

**HUMBOLDT STATE UNIVERSITY  
ADVANCEMENT FOUNDATION**

**BASIC FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION,  
AND  
ADDITIONAL INFORMATION**

**Year Ended June 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

Humboldt State University Advancement Foundation  
Board of Directors  
Arcata, California

We have audited the accompanying financial statements of the business-type activities of Humboldt State University Advancement Foundation as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the organization's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As discussed in Note 2 to the financial statements, Humboldt State University Advancement Foundation adopted Governmental Accounting Standards Board financial reporting as of and for the fiscal year ending June 30, 2012. Previously, the Foundation utilized Financial Accounting Standards Board financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of Humboldt State University Advancement Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Hunter, Hunter & Hunt*

September 27, 2012

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

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Management's Discussion and Analysis

June 30, 2012

This section of Humboldt State University Advancement Foundation (the Foundation) annual financial report presents the Foundation's discussion and analysis of the financial performance of the Foundation for the fiscal year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

After reassessing its articles of incorporation and bylaws, the Foundation determined that it meets the definition of a governmental entity and thus adopted Governmental Accounting Standards Board (GASB) financial reporting. Previously, the Foundation utilized Financial Accounting Standards Board (FASB) financial reporting. The primary items affected by the change in accounting treatment for the Foundation are pledges, funds held in trust by others, endowment appreciation and/or deficits, and the functional presentation of operating expenses. Adoption of GASB financial reporting principles had an effect on the Foundation's beginning net assets. See Note 2.

Due to the differences in accounting treatment and presentation of results, it is management's determination that it is not practical to present the basic financial statements reflecting prior year comparative information. As such, the Foundation is presenting financial results as of June 30, 2012 and the fiscal year then ended in a single year format. Management will make reference in its discussion and analysis to certain financial results and statistics from the prior year noting when results have been impacted by the GASB to FASB conversion. Comparative analysis will be presented in future years' basic financial statements.

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

This annual report consists of a series of financial statements prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. This standard is applicable to the Foundation as it is a component unit of Humboldt State University (the University). Consistent with the University, the Foundation has adopted the business-type activity (BTA) reporting model to represent its activities.

The financial statements include the 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 Foundation.

**Statement of Net Assets** – The statement of net assets includes all assets and liabilities. Assets and liabilities are generally reported on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net assets of the Foundation.

**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.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Management's Discussion and Analysis

June 30, 2012

### Analytical Overview

#### Summary

The following discussion highlights management's understanding of the key financial aspects of the Foundation's financial activities. Included is an analysis of current year activities and balances; a discussion of restrictions of University net assets; and factors impacting future reporting periods. Due to the change of reporting under GASB financial reporting standards, management is using prior year comparative information for illustrative purposes only. The prior period net assets have been restated to comply with GASB standards. See Note 2 for further disclosure of the changes in net assets.

#### Condensed Summary of Net Assets

	June 30		Change (in millions)
	2012	2011	
Assets:			
Current assets	\$ 1,530,713	\$ 1,338,574	\$ 0.19
Capital assets	-	-	-
Other noncurrent assets	24,887,489	26,216,685	(1.33)
Total assets	26,418,202	27,555,259	(1.14)
Liabilities:			
Current liabilities	193,754	78,790	0.11
Long-term debt obligations, net of current portion	2,535,000	2,535,000	-
Other noncurrent liabilities	-	-	-
Total liabilities	2,728,754	2,613,790	0.11
Net assets:			
Invested in capital assets, net of related debt	-	-	-
Restricted, nonexpendable	15,591,458	16,587,205	(1.00)
Restricted, expendable	6,201,128	5,573,860	0.63
Unrestricted	1,896,862	2,780,404	(0.88)
Total net assets	\$ 23,689,448	\$ 24,941,469	\$ (1.26)

#### Assets

##### Current Assets

Total current assets increased \$192 thousand primarily due to an increase of accounts receivable due to timing of when payments were received at year-end, as well as an increase in the amount of pledges receivable to be collected within one year.

##### Other noncurrent assets

Other noncurrent assets decreased \$1.3 million primarily due to the removal of \$1.6 million in charitable remainder trusts that are held by a third party trustee. In accordance with GASB guidance, these trusts will only be recorded when the Foundation receives a distribution from the trust. The remaining change is due to fluctuation in the current market value of endowment and long-term investments.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Management's Discussion and Analysis

June 30, 2012

### *Liabilities*

#### Current Liabilities

Total current liabilities increased \$115 thousand primarily due to timing of when payments were made at year-end as well as a \$15 thousand increase in deferred revenue related to KHSU radio station underwriting payments received prior to services being performed.

