,762</u>

Net capital assets increased by \$26.0 million from the prior year primarily due to \$35.6 million of current year additions, which were partially offset by \$9.3 million in current year depreciation and amortization expense. The \$35.6 million in current year additions is primarily related to College Creek Housing Complex that will be completed in the 2011 fiscal year. The project was funded through Systemwide Revenue Bonds. During the year, \$11.7 million was transferred from construction work in progress to intangible assets due to completion of the CMS upgrade project.

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Management's Discussion and Analysis

June 30, 2010

Major capital projects additions during fiscal year 2010 are as follows (in millions):

College Creek Housing	\$	27.7
Forbes Physical Education Complex		2.2
Schatz Energy Research Center		1.4
Nelson Hall System Renewal		1.0
All other projects and equipment purchases		<u>3.3</u>
Total capital project additions, gross	\$	<u><u>35.6</u></u>

Capital assets commitments at June 30, 2010 totaled \$7.3 million.

Due to the State's budget crisis and its difficulty issuing bonds in the current financial market, the State suspended most State-funded capital projects, including General Obligation projects, and froze disbursements on these projects starting in December 2008. The State later lifted the suspension of the General Obligation Bond projects in April 2009. In October 2009, the State was able to resume bond sales for the General Obligation Bonds to support near-term construction finance needs for new and previously approved projects through the Federal Build America Bonds program under the American Recovery and Reinvestment Act. All previously suspended projects have been restarted. See note 6 to the financial statements for further information on capital assets.

Long-Term Debt Obligations

Debt outstanding at June 30, 2010 and 2009 is summarized below by type of debt instrument:

	June 30	
	<u>2010</u>	<u>2009</u>
Systemwide Revenue Bonds:		
SRB 2002A Union	\$ 2,975,000	3,055,000
SRB 2004A Union	3,510,000	3,580,000
SRB 2005A Housing	1,915,000	2,145,000
SRB 2005B Housing	4,820,000	5,105,000
SRB 2009A Housing	47,475,000	47,475,000
GE Capital Public Finance, Inc.	<u>2,543,669</u>	<u>2,907,106</u>
Total	63,238,669	64,267,106
Unamortized bond premium	259,480	286,992
Unamortized loss on refunding	<u>(1,130,105)</u>	<u>(1,192,427)</u>
Total long-term debt	62,368,044	63,361,671
Less current portion	<u>(1,079,489)</u>	<u>(1,028,437)</u>
Long-term debt, net of current portion	<u><u>\$ 61,288,555</u></u>	<u><u>62,333,234</u></u>

No new bonds were issued during the year ended June 30, 2010.

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Management's Discussion and Analysis

June 30, 2010

Bond Ratings

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

Factors Impacting Future Periods

The University's state noncapital appropriations budget enacted for fiscal year 2011 approved by the legislative process is \$69.9 million. This increase of \$7.5 million over the fiscal year 2010 funding level of \$62.4 million marks the first restoration of state funding since 2007. Included within the University's appropriation budget is \$2.5 million of ARRA funds to mitigate the impact of the University's state noncapital appropriation reduction in fiscal year 2010. In addition, an increase in student fees in fiscal year 2011 will supplement the funding restoration from the State. The student fees are expected to generate \$25.3 million in revenue during fiscal year 2011, net of financial aid.

HUMBOLDT STATE UNIVERSITY

Statement of Net Assets

June 30, 2010

Assets	University	Discretely presented component units FASB Auxiliary Organizations	Total
Current assets:			
Cash and cash equivalents	\$ 188,009	1,301,486	1,489,495
Short-term investments	36,284,124	8,210,136	44,494,260
Accounts receivable, net	1,210,695	4,939,769	6,150,464
Prepaid expenses and other assets	779,910	1,391,591	2,171,501
Total current assets	<u>38,462,738</u>	<u>15,842,982</u>	<u>54,305,720</u>
Noncurrent assets:			
Accounts receivable, net	1,473,670	—	1,473,670
Student loans receivable, net	3,901,552	—	3,901,552
Pledges receivable, net	—	816,445	816,445
Endowment investments	1,883,681	16,628,796	18,512,477
Other long-term investments	9,687,055	11,830,333	21,517,388
Capital assets, net	227,829,627	3,046,797	230,876,424
Other assets	—	686,217	686,217
Total noncurrent assets	<u>244,775,585</u>	<u>33,008,588</u>	<u>277,784,173</u>
Total assets	<u>\$ 283,238,323</u>	<u>48,851,570</u>	<u>332,089,893</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 4,366,733	543,331	4,910,064
Accrued salaries and benefits payable	5,515,147	234,056	5,749,203
Accrued compensated absences – current portion	2,583,398	287,585	2,870,983
Deferred revenue	953,327	1,948,322	2,901,649
Capitalized lease obligations – current portion	1,942,317	—	1,942,317
Long-term debt obligations – current portion	1,079,489	—	1,079,489
Depository accounts – current portion	—	330,711	330,711
Other liabilities	1,160,551	620,874	1,781,425
Total current liabilities	<u>17,600,962</u>	<u>3,964,879</u>	<u>21,565,841</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	3,118,865	—	3,118,865
Grants refundable	4,664,488	—	4,664,488
Capitalized lease obligations, net of current portion	11,156,284	—	11,156,284
Long-term debt obligations, net of current portion	61,288,555	2,535,000	63,823,555
Depository accounts	99,026	—	99,026
Other postemployment benefits obligation	1,134,050	6,711,710	7,845,760
Other liabilities	—	674,921	674,921
Total noncurrent liabilities	<u>81,461,268</u>	<u>9,921,631</u>	<u>91,382,899</u>
Total liabilities	<u>99,062,230</u>	<u>13,886,510</u>	<u>112,948,740</u>
Net assets:			
Invested in capital assets, net of related debt	152,362,982	3,046,797	155,409,779
Restricted for:			
Nonexpendable – endowments	1,883,681	17,741,830	19,625,511
Expendable:			
Scholarships and fellowships	1,626,171	—	1,626,171
Loans	820,049	—	820,049
Capital projects	4,214,865	—	4,214,865
Debt service	799,722	—	799,722
Other	209,051	1,359,327	1,568,378
Unrestricted	22,259,572	12,817,106	35,076,678
Total net assets	<u>\$ 184,176,093</u>	<u>34,965,060</u>	<u>219,141,153</u>