#### Long-Term Debt Obligations

CSURMA granted a loan to Advancement Foundation on August 26, 2008. The proceeds of \$2,535,000 financed the acquisition of property located in Arcata, California. The loan is unsecured. All principal and any remaining unpaid interest will be due and payable on October 31, 2013. The loan is non-amortizing, with interest due and payable quarterly. Principal may be prepaid at any time during the term of the loan. The loan may be assigned to another auxiliary related to the University upon request of the campus President and approval of the CSURMA Chair and Treasurer.

Management intends to pay \$535,000 of the principal loan balance during the next fiscal year and extend the remaining \$2 million loan balance until October 2017.

### *Net Assets*

Total net assets decreased \$1.3 million from the prior year. A reduction to beginning net assets of \$1.6 million was made due to the transition from reporting under FASB standards to GASB standards. To comply with GASB standards, the Foundation had to remove charitable remainder trusts that are held by a third party trustee. In addition, to comply with GASB standards, the Foundation had to make reclassifications between the net asset categories. The Foundation's net assets as of June 30, 2012 consist of:

#### ***Restricted, non-expendable*** - \$15,591,458

Represents endowments created by a multitude of donors over time. These endowments provide a perpetual stream of annual income in support of the University. This net asset category also includes a charitable remainder trust and a gift annuity that are designated to the endowment upon termination. Net investment depreciation reduces this net asset category if the endowments' market value is below corpus. If the endowments' market value is above corpus then the net investment appreciation is recorded under the restricted, expendable – other or unrestricted net asset category dependent upon if there is an underlying purpose restriction.

#### ***Restricted, expendable Other*** - \$6,201,128

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

#### ***Unrestricted*** - \$1,896,862

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

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Management's Discussion and Analysis

June 30, 2012

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

	Year ended June 30		Change (in millions)
	2012	2011	
Total Operating revenues	\$ 334,723	\$ -	\$ 0.33
Total Operating expenses	(397,834)	-	(0.40)
Operating loss	(63,111)	-	(0.07)
Nonoperating revenues (expenses):			
Gifts, noncapital	3,268,970	1,432,258	1.84
Investment income (loss), net	(11,941)	355,628	(0.37)
Endowment income (loss), net	(395,698)	2,776,061	(3.17)
Interest expense	(18,407)	(9,608)	(0.01)
Other nonoperating revenues, net	415,291	(858,524)	1.27
Total nonoperating revenues	3,258,215	3,695,815	(0.44)
Income before other additions	3,195,104	3,695,815	(0.51)
Additions to permanent endowments	389,168	1,017,810	(0.63)
Transfers to Other Campus Entities	(3,239,215)	-	(3.24)
Increase in net assets	345,057	4,713,625	(4.38)
Beginning net assets, as previously reported	24,941,469	20,227,844	4.71
Restatements	(1,597,078)	-	(1.60)
Beginning net assets, restated	23,344,391	20,227,844	3.11
Ending net assets	\$ 23,689,448	\$ 24,941,469	\$ (1.27)

#### Operating Revenues and Expenses

Operating revenues and expenses come from sources that are connected directly to the Foundation's primary business function. This includes revenues collected by the Foundation from endowment funds to operate the Foundation. Operating expenses are reported by functional program which are institutional support and public service. See Note 9 for further information. In the prior year, these expenses were shown under nonoperating revenue and expenses.

#### *Nonoperating Revenues (Expenses)*

Nonoperating revenues (expenses) come from sources that are not part of the Foundation's primary business functions. Included in this classification are gifts, investment income, endowment income, and interest expense. Net nonoperating revenue of \$3.3 million decreased \$438 thousand from the prior year due to the following factors:

Gifts, noncapital increased \$1.8 million because the Foundation began recording all gifts made to the University and its related auxiliary organizations in the current year of which \$1.2 million of the gifts

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Management's Discussion and Analysis

June 30, 2012

received were immediately transferred to the University or auxiliary as well as \$0.6 million of increased giving with the largest portion related to the KHSU radio station.

Investment income decreased \$368 thousand and endowment income decreased \$3.2 million. These decreases are due to the downturn in the market. Interest expense increased by \$9 thousand due to a higher interest rate charged by California State University Risk Management Authority (CSURMA) on the Foundation's outstanding loan balance.