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

	<u>University</u>	<u>Discretely presented component units FASB Auxiliary Organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$14,079,855)	\$ 31,628,175	1,640,029	—	33,268,204
Grants and contracts, noncapital:				
Federal	—	7,513,148	—	7,513,148
State	—	3,771,888	—	3,771,888
Local	—	173,424	—	173,424
Nongovernmental	—	2,520,920	—	2,520,920
Sales and services of educational activities	—	398,467	—	398,467
Sales and services of auxiliary enterprises (net of scholarship allowances of \$1,216,719)	9,474,108	17,335,589	(613,315)	26,196,382
Other operating revenues	4,553,324	1,404,921	(160,728)	5,797,517
Total operating revenues	<u>45,655,607</u>	<u>34,758,386</u>	<u>(774,043)</u>	<u>79,639,950</u>
Expenses:				
Operating expenses:				
Instruction	40,376,908	1,811,874	(80,559)	42,108,223
Research	—	7,882,870	(131,686)	7,751,184
Public service	340,580	3,692,644	(10,098)	4,023,126
Academic support	12,132,144	386,750	(4,514)	12,514,380
Student services	14,461,738	1,096,086	(125,465)	15,432,359
Institutional support	16,420,770	518,080	(1,511,154)	15,427,696
Operation and maintenance of plant	13,934,073	555,131	—	14,489,204
Student grants and scholarships	18,776,463	111,116	(121,222)	18,766,357
Auxiliary enterprise expenses	7,626,689	19,008,741	(150,000)	26,485,430
Depreciation and amortization	9,312,271	272,300	—	9,584,571
Total operating expenses	<u>133,381,636</u>	<u>35,335,592</u>	<u>(2,134,698)</u>	<u>166,582,530</u>
Operating loss	<u>(87,726,029)</u>	<u>(577,206)</u>	<u>1,360,655</u>	<u>(86,942,580)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	64,413,172	—	—	64,413,172
Federal financial aid grants, noncapital	15,602,936	—	—	15,602,936
State financial aid grants, noncapital	5,082,874	—	—	5,082,874
Nongovernmental and other financial and grants, noncapital	58,962	—	(16,843)	42,119
Other federal nonoperating grants, noncapital	12,312,200	—	—	12,312,200
Gifts, noncapital	546,676	4,362,068	(1,334,895)	3,573,849
Investment income, net	211,326	479,501	—	690,827
Endowment income	6,401	1,038,941	—	1,045,342
Interest expense	(3,487,373)	(17,720)	—	(3,505,093)
Other nonoperating revenues (expenses), net	1,594,875	(1,868,303)	2,365,893	2,092,465
Net nonoperating revenues	<u>96,342,049</u>	<u>3,994,487</u>	<u>1,014,155</u>	<u>101,350,691</u>
Income before other additions	8,616,020	3,417,281	2,374,810	14,408,111
State appropriations, capital	1,976,673	—	—	1,976,673
Grants and gifts, capital	1,789,247	—	(1,744,500)	44,747
Additions to permanent endowments	19,000	962,460	(630,310)	351,150
Increase in net assets	<u>12,400,940</u>	<u>4,379,741</u>	<u>—</u>	<u>16,780,681</u>
Net assets:				
Net assets at beginning of year	171,775,153	30,585,319	—	202,360,472
Net assets at end of year	\$ <u>184,176,093</u>	<u>34,965,060</u>	<u>—</u>	<u>219,141,153</u>