Other nonoperating revenue increased by \$1.3 million from the prior year. This is due to eight endowments moving from the University to the Foundation and one endowment moving from Sponsored Programs Foundation to the Foundation in the current year with a total value of \$270 thousand and movement of \$6 thousand held by the University to 3 endowment funds held by the Foundation. In the current year, transfers to campus entities is a separate line item on the financial statements. In the prior year, \$828 thousand of transfers to other entities was included as nonoperating expenses. In addition, \$339 thousand of revenues and \$373 thousand of expenses were classified as nonoperating revenue in the prior year, but a portion of these which related to the Foundation's primary business function have been classified as operating revenue in the current year.

Additions to permanent endowments decreased \$629 thousand due to larger endowment donations made by donors in the previous year as well as \$129 thousand reduction in the current year due to reduced fair market value on charitable remainder trusts designated to permanent endowments.

Transfers to other campus entities increased \$3.2 million. In the prior year \$828 thousand of transfers to other entities was included as nonoperating expenses. In addition, the Foundation recorded all gifts made to the University and its related auxiliary organizations in the current year of which \$1.2 million was immediately transferred to the University or related auxiliary organization. The remaining increase is due to increased transfers to the University and related auxiliary organizations to support campus activities and programs.

#### ***Advancement Foundation Policies***

On September 30, 2011, the Foundation Board approved the revised investment policy and procedure. The policy establishes a framework for the investment of Foundation assets, and to ensure that future growth of these assets is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the assets for future generations. The policy establishes appropriate risk and return objectives in light of the fund's risk tolerance and investment time horizon. The policy establishes target asset allocations, performance monitoring procedures, and identifies the roles of key responsible parties.

On March 9, 2012, the Foundation Board approved the earning distribution policy and procedure. The policy establishes a target net return of 4.5% of the Foundation's average total market value during the 12 quarters ending with the last quarter of the previous fiscal year. The actual net return rate will be approved annually by the Board of Directors. Until there are 12 full quarters of history, the average total market value calculation will include as many quarters as possible. Earnings, described as realized and unrealized gains and losses, interest and dividend income, shall generally be available for distribution from those participant accounts invested for two or more quarters. Distributions for participant accounts invested for less than four quarters at the end of the fiscal year, will be prorated based on the number of quarters invested. The actual distribution will occur in July based on the level recommended by the Finance Committee and must be approved annually by the Board of Directors.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Management's Discussion and Analysis

June 30, 2012

On March 9, 2012 the Foundation Board approved the Centennial Fundraising Resolution. The Foundation and the Board plan to support the University and to raise the University's sights as it enters its second century of exceptional teaching and research. The primary focus of this fundraising effort will go towards scholarship support, green and gold room and centennial grove capital projects, and experiential learning.

### **Factors Impacting Future Periods**

The economy has been very volatile the past couple of years but the total endowment balance is above water. The Foundation's Board takes an active role in managing the Foundation's investments; however volatility in the economy impacts the Foundation's investment portfolio and could impact the Foundation's ability to support the University.

## **BASIC FINANCIAL STATEMENTS**

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Statement of Net Assets

June 30, 2012

(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$ 56,091
Short-term investments	1,129,440
Accounts receivable, net	257,822
Leases receivable, current portion	—
Notes receivable, current portion	—
Pledges receivable, net	87,360
Prepaid expenses and other assets	—
<b>Total current assets</b>	<b>1,530,713</b>

Noncurrent assets:

Restricted cash and cash equivalents	—
Accounts receivable, net	—
Leases receivable, net of current portion	—
Notes receivable, net of current portion	—
Student loans receivable, net	—
Pledges receivable, net	258,500
Endowment investments	20,861,260
Other long-term investments	3,687,049
Capital assets, net	—
Other assets	80,680
<b>Total noncurrent assets</b>	<b>24,887,489</b>
<b>Total assets</b>	<b>26,418,202</b>

Liabilities:

Current liabilities:

Accounts payable	178,959
Accrued salaries and benefits payable	—
Accrued compensated absences— current portion	—
Deferred revenue	14,795
Capitalized lease obligations – current portion	—
Long-term debt obligations – current portion	—
Self-insurance claims liability - current portion	—
Depository accounts	—
Other liabilities	—
<b>Total current liabilities</b>	<b>193,754</b>

Noncurrent liabilities:

Accrued compensated absences, net of current portion	—
Deferred revenue	—
Grants refundable	—
Capitalized lease obligations, net of current portion	—
Long-term debt obligations, net of current portion	2,535,000
Self-insurance claims liabilities, net of current portion	—
Depository accounts	—
Other postemployment benefits obligation	—
Other liabilities	—
<b>Total noncurrent liabilities</b>	<b>2,535,000</b>
<b>Total liabilities</b>	<b>2,728,754</b>