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2010

	University
Cash flows from operating activities:	
Student tuition and fees	\$ 31,752,825
Payments to suppliers	(23,108,790)
Payments to employees	(83,295,670)
Payments to students	(19,443,779)
Collections of student loans	570,962
Sales and services of educational activities	9,383,130
Other receipts	5,015,058
	(79,126,264)
Net cash used in operating activities	
Cash flows from noncapital financing activities:	
State appropriations	44,888,272
Federal financial aid grants	15,397,467
State financial aid grants	5,082,874
Nongovernmental and other financial aid grants	58,962
Other federal nonoperating grants	12,312,200
Gifts and grants received for other than capital purposes	565,676
Federal loan program receipts	30,085,328
Federal loan program disbursements	(30,085,328)
Monies received on behalf of others	5,514,082
Monies disbursed on behalf of others	(5,483,678)
Other	1,988,711
	80,324,566
Net cash provided by noncapital financing activities	
Cash flows from capital and related financing activities:	
State appropriations	8,527,096
Capital grants and gifts	1,789,247
Acquisition of capital assets	(40,850,834)
Principal paid on capital debt and leases	(2,390,899)
Interest paid on capital debt and leases	(3,712,154)
	(36,637,544)
Net cash used in capital and related financing activities	
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	127,448,801
Purchases of investments	(92,047,678)
Investment income received	217,728
	35,618,851
Net cash provided by investing activities	
Net increase in cash and cash equivalents	179,609
Cash and cash equivalents at beginning of year	8,400
Cash and cash equivalents at end of year	\$ 188,009
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 188,009
Total cash and cash equivalents at end of year	\$ 188,009

HUMBOLDT STATE UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2010

	<u>University</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (87,726,029)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	9,312,271
Change in assets and liabilities:	
Accounts receivable, net	374,931
Student loans receivable, net	95,621
Pledges receivable, net	30,000
Prepaid expenses and other assets	186,262
Accounts payable	(1,817,153)
Accrued salaries and benefits	(398,624)
Accrued compensated absences	516,707
Deferred revenue	120,475
Depository accounts	(323,856)
Other postemployment benefits obligation	365,849
Other liabilities	137,282
Net cash used in operating activities	\$ <u>(79,126,264)</u>
Supplemental schedule of noncash transactions:	
Acquisition of capital asset through capital lease	\$ 2,480,000
Change in accrued capital asset costs (purchased but unpaid at year-end)	(7,871,551)
Amortization of bond premium	27,512
Amortization of loss on refunding	62,322

See accompanying notes to financial statements.

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

(1) Organization

Humboldt State University (the University), an agency of the State of California (the State), was established as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. 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 recognized auxiliary organizations are as follows:

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

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

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

June 30, 2010	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	\$ 8,110,009	914,087	5,781,758	1,037,128	15,842,982
Capital assets, net	2,255,841	5,030	785,926	—	3,046,797
Other noncurrent assets	<u>727,780</u>	<u>10,000</u>	<u>7,386,631</u>	<u>21,837,380</u>	<u>29,961,791</u>
Total assets	\$ <u>11,093,630</u>	<u>929,117</u>	<u>13,954,315</u>	<u>22,874,508</u>	<u>48,851,570</u>
Current liabilities	\$ 2,448,807	389,654	1,014,754	111,664	3,964,879
Noncurrent liabilities	<u>—</u>	<u>—</u>	<u>7,386,631</u>	<u>2,535,000</u>	<u>9,921,631</u>
Total liabilities	\$ <u>2,448,807</u>	<u>389,654</u>	<u>8,401,385</u>	<u>2,646,664</u>	<u>13,886,510</u>
Invested in capital assets, net of related debt	\$ 2,255,841	5,030	785,926	—	3,046,797
Restricted	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,101,157</u>	<u>19,101,157</u>
Unrestricted	<u>6,388,982</u>	<u>534,433</u>	<u>4,767,004</u>	<u>1,126,687</u>	<u>12,817,106</u>
Total net assets	\$ <u>8,644,823</u>	<u>539,463</u>	<u>5,552,930</u>	<u>20,227,844</u>	<u>34,965,060</u>
<u>Year ended June 30, 2010</u>					
Operating revenues:					
Student tuition and fees, net	\$ —	750,029	890,000	—	1,640,029
Grants and contracts, noncapital	13,979,380	—	—	—	13,979,380
Sales and services of auxiliary enterprises, net	1,551,896	704,094	15,079,599	—	17,335,589
Other	<u>1,803,388</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,803,388</u>
Total operating revenues	<u>17,334,664</u>	<u>1,454,123</u>	<u>15,969,599</u>	<u>—</u>	<u>34,758,386</u>

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

<u>June 30, 2010</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	\$ 1,811,874	—	—	—	1,811,874
Research	7,882,870	—	—	—	7,882,870
Public service	3,692,644	—	—	—	3,692,644
Academic support	386,750	—	—	—	386,750
Student services	1,096,086	—	—	—	1,096,086
Institutional support	518,080	—	—	—	518,080
Operation and maintenance of plant	555,131	—	—	—	555,131
Student grants and scholarships	111,116	—	—	—	111,116
Auxiliary enterprise expenses	2,211,343	1,434,888	15,362,510	—	19,008,741
Depreciation and amortization	20,450	4,958	246,892	—	272,300
Total operating expenses	<u>18,286,344</u>	<u>1,439,846</u>	<u>15,609,402</u>	<u>—</u>	<u>35,335,592</u>
Operating income (loss)	(951,680)	14,277	360,197	—	(577,206)
Net nonoperating revenues (expenses)	<u>1,172,551</u>	<u>(22,771)</u>	<u>531,534</u>	<u>2,313,173</u>	<u>3,994,487</u>
Income (loss) before other additions	220,871	(8,494)	891,731	2,313,173	3,417,281
Additions to permanent endowments	<u>—</u>	<u>—</u>	<u>—</u>	<u>962,460</u>	<u>962,460</u>
Increase (decrease) in net assets	220,871	(8,494)	891,731	3,275,633	4,379,741
Beginning net assets, July 1, 2009	<u>8,423,952</u>	<u>547,957</u>	<u>4,661,199</u>	<u>16,952,211</u>	<u>30,585,319</u>
Ending net assets, June 30, 2010	<u>\$ 8,644,823</u>	<u>539,463</u>	<u>5,552,930</u>	<u>20,227,844</u>	<u>34,965,060</u>

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

The auxiliary organizations are presented in the accompanying financial statements as discretely presented component units due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to the activities that the organizations carry out on behalf of the University, such as research, grant administration, foodservice, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the University and the financial statements do not purport to, and do not, present fairly the financial position of the State or the California State University System as of June 30, 2010 and the changes in their financial position, or, where applicable, their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

(b) *Basis of Presentation*

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

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

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

(c) *Election of Applicable FASB Statements*

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

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

(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).

(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 statement of revenues, expenses, and changes in net assets as investment income, net.

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

(g) *Capital Assets*

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure and intangible assets, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such costs include, where applicable, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the State. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, construction work in progress, and certain intangible assets, are depreciated or amortized on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

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

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

Capitalized interest, net of related investment income at June 30, 2010 is as follows:

Interest expense capitalized for construction projects	\$ <u>130,060</u>
Capitalized interest, net of related investment income	\$ <u><u>130,060</u></u>

(h) Deferred Revenue

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

(i) Compensated Absences

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

(j) Grants Refundable

The University initially received contributions from the federal government in support of its operation of the Federal Perkins program, approved Title IV loan program. In 2006, the federal government terminated funding of the Federal Perkins Loan program, but authorized universities to retain repaid monies and treat them as a campus-based program. The federal government has the ability to terminate its support of these programs at any time and to request the University to return those contributions that it has made on a cumulative basis. Accordingly, the federal contributions received and retained by the University at year-end are considered to be liabilities of the University, and are reflected as such in the accompanying statement of net assets.

(k) Net Assets

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

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

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

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

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

support future operations in these areas. Campus housing programs are a primary example of operations that have unrestricted net assets with designated uses.

(l) *Classification of Revenues and Expenses*

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

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

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

In fiscal year 2010, the State received federal education grants that were passed on to school districts and the State's universities to restore state appropriations. The Governor had filed an application with the federal government to receive California's share of the Education Stabilization Fund that was created as part of the federal stimulus bill under the ARRA. The federal education grants have been appropriated to the System by the State and reported separately as nonoperating revenues and expenses in the accompanying statement of revenues, expenses, and changes in net assets.

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

(m) *Internal Services Activities*

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

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

(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, 2009, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. To provide governments with better accounting guidance and consistency, GASB Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. This statement also fosters greater comparability and results in a more faithful representation of the service capacity of intangible assets—and therefore the financial position of governments—and of the periodic cost associated with the usage of such service capacity in governmental financial statements. The provisions of this statement generally are required to be applied retroactively. The adoption of the statement did not have a material impact on the University's financial statements.

On July 1, 2009, the University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires governments to measure derivative instruments not specifically excluded by its scope provisions, at fair value in their economic resources measurement focus financial statements, and to provide disclosures of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The adoption of the statement did not have a material impact on the University's financial statements.

(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 statement 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 in the accompanying financial statements. Estimates are used to calculate allowances for uncollectible receivables, scholarship allowances, accrued compensated absences, and deferred revenue. Actual results could differ from those estimates.