Net assets:

Invested in capital assets, net of related debt	—
Restricted for:	
Nonexpendable – endowments	15,591,458
Expendable:	
Scholarships and fellowships	—
Research	—
Loans	—
Capital projects	—
Debt service	—
Other	6,201,128
Unrestricted	1,896,862
<b>Total net assets</b>	<b>\$ 23,689,448</b>

See accompanying notes.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2012

(for inclusion in the California State University)

Revenues:

Operating revenues:

Student tuition and fees (net of scholarship allowances of \$0)	\$	—
Grants and contracts, noncapital:		
Federal		—
State		—
Local		—
Nongovernmental		—
Sales and services of educational activities		—
Sales and services of auxiliary enterprises (net of scholarship allowances of \$0)		—
Other operating revenues		334,723
		<hr/>
Total operating revenues		334,723

Expenses:

Operating expenses:

Instruction		—
Research		—
Public service		10,856
Academic support		—
Student services		—
Institutional support		386,978
Operation and maintenance of plant		—
Student grants and scholarships		—
Auxiliary enterprise expenses		—
Depreciation and amortization		—
		<hr/>
Total operating expenses		397,834
		<hr/>
Operating income (loss)		(63,111)

Nonoperating revenues (expenses):

State appropriations, noncapital		—
Federal financial aid grants, noncapital		—
State financial aid grants, noncapital		—
Local financial aid grants, noncapital		—
Nongovernmental and other financial aid grants, noncapital		—
Other federal nonoperating grants, noncapital		—
Gifts, noncapital		3,268,970
Investment income (loss), net		(11,941)
Endowment income (loss), net		(395,698)
Interest Expenses		(18,407)
Other nonoperating revenues (expenses)		415,291
		<hr/>
Net nonoperating revenues (expenses)		3,258,215
		<hr/>
Income (loss) before other additions		3,195,104

State appropriations, capital

Grants and gifts, capital		—
Additions (reductions) to permanent endowments		389,168
Transfers from/(to) Other Campus Entities		(3,239,215)
		<hr/>
Increase (decrease) in net assets		345,057

Net assets:

Net assets at beginning of year, as previously reported		24,941,469
Restatements		(1,597,078)
		<hr/>
Net assets at beginning of year, as restated		23,344,391
		<hr/>
Net assets at end of year	\$	<u>23,689,448</u>

Note: For inclusion in the California State University financial statements Transfers from/(to) Other Campus Entities is included in Other nonoperating revenues (expenses)

See accompanying notes.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Statement of Cash Flows

Year ended June 30, 2012

<b>Cash flows from operating activities:</b>	
Received from customers	\$ 340,947
Payments to vendors and suppliers	(397,793)
Transfers from/(to) Other campus entities	(3,239,215)
Other receipts (payments)	415,291
<b>Net cash provided by (used in) operating activities</b>	<b><u>(2,880,770)</u></b>
<b>Cash flows from noncapital financing activities:</b>	
Noncapital fees paid	(64,553)
Noncapital gifts and endowments received	2,035,703
<b>Net cash provided by (used in) noncapital financing activities</b>	<b><u>1,971,150</u></b>
<b>Cash flows from capital and related financing activities:</b>	
Interest paid on debt and leases	(21,753)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>(21,753)</u></b>
<b>Cash flows from investing activities:</b>	
Proceeds from sales and maturities of investments	1,220,114
Investment income	674,402
Purchase of investments and related fees	(1,009,968)
<b>Net cash provided by (used in) investing activities</b>	<b><u>884,548</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(46,825)</b>
Cash and cash equivalents at beginning of year	102,916
<b>Cash and cash equivalents at end of year</b>	<b>\$ <u><u>56,091</u></u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>	
Operating (loss)	\$ (63,111)
<b>Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:</b>	
Transfers from/(to) Other campus entities	(3,239,215)
Miscellaneous nonoperating income	415,291
<b>Change in assets and liabilities:</b>	
Receivables, Net	(8,571)
Accounts payable and accrued liabilities	41
Deferred revenue	14,795
<b>Net cash provided by (used in) operating activities</b>	<b>\$ <u><u>(2,880,770)</u></u></b>
<b>Supplemental schedule of noncash transactions:</b>	
Assets acquired through a gift	\$ 1,387,746
Change in fair value of investments	(276,576)
Increase in receivables related to nonoperating income	168,027

See accompanying notes.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

### (1) Organization

Humboldt State University Advancement Foundation (the Foundation), is a nonprofit, tax-exempt corporation, incorporated in 1952 under the provisions of section 501(c)(3) of the Internal Revenue Code. The Foundation is organized to support and advance the mission of Humboldt State University (the University) by securing private support, developing and managing entrepreneurial activities, overseeing philanthropic activities, and managing endowed and other assets as requested by the University. The Foundation is an auxiliary organization of Humboldt State University (the University) and the California State University System. As an affiliated organization component unit of the University, the Foundation's financial data will be included in the financial statements of the University.