HUMBOLDT STATE UNIVERSITY

Notes to Financial Statements

June 30, 2010

(3) Cash and Cash Equivalents and Investments

The University's cash and cash equivalents and investments as of June 30, 2010 are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$	<u>188,009</u>
Total cash and cash equivalents		<u>188,009</u>
Short-term investments		36,284,124
Endowment investments		1,883,681
Other long-term investments		<u>9,687,055</u>
Total investments		<u>47,854,860</u>
Total cash and cash equivalents and investments	\$	<u><u>48,042,869</u></u>

(a) Cash and Cash Equivalents

At June 30, 2010, cash and cash equivalents consisted of demand deposits held at the State Treasury, commercial banks, and petty cash. Total cash and cash equivalents of \$188,009 had a corresponding carrying balance with the State Treasury and commercial banks of \$1,415,235 at June 30, 2010. The differences related primarily to outstanding checks as well as deposits in transit.

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, 2010, the University's investment portfolio consists primarily of investments in the State of California Surplus Money Investment Fund (SMIF) and the California State University Investment Pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

Investment Policy

State law and regulations require that surplus monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts

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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, highgrade corporation 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 maturity of its portfolio. Weighted average maturity is based on the stated maturity date, assuming that the callable investments will not be called. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2010 is presented in the table 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 allocated share of the California State University Investment Pool and the State of California Surplus Money Investment Fund as of June 30, 2010:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end					
			AAA	AA	A	BBB	Not rated	
Money market	\$ 89,337	—	\$ 89,337	—	—	—	—	—
Commercial paper	5,908,315	0.066	—	—	5,908,315	—	—	—
Certificates of deposit	3,246,690	0.052	—	—	3,246,690	—	—	—
Repurchase agreements	5,141,164	0.003	—	—	5,141,164	—	—	—
U.S. agency securities	17,650,060	0.163	1,953,774	—	15,132,984	—	—	563,302
Corporate and fixed income securities	6,205,719	1.089	4,751,946	759,989	528,761	165,023	—	—
U.S. Treasury securities	53,330	0.126	—	—	—	—	—	53,330
State of California Surplus Money Investment Fund	9,094,450	0.560	—	—	—	—	—	9,094,450
Mortgage-backed securities	465,795	8.740	418,960	46,835	—	—	—	—
Total	\$ 47,854,860		\$ 7,214,017	806,824	29,957,914	165,023	—	9,711,082

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, 2010, the

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following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the University's investment portfolio: Freddie Mac notes \$6,163,137 (13%), Federal Home Loan Bank bonds and notes \$5,760,798 (12%) and Fannie Mae notes \$5,317,552 (11%).

Risks and Uncertainties

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

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

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

(4) Accounts Receivable

Accounts receivable at June 30, 2010 consisted of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State appropriations	\$ —	1,076,099	1,076,099
Auxiliary organizations	132,276	—	132,276
Student accounts	923,233	—	923,233
Government grants and contracts	183,045	—	183,045
Other	495,835	397,571	893,406
	<u>1,734,389</u>	<u>1,473,670</u>	<u>3,208,059</u>
Less allowance for doubtful accounts	(523,694)	—	(523,694)
Total	<u>\$ 1,210,695</u>	<u>1,473,670</u>	<u>2,684,365</u>

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(5) Student Loans Receivable

Student loans receivable, net at June 30, 2010 consisted of the following:

Perkins loans	\$ <u>4,813,627</u>
Total student loans receivable, gross	4,813,627
Less allowance for doubtful accounts	<u>(912,075)</u>
Total student loans receivable, net	\$ <u><u>3,901,552</u></u>

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(6) Capital Assets

Capital assets activity for the year ended June 30, 2010 consisted of the following:

	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance, June 30, 2010</u>
Nondepreciable/nonamortizable 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	34,322,514	34,419,237	—	(16,615,891)	52,125,860
Intangible assets	—	—	—	—	—
Total nondepreciable/nonamortizable capital assets	<u>38,410,180</u>	<u>34,419,237</u>	<u>—</u>	<u>(16,615,891)</u>	<u>56,213,526</u>
Depreciable/amortizable capital assets:					
Buildings and building improvements	247,224,910	—	—	4,736,280	251,961,190
Improvements, other than buildings	10,019,913	—	—	136,343	10,156,256
Infrastructure	36,612,019	434,135	—	—	37,046,154
Personal property:					
Equipment	13,733,173	551,457	(2,186,901)	—	12,097,729
Library books and materials	13,394,673	152,260	(39,127)	—	13,507,806
Intangible assets	356,606	32,254	—	11,743,268	12,132,128
Total depreciable/amortizable capital assets	<u>321,341,294</u>	<u>1,170,106</u>	<u>(2,226,028)</u>	<u>16,615,891</u>	<u>336,901,263</u>
Total cost	<u>359,751,474</u>	<u>35,589,343</u>	<u>(2,226,028)</u>	<u>—</u>	<u>393,114,789</u>
Less accumulated depreciation/amortization:					
Buildings and building improvements	(118,751,292)	(6,042,104)	—	—	(124,793,396)
Improvements, other than buildings	(4,618,991)	(411,547)	—	—	(5,030,538)
Infrastructure	(11,118,306)	(785,018)	—	—	(11,903,324)
Personal property:					
Equipment	(10,713,742)	(909,028)	1,950,694	—	(9,672,076)
Library books and materials	(12,551,652)	(237,444)	39,127	—	(12,749,969)
Intangible assets	(208,729)	(927,130)	—	—	(1,135,859)
Total accumulated depreciation/amortization	<u>(157,962,712)</u>	<u>(9,312,271)</u>	<u>1,989,821</u>	<u>—</u>	<u>(165,285,162)</u>
Net capital assets \$	<u><u>201,788,762</u></u>	<u><u>26,277,072</u></u>	<u><u>(236,207)</u></u>	<u><u>—</u></u>	<u><u>227,829,627</u></u>

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

(7) Lease Obligations

The University is obligated under various capital and operating leases and installment purchase agreements for the acquisition of equipment and facility rentals.

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$17,640,466 at June 30, 2010. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.6% to 5.9% and have terms expiring in various years through 2017.

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

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

	Capital leases	Operating leases
Year(s) ending June 30:		
2011	\$ 2,339,827	114,995
2012	2,462,173	43,560
2013	2,432,585	25,144
2014	2,420,823	20,233
2015	2,399,343	—
2016 – 2020	2,828,557	—
Total minimum lease payments	14,883,308	\$ 203,932
Less amount representing interest	(1,784,707)	
Present value of future minimum lease payments	13,098,601	
Less current portion	(1,942,317)	
Capital lease obligations, net of current portion	\$ 11,156,284	

Rent expense under operating leases for the year ended June 30, 2010 totaled \$65,763.

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, 2010 totaled \$842,607,000.

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(8) Long-Term Debt Obligations

(a) *General Obligation Bond Program*

The General Obligation Bond program of the State has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds, which is allocated on a project-by-project basis among the University of California, the 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 \$2,751,972,000 as of June 30, 2010.

(b) *Revenue Bond Programs*

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

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

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

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from 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

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

Designated auxiliary organization programs provide for certain additional facilities on campuses for the benefit of students and staff. Funds received by the University from designated auxiliary organizations are used to pay 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 Systemwide Revenue Bond program, formerly, the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects.

The University participates in the Systemwide Revenue Bond program and its allocated share of outstanding Systemwide Revenue Bond debt as of June 30, 2010 was \$60,695,000, which has been used to finance certain projects.

The System has pledged future continuing education, healthcare facilities, housing, parking, and student union revenues plus designated auxiliary revenues, net of maintenance and operation expenses before extraordinary items (net income available for debt service), to repay \$3,621,493,000 in Systemwide Revenue Bonds issued through fiscal year 2010. The bonds are payable solely from continuing education, healthcare facilities, housing, parking, student union, and designated auxiliary net income available for debt service and are payable through fiscal year 2045. The Systemwide Revenue Bond indenture requires net income available for debt service to be at least equal to aggregate debt service for all bond indebtedness each fiscal year. The total debt service remaining to be paid on the bonds for the System is \$6,275,494,000. In fiscal year 2010, total debt service paid and net income available for debt service, which excluded the designated auxiliary net income, for the System were \$201,371,000 and \$249,822,000, respectively.

(c) ***Revenue Bond Anticipation Notes***

Revenue Bond Anticipation Notes (BANs) are issued by the California State University Institute (the Institute), an auxiliary organization of the System, to provide short-term financing to the System for construction projects. They are generally issued for a one- to three-year period in anticipation of

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issuing permanent revenue bonds at a future date. As of June 30, 2010, these BANs were converted to Systemwide Revenue Bonds; therefore, the University has no BANs outstanding at June 30, 2010.

Long-term debt obligations of the University as of June 30, 2010 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding at June 30</u>
Systemwide Revenue Bonds:				
Student Union 2002A	4.10% – 5.50%	2030/31	\$ 3,490,000	2,975,000
Student Union 2004A	3.50% – 5.25%	2034/35	3,845,000	3,510,000
Housing 2005A	3.25% – 5.00%	2016/17	2,985,000	1,915,000
Housing 2005B	5.00%	2021/22	6,145,000	4,820,000
Housing 2009A	2.50% – 6.00%	2040/41	47,475,000	47,475,000
Other:				
GE Capital Public Finance, Inc.	4.40%	2015/16	4,248,167	<u>2,543,669</u>
Total				63,238,669
Unamortized bond premium				259,480
Unamortized loss on refunding				<u>(1,130,105)</u>
Total long-term debt				62,368,044
Less current portion				<u>(1,079,489)</u>
Long-term debt, net of current portion				<u>\$ 61,288,555</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2011	\$ 1,079,489	3,211,040	4,290,529
2012	1,826,250	3,152,793	4,979,043
2013	1,903,753	3,081,959	4,985,712
2014	2,002,028	2,997,246	4,999,274
2015	2,096,111	2,903,240	4,999,351
2016 – 2020	8,946,038	13,106,340	22,052,378
2021 – 2025	8,335,000	10,962,838	19,297,838
2026 – 2030	9,485,000	8,715,935	18,200,935
2031 – 2035	11,375,000	5,929,510	17,304,510
2036 – 2040	13,110,000	2,749,555	15,859,555
2041 – 2045	3,080,000	92,400	3,172,400
	<u>\$ 63,238,669</u>	<u>56,902,856</u>	<u>120,141,525</u>

Long-term debt obligations of the discretely presented auxiliary organizations have been issued to purchase or construct facilities for University-related uses. For information regarding the long-term debt obligations of the individual discretely presented auxiliary organizations, refer to their separately issued financial statements.