### Summary of Significant Accounting Policies

#### (a) Basis of Presentation

After reassessing its articles of incorporation and bylaws, the Foundation determined that it meets the definition of a governmental entity and thus, should apply generally accepted accounting principles applicable to governmental entities. As of July 1, 2011, the Foundation adopted GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB No. 62). GASB No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, that do not conflict with GASB pronouncements:

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

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

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

The financial statements required by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Foundation is a government

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

organization under accounting principles generally accepted in the United States of America (GAAP) and is also a component unit of the University, a public university under the California State University system. The Foundation has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the University prepares its statement of cash flows using the direct method.

**(b) *Election of Applicable FASB Statements***

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

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

The Foundation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal Foundation 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.

**(d) *Cash and Cash Equivalents***

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

**(e) *Pledges Receivable***

Unconditional pledges receivable are recorded as receivables and revenue. To be recorded, the pledge must be documented, reasonably measured and probable of collection. The Foundation distinguishes between contributions received for each asset category in accordance with donor-imposed restrictions. Pledges received for endowments are not recorded until received as cash. As GASB requirements do not require nor prohibit discounting pledges receivable for the time value of money, the Foundation has elected to record pledges at the full original pledged amount.

**(f) *Investments***

Investments are reflected at fair value using quoted market prices when available, except for a real estate investment which is reported at historical cost. Realized and unrealized gains and losses are included in the accompanying 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 use for other than current operations are classified as other long-term investment.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

**(g) *Endowment Investments***

Endowment investments consist of approximately 130 individual funds established for a variety of purposes. Endowment investments are reflected at fair value using quoted market prices when available, except for a piece of land which in accordance with GASB 52, is reflected at fair value based on an appraisal. The endowments include true endowment funds, quasi-endowments, and term endowments.

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

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

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

**(h) *Deferred Revenue***

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

**(i) *Net Assets***

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

**Restricted – nonexpendable** – Net assets subject to externally imposed conditions that the Foundation retains them in perpetuity. Net assets in this category consist of endowments held by the Foundation.

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

**Unrestricted** – All other categories of net assets. In addition, unrestricted net assets may be designated for use by management or the Board of Directors of the Foundation. These requirements

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

limit the area of operations for which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas.

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

The Foundation 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 Foundation's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services.

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

**(k) *Income Taxes***

The Foundation qualifies as a tax exempt organization under the applicable sections of the Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. The open audit periods are 2008 through 2010. The Foundation has analyzed the tax positions taken for filings with the Internal Revenue Service and the State of California. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the financial statements. Accordingly, the Foundation has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2012.

**(l) *Use of Estimates***

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

**(2) *Changes to Beginning Net Assets***

***Reclassification of Quasi-Endowments***

As explained in the notes to supplementary information that were included in the June 30, 2011, financial statements, for purposes of the schedule of net assets, quasi-endowments were included in restricted non-expendable net assets. For the year ended June 30, 2012, the GASB presentation of quasi-endowments was reassessed, and the presentation was changed to reflect the quasi-endowments in either unrestricted or restricted expendable net assets, based on the intent of the donor.

***Reclassification to Report Under GASB***

To comply with GASB standards, the Foundation had to make reclassifications between the net asset categories. The reclassifications relate to differences between GASB & FASB standards on the reporting of expenses and endowment gains and losses.

***Prior Period Adjustment***

A reduction to beginning net assets of \$1.6 million was made due to the transition from reporting under FASB standards to GASB standards. To comply with GASB standards, the Foundation had to remove

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Notes to Financial Statements

June 30, 2012

charitable remainder trusts that are held by a third party trustee. The effect of these changes on prior year's change in net assets would have been to reduce the increase in net assets from \$4,713,625 to \$3,116,547.