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(9) Long-Term Liabilities Activity

Long-term liabilities activity of the University for the year ended June 30, 2010 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 5,185,557	3,100,104	(2,583,398)	5,702,263	2,583,398
Capitalized lease obligations (note 7):					
Gross balance	11,981,063	2,480,000	(1,362,462)	13,098,601	1,942,317
Total capitalized lease obligations	11,981,063	2,480,000	(1,362,462)	13,098,601	1,942,317
Long-term debt obligations (note 8):					
Systemwide Revenue Bonds	61,360,000	—	(665,000)	60,695,000	700,000
Other	2,907,106	—	(363,437)	2,543,669	379,489
Total	64,267,106	—	(1,028,437)	63,238,669	1,079,489
Unamortized bond premium (discount)	286,992	—	(27,512)	259,480	—
Unamortized loss on refunding	(1,192,427)	—	62,322	(1,130,105)	—
Total long-term debt obligations	63,361,671	—	(993,627)	62,368,044	1,079,489
Total long-term liabilities	\$ 80,528,291	5,580,104	(4,939,487)	81,168,908	5,605,204

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

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

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Funding Policy

University personnel are required to contribute 5.0% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 19.9% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS. There is no contractual maximum contribution required for the University by CalPERS.

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

2008	\$	9,422,693
2009		9,585,652
2010		8,925,392

(b) *Postretirement Healthcare Plan*

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

Plan Description

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

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

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.

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Funding Policy

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

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

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

Annual OPEB Cost and Net OPEB Obligation

The following table shows the total annual required contribution (ARC) for the University’s allocated portion of the postretirement healthcare plan, net of dental benefit portion, the amount contributed to the plan by the University, and changes in the University’s net OPEB obligation (NOO) for billable accounts for the fiscal year ended June 30, 2010:

Billable accounts only:		
Annual required contribution (ARC)	\$	534,048
Contributions during the year		<u>(194,699)</u>
Increase in net OPEB obligation (NOO)		339,349
NOO – beginning of year		<u>794,701</u>
NOO – end of year	\$	<u><u>1,134,050</u></u>
Percentage of annual OPEB cost contributed during the year ended June 30, 2010		36%

Actuarial Methods and Assumptions and Plan Funding Information

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

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Projections of benefits for financial statement reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the State and the plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective. In the June 30, 2009 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual State healthcare cost trend rate of actual increases for 2010 and 9.00% in 2011, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

Funding progress information specifically related to the System's portion of the statewide OPEB plan is not available. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010.

(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, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs. The System's self-insurance claims liability includes estimated amounts for both reported and unreported events, which includes estimates of both future payments of losses and related loss adjustment expenses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonable at June 30, 2010.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2010 are as follows:

Liability at June 30, 2008	\$ 103,997,000
Incurred claims and changes in estimates	17,019,000
Claim payments	<u>(50,268,000)</u>
Liability at June 30, 2009	70,748,000
Incurred claims and changes in estimates	43,097,000
Claim payments	<u>(26,536,000)</u>
Long-term liability at June 30, 2010	87,309,000
Less current portion	<u>(14,032,000)</u>
Long-term liability at June 30, 2010, net of current portion	<u>\$ 73,277,000</u>

For the year ended June 30, 2010, the CSURMA purchased excess insurance to protect the members from catastrophic losses. The CSURMA previously maintained excess public entity liability insurance coverage provided by Schools Excess Liability Fund (SELF), a joint powers authority, with coverage for individual

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claims above \$5,000,000 and up to \$45,000,000 per occurrence. The CSURMA purchased excess workers' compensation insurance provided by the National Union Fire Insurance Company of Pittsburgh, PA (AIG) to statutory limits in excess of the \$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.

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, 2010 was approximately 2%, or \$1,338,000. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2010. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

There is no amount due to or from CSURMA as of June 30, 2010.

(12) Commitments and Contingencies

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

Authorized but unexpended expenditures for construction projects as of June 30, 2010 totaled \$7,304,526. These expenditures will be funded primarily from Systemwide Revenue Bonds.