Changes to beginning net assets are as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Unrestricted</b>	<b>Total</b>
<b>Beginning Net Assets, as previously reported under FASB</b>	\$ 6,589,740	\$ 15,558,613	\$ 2,793,116	\$ 24,941,469
Reclassification of quasi-endowments	(3,364,670)	3,951,289	(586,619)	-
<b>Beginning Net Assets, as previously reported under GASB (supplemental information)</b>	\$ 3,225,070	\$ 19,509,902	\$ 2,206,497	\$ 24,941,469

	<b>Restricted Expendable Other</b>	<b>Restricted Nonexpendable</b>	<b>Unrestricted</b>	<b>Total</b>
<b>Beginning Net Assets, as previously reported under GASB (supplemental information)</b>	\$ 3,225,070	\$ 19,509,902	\$ 2,206,497	\$ 24,941,469
Reclassification of quasi-endowments	3,364,670	(3,951,289)	586,619	-
Reclassification to report under GASB	502,944	(490,232)	(12,712)	-
Prior period adjustment	(537,810)	(214,061)	(845,207)	(1,597,078)
<b>Revised Beginning Net Assets</b>	\$ 6,554,874	\$ 14,854,320	\$ 1,935,197	\$ 23,344,391

### (3) Cash and Cash Equivalents and Investments

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

Cash and cash equivalents	\$ 56,091
Short-term investments	1,129,440
Other long-term investments	3,687,049
Total investments	4,816,489
Total cash, cash equivalents and investments	\$ 4,872,580

#### (a) Cash and Cash Equivalents

At June 30, 2012, cash and cash equivalents consists of demand deposits held at commercial banks. Total cash and cash equivalents of \$56,091 had a corresponding carrying balance with the commercial banks of \$68,166 at June 30, 2012. The difference is related to outstanding checks.

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

### **Custodial Credit Risk for Deposits**

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

### **(b) Short-term Investments**

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

### **(c) Long-term Investments**

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

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

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

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

Interest, dividends, and other income	\$ 36,446
Realized Loss	(27,751)
Unrealized loss	(190)
Fees	<u>(20,446)</u>
Total investment loss, net	<u>\$ (11,941)</u>

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2012

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

**(d) Endowment Investments**

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

<u>Investment type</u>	
Endowment Pooled Investments	\$ 20,387,125
Schatz Tree Farm Land	<u>474,135</u>
Total long-term investments	<u>\$ 20,861,260</u>

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

Interest, dividends, and other income	\$ 637,712
Realized Loss	(390,679)
Unrealized loss	(276,387)
Fees	<u>(366,344)</u>
Total endowment loss, net	<u>\$ (395,698)</u>

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

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) authorizes the spending of corpus and net appreciation. California adopted this act on September 30, 2008, with the passage of Senate Bill 1329. This guidance does not apply to quasi-endowments. The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation the Foundation classifies the original value of the gift donated along with original value of subsequent

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Notes to Financial Statements

June 30, 2012

gifts donated to the permanent endowment. These are included in the restricted, nonexpendable-endowment net asset category on the statement of net assets. The Foundation's current spending policy is to distribute 4.5% of the average total market value during the 12 quarters ending with the last quarter of the previous fiscal year, while taking into account the required prudence evaluation as guided by UPMIFA, which requires considering the donor's intent, contractual agreements with donors, as well as several economic factors. For the fiscal year ending June 30, 2012, the Board of Directors authorized an actual distribution rate of 4%.

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

There were \$744,288 of endowment distributions made in the current year, and the board approved the dissolution of the KHSU quasi-endowment in the amount of \$101,627 to support operations. The Foundation's board has approved a distribution for the upcoming fiscal year ending June 30, 2012.

(e) ***Composition of Long-term and Endowment Investments***

	<b>Current</b>	<b>Noncurrent</b>	
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>
State of California Local Agency Investment Fund (LAIF)	\$ 1,129,440	\$ -	\$ 1,129,440
Equity securities	-	8,654,385	8,654,385
Fixed income securities (Treasury notes, GNMA's)	-	6,232,141	6,232,141
Land and other real estate	-	5,724,304	5,724,304
Mutual funds	-	3,777,365	3,777,365
Money Market funds	-	160,114	160,114
Total investments	1,129,440	24,548,309	25,677,749
Less endowment investments (enter as negative number)	-	(20,861,260)	(20,861,260)
Total investments	\$ 1,129,440	\$ 3,687,049	\$ 4,816,489

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

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

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

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

The fair value of the Schatz tree farm land is based on an independent appraisal performed on July 15, 2008, with an internal review to update the fair value as of June 30, 2012. The fair value of the Baywood stock is based on estimated current selling price per share.

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

(g) **Investment Risk**

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

**Custodial Credit Risk**

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

At June 30, 2012, the Foundation had 88% of its noncurrent investments with US Bank, the Foundation's investment bank. The investments are managed by the Foundation's consultant, RV Kuhns & Associates. US Bank carries \$25 million coverage for loss due to fraudulent acts and \$25 million coverage for errors and omissions.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Foundation has mutual funds and fixed income securities that are subject to interest rate risk. The risk is mitigated by investing in a diversified portfolio.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2012

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Foundation investment policy contains no limitations on the amount that can be invested in any one issuer. As of June 30, 2012, 88% of the Foundation's investments are in an external investment pool and are invested in a diversified portfolio. The portfolio includes fixed income funds. The credit quality ratings of these funds range from A1 up to Aa2.

**(4) Pledges Receivable**

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

To be collected by:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Fiscal year ending June 30, 2013	\$ 87,360	\$ -	\$ 87,360
Fiscal year ending June 30, 2014 - June 30, 2017	-	258,500	258,500
Thereafter	-	-	-
	<u>87,360</u>	<u>258,500</u>	<u>345,860</u>
Less allowance for doubtful accounts	-	-	-
Total Pledges, net	<u>\$ 87,360</u>	<u>\$ 258,500</u>	<u>\$ 345,860</u>

As of June 30, 2012 the Foundation has \$638 thousand in revocable pledges. As these do not meet the criteria for recognizing a receivable and the related revenue, these have not been recorded in the financial statements.

**(5) Accounts Receivable**

Accounts receivable at June 30, 2012, consists of the following:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Operations endowment fees receivable	\$ 80,775	\$ -	\$ 80,775
Donations in transit from depositing bank	167,450	-	167,450
KHSU radio station underwriting fees	8,571	-	8,571
Operations interest receivable on LAIF account	1,026	-	1,026
	<u>257,822</u>	<u>-</u>	<u>257,822</u>
Less allowance for doubtful accounts	-	-	-
Total	<u>\$ 257,822</u>	<u>\$ -</u>	<u>\$ 257,822</u>

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Notes to Financial Statements

June 30, 2012

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

**(6) Other Assets**

The Foundation has an interest in 3 charitable gift annuities held by the CSU Foundation and a charitable remainder annuity trust held by the CSU Chico Foundation. The Foundation considers these to be related parties, not third party trustees as all entities are component units of the California State University System. The Foundation records its interest in these annuities at their estimated present value. The present value of the charitable gift annuities are determined by the CSU Foundation. The present value of the charitable remainder annuity is determined by taking into account the donor's birth date, the trust payout rate, the June 2012 Applicable Federal Rate (AFR) of 1.2% from the Internal Revenue Service Section 7520, and the market value of the trust. The contribution revenue and any change in present value is included in Gifts, noncapital, or additions to permanent endowments on the statement of revenues, expenses and changes in net assets.

The Foundation is also the beneficiary of certain trusts that are administered by third parties. These interests are not recognized in the financial statements as they do not meet the eligibility requirements.

**(7) Current Liabilities**

Current Liabilities consist of \$179 thousand in payables of which \$76,918 is due from endowment funds to the Foundation Operations and \$102,000 is due to the University. In addition there is \$15 thousand in deferred revenue from payments received for future underwriting to be performed by the KHSU radio station.

**(8) Noncurrent Liabilities**

Long-term debt obligations of \$2,535,000 as of June 30, 2012, consist of the California State University Risk Management Authority (CSURMA) loan. All principal and any remaining unpaid interest will be due and payable on October 31, 2013. The loan is non-amortizing, with interest due and payable quarterly. The interest rate charged is equal to the monthly interest rate CSURMA earns from investments held in the Systemwide Investment Fund Trust (SWIFT) pool. Principal may be prepaid at any time during the term of the loan. For the year ended June 30, 2012 the Foundation paid \$18 thousand in interest expense.

	<b>Balance</b>			<b>Balance</b>		
	<b>June 30, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2012</b>	<b>Current Portion</b>	<b>Long-term Portion</b>
<b>CSURMA Loan</b>	\$ 2,535,000	\$ -	\$ -	\$ 2,535,000	\$ -	\$ 2,535,000

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Notes to Financial Statements

June 30, 2012

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2013	\$ -	\$ 14,000	\$ 14,000
2014	2,535,000	4,700	2,539,700
	\$ 2,535,000	\$ 18,700	\$ 2,553,700

### (9) Classification of Operating Expenses

The Foundation 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. The public service classification includes expenses for activities established primarily to provide non-instructional services for the benefit of individuals and groups that are external to the institution. For the Foundation these expenses include public broadcasting services. The institutional support classification includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution. For the Foundation these expenses include Foundation operational activities including activities concerned with development and community and alumni relations.