As of June 30, 2010, in order to secure access to natural gas and electricity used for normal operation, the University participates in forward purchase contracts (the Programs) of natural gas and electricity operated by the Department of General Services (DGS) and Shell Energy North America (Shell), respectively. As a participant in the Programs, the University is required to purchase natural gas and electricity used in its operations from DGS and Shell, respectively. The University's obligation to purchase its natural gas and electricity is from July 2010 through June 2014 and from July 2010 through March 2014, respectively. Under the term of the Programs, the University has an option to enter special purchase arrangements. Under this option, the University can elect to fix or structure prices for certain quantities of natural gas and electricity to be purchased in the future. This option provides the University the ability to reduce the variability of its cash flows related to future purchases of natural gas and electricity.

In September 2010, the University amended its special purchase arrangements with DGS that were in place as of June 30, 2010. The amendment extended the University's commitment to purchase natural gas from DGS through June 30, 2017 and changed the fixed prices of such purchases.

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The University's obligation under these special purchase arrangements requires it to purchase an estimated total of \$5,772,792 and \$3,159,800 of natural gas and electricity at fixed prices through June 2017 and March 2014, respectively. The University estimates that the special purchase contracts in place represent approximately 76.4% and 40.1% of its total annual natural gas and electricity expenses, respectively. The University's total natural gas and electricity expenses were \$1,069,605 and \$1,923,966, respectively, for the year ended June 30, 2010.

(13) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statement of revenues, expenses, and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2010, operating expenses by natural classification consisted of the following:

	Salaries	Benefits	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:						
Instruction	\$ 27,667,967	9,720,554	—	2,988,387	—	40,376,908
Public service	271,828	45,782	—	22,970	—	340,580
Academic support	7,311,064	2,896,403	—	1,924,677	—	12,132,144
Student services	7,997,827	3,259,724	—	3,204,187	—	14,461,738
Institutional support	8,781,739	3,520,744	—	4,118,287	—	16,420,770
Operation and maintenance of plant	5,770,381	2,721,751	—	5,441,941	—	13,934,073
Student grants and scholarships	—	—	18,776,463	—	—	18,776,463
Auxiliary enterprise expenses	2,369,750	1,078,238	—	4,178,701	—	7,626,689
Depreciation and amortization	—	—	—	—	9,312,271	9,312,271
Total	<u>\$ 60,170,556</u>	<u>23,243,196</u>	<u>18,776,463</u>	<u>21,879,150</u>	<u>9,312,271</u>	<u>133,381,636</u>

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

State appropriation revenue, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$66,389,845 for the year ended June 30, 2010.

Moreover, the State recovers statewide general administrative costs (i.e., indirect costs incurred by central service agencies) from the System. 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.

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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 statement 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.

As discussed in notes 8 and 9, the University has recorded capital assets that have been financed by System or the State obligations. These obligations are not reflected in the accompanying financial statements. For the year ended June 30, 2010, no such additions of capital assets are included in the accompanying financial statements.

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the year ended June 30, 2010:

Payments from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$	1,916,333
Payments from recognized auxiliary organizations for other than salaries of University employees		2,120,965
Payments to recognized auxiliary organizations for services, office space rental, and programs		10,420,286
Gifts-in-kind to the University from recognized auxiliary organizations		161,146
Gifts (cash or assets) to the University from recognized auxiliary organizations		2,292,714
Payments to the Office of the Chancellor for State pro rata charges		237,276
Amounts receivable from the Office of the Chancellor		91,688
Amounts payable to the Office of the Chancellor		(255)
Amounts receivable from recognized auxiliary organizations		132,276
Other receivable from recognized auxiliary organizations		97,748
Amounts payable to recognized auxiliary organizations		(68,410)
Other payable to recognized auxiliary organizations		(44,011)
State lottery appropriations received		854,000

(15) Subsequent Events

The State will be deferring \$135 million in Cal Grant fund payments originally scheduled for July to October 2010 for the System. All Cal Grant participants had awards covered by their respective universities. It is anticipated that the System will be reimbursed with these amounts in December 2010 or later.

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In October 2010, the CSURMA's Executive Committee declared the return of \$9.2 million from the Worker's Compensation Program funds to the Members (23 campuses). In accordance with the Funding Policy described in CSURMA's Policy & Procedure No. JPA-7, the Executive Committee allocates the amount to each member by its pro rata contributions to the Worker's Compensation program fund over the past five completed fiscal years. \$0.2 million was returned to the University and will increase the University's fiscal year 2011 net assets.

In October 2010, the CSURMA's Executive Committee approved the assessment of \$7.0 million for the Industrial Disability Leave/Nonindustrial Disability Leave/Unemployment Insurance (IDL/NDL/UI) program funds from the members (23 campuses) due to high unemployment rate and fund balance deficit of the program. The Executive Committee allocates the amount to each member by its actual expenditures to the IDL/NDL/UI program fund over the past five fiscal years. \$0.3 million was charged to the University and will decrease the University's fiscal year 2011 net assets.

In November 2010, the Board of Trustees approved the dissolution of the auxiliary organization known as the University Enterprises Development Group at California State University, Sacramento and the transfer of all assets to the auxiliary organization known as the University Enterprises, Inc. at California State University, Sacramento.