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

	<b>Salaries</b>	<b>Benefits</b>	<b>Scholarships and fellowships</b>	<b>Supplies and other services</b>	<b>Depreciation and amortization</b>	<b>Total</b>
Functional classification:						
Public service	\$ -	\$ -	\$ -	\$ 10,856	\$ -	\$ 10,856
Institutional support	-	-	-	386,978	-	386,978
Total	\$ -	\$ -	\$ -	\$ 397,834	\$ -	\$ 397,834

### (10) Calculation of Net Assets

The change in net assets is as follows:

	<b>Restricted Expendable Other</b>	<b>Restricted Nonexpendable</b>	<b>Unrestricted</b>	<b>Total</b>
<b>Revised Beginning Net Assets (See Note 2)</b>	\$ 6,554,874	\$ 14,854,320	\$ 1,935,197	\$ 23,344,391
Current year changes	(353,746)	737,138	(38,335)	345,057
<b>Ending Net Assets, as of June 30, 2012</b>	\$ 6,201,128	\$ 15,591,458	\$ 1,896,862	\$ 23,689,448

# HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

## Notes to Financial Statements

June 30, 2012

### Calculation of net assets restricted for nonexpendable endowments

Endowment investments	\$	20,861,260
Other adjustments:		
Quasi and Term Endowments that are restricted expendable or unrestricted		(4,559,187)
Charitable Remainder Trusts in other assets related to permanent endowment		74,165
Payables due from permanent endowments to operations		(59,354)
Permanent Endowment appreciation moved to restricted expendable net assets		(724,377)
Permanent Endowment appreciation moved to unrestricted net assets		(1,049)
<b>Net assets - Restricted for nonexpendable - endowments per SNA</b>	<b>\$</b>	<b><u>15,591,458</u></b>

### Calculation of net assets invested in capital assets, net of related debt

Long-term debt obligations, net of current portion	\$	(2,535,000)
Other adjustments:		
Debt related to property held as restricted expendable investment		<u>2,535,000</u>
<b>Net assets - invested in capital assets, net of related debt</b>	<b>\$</b>	<b><u>-</u></b>

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

#### (11) Transactions with Related Entities

For the fiscal year ending June 30, 2012, the Foundation had an agreement with the University for business management services and paid the University \$80,400 for these services.

The Foundation receives donations on behalf of the University and all related auxiliary organizations. The Foundation recognized and immediately transferred \$1.2 million in donations to the University or auxiliaries. This amount is included in gifts, non capital and transfers (to) Other Campus Entities on the statement of revenues, expenses and changes in net assets. Of the \$1.2 million in donations, \$47 thousand was for Associated Students, \$19 thousand was for University Center, \$371 thousand was for Sponsored Programs Foundation and \$797 thousand was for the University.

The Foundation is the beneficiary of gift annuities that are held by the CSU Foundation and a charitable remainder annuity trust held by the CSU Chico Foundation. These gift annuities are reported as a receivable for the Foundation and are included in other assets in the statement of net assets. See Note 6 for further information.

## HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

### Notes to Financial Statements

June 30, 2012

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

Payments to University for salaries of University personnel working on contracts, grants and other programs	\$	156,000
Payments to University for other than salaries of University personnel		123,803
Payments received from University for services, space, and programs		313,166
Gifts-in-kind to the University from Auxiliary Organizations		136,399
Gifts (cash or assets) to the University from recognized Auxiliary Organizations		1,106,418
Accounts (payable to) University		(102,000)
Other amounts (payable to) University		-
Accounts receivable from University		171,306
Other amounts receivable from University		-
Other transfers to University Center		15,938
Other transfers to Associated Students		600
Other transfers to Sponsored Programs Foundation		762,521

## **ADDITIONAL INFORMATION**

John B. Hunter, CPA  
James A. Hunter, CPA  
Scott E. Hunt, CPA/ABV  
Donna L. Taylor, CPA, CFE



Eileen Sacra Capaccio, CPA  
Carol Mayes, CPA, CFE  
Kim Windsor, CPA/ABV  
Jennifer J. Hillegeist, CPA  
Patrick M. Shanahan, CPA

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

To the Board of Directors  
Humboldt State University Advancement Foundation

We have audited the financial statements of the business-type activities of Humboldt State University Advancement Foundation (the Foundation), as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, and the California State University Chancellor's Office and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Hunter, Hunter + Hunt'.

September 27, 2012