University Auxiliary and Research Services Corporation

Financial Report
June 30, 2011

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McGladrey

Independent Auditor's Report

Board of Directors
University Auxiliary and Research
Services Corporation
San Marcos, CA

We have audited the accompanying statements of financial position of University Auxiliary and Research Services Corporation (the Organization) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the 2011 and 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic 2011 financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

San Diego, CA
September 21, 2011

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University Auxiliary and Research Services Corporation

Statements of Financial Position
June 30, 2011 and 2010

Assets	**2011**	2010
Current Assets		
Cash and cash equivalents	**$ 4,612,547**	$ 1,869,957
Sponsored programs receivable	**641,262**	857,194
Other receivables (Notes 2 and 11)	**119,855**	722,491
Deposits	**844,226**	631,636
Certificates of deposit	**7,564,084**	7,950,004
Pledges receivable, net (Note 3)	**-**	351,061
Inventory	**196,354**	711,732
Total current assets	**13,978,328**	13,094,075
Other Assets		
Cash equivalents, restricted (Note 4)	**-**	1,716,347
Pledges receivable, net (Note 3)	**-**	967,376
Investments, at fair value (Note 5)	**-**	12,904,942
Other assets	**61,081**	61,081
Property and equipment, net (Notes 6, 11 and 12)	**500,359**	719,975
Total other assets	**561,440**	16,369,721
	$ 14,539,768	$ 29,463,796

See Notes to Financial Statements.

University Auxiliary and Research Services Corporation

Statements of Financial Position (Continued)
June 30, 2011 and 2010

Liabilities and Net Assets	**2011**	2010
Current Liabilities		
Accounts payable (Note 11)	**$ 1,063,787**	$ 1,280,812
Due to CSUSMF (Note 11)	**6,541,575**	-
Deferred revenue	**898,604**	1,287,847
Accrued payroll and benefits	**232,119**	190,820
Other current liabilities	**460,129**	332,033
Total current liabilities	**9,196,214**	3,091,512
Accrued postretirement benefit costs (Note 10)	**1,027,987**	774,530
Total liabilities	**10,224,201**	3,866,042
Commitments and Contingencies (Note 9)		
Net Assets (Note 11)		
Unrestricted:		
Board-designated:		
Operating reserves	**1,353,141**	1,922,272
Program reserves	**454,287**	1,180,599
Campus programs	**1,998,314**	1,832,643
Equipment	**500,359**	719,975
Scholarship	**9,466**	500,847
Undesignated	**-**	1,475,972
Donor-restricted endowment fund deficiencies (Note 8)	**-**	(1,475,972)
Total unrestricted	**4,315,567**	6,156,336
Temporarily restricted (Notes 7 and 8)	**-**	3,823,085
Permanently restricted (Notes 7 and 8)	**-**	15,618,333
Total net assets	**4,315,567**	25,597,754
	$ 14,539,768	$ 29,463,796

See Notes to Financial Statements.

University Auxiliary and Research Services Corporation

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support:				
Federal grants and contracts	$ 6,694,845	$ -	$ -	$ 6,694,845
Other sponsored programs	2,365,550	-	-	2,365,550
Campus programs (Note 11)	2,750,209	-	-	2,750,209
Commercial operations	4,706,748	-	-	4,706,748
Interest income	30,868	-	-	30,868
Rental income (Note 11)	145,680	-	-	145,680
Total revenue, gains and other support	16,693,900	-	-	16,693,900
Expenses (Note 10):				
Program services:				
Sponsored programs (Note 11)	8,028,714	-	-	8,028,714
Campus programs (Note 11)	2,488,097	-	-	2,488,097
Commercial operations	4,435,580	-	-	4,435,580
Student scholarships	54,988	-	-	54,988
Total program services	15,007,379	-	-	15,007,379
General administration (Notes 9 and 11)	2,302,974	-	-	2,302,974
Total expenses	17,310,353	-	-	17,310,353
Change in net assets before transfer of assets	(616,453)	-	-	(616,453)
Transfer of Assets to CSUSMF (Note 11)	(1,224,316)	(3,823,085)	(15,618,333)	(20,665,734)
Net Assets, beginning	6,156,336	3,823,085	15,618,333	25,597,754
Net Assets, ending	$ 4,315,567	$ -	$ -	$ 4,315,567

See Notes to Financial Statements.

University Auxiliary and Research Services Corporation

Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support:				
Federal grants and contracts	$ 5,983,370	$ -	$ -	$ 5,983,370
Other sponsored programs	2,010,399	-	-	2,010,399
Campus programs (Note 11)	2,276,468	-	-	2,276,468
Commercial operations	4,958,640	-	-	4,958,640
Contributions	1,257,749	546,899	57,559	1,862,207
Interest income	137,322	-	-	137,322
Investment income	-	197,366	-	197,366
Net realized and unrealized gain on investments (Note 8)	1,679,317	80,565	-	1,759,882
Rental income (Note 11)	146,412	-	-	146,412
Net assets released from restriction (Note 7)	1,919,032	(1,919,032)	-	-
Total revenue, gains and other support	20,368,709	(1,094,202)	57,559	19,332,066
Expenses (Note 10):				
Program services:				
Sponsored programs (Note 11)	6,961,221	-	-	6,961,221
Campus programs (Note 11)	4,771,237	-	-	4,771,237
Commercial operations	4,872,723	-	-	4,872,723
Student scholarships	730,621	-	-	730,621
Total program services	17,335,802	-	-	17,335,802
General administration (Notes 9 and 11)	1,969,231	-	-	1,969,231
Total expenses	19,305,033	-	-	19,305,033
Change in net assets	1,063,676	(1,094,202)	57,559	27,033
Net Assets, beginning	5,092,660	4,917,287	15,560,774	25,570,721
Net Assets, ending	$ 6,156,336	$ 3,823,085	$ 15,618,333	$ 25,597,754

See Notes to Financial Statements.

University Auxiliary and Research Services Corporation

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	$ (616,453)	$ 27,033
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	219,616	294,881
Contributions restricted for long-term investment	-	(57,559)
Net realized and unrealized gain on investments	-	(1,759,882)
Change in accumulated postretirement benefit obligation	253,457	154,690
(Increase) decrease in:		
Sponsored programs receivable	215,932	192,843
Other receivables	(93,896)	(52,367)
Deposits	(212,590)	309,796
Certificates of deposit	385,920	(643,716)
Cash equivalents, restricted	1,716,347	6,044
Pledges receivable, net	-	790,389
Inventory	515,378	93,228
Increase (decrease) in:		
Accounts payable	(217,025)	91,704
Due to CSUSMF	795,752	-
Deferred revenue	(389,243)	434,182
Accrued payroll and benefits	41,299	(1,362)
Other current liabilities	128,096	(1,195)
Net cash provided by (used in) operating activities	2,742,590	(121,291)
Cash Flows From Investing Activities		
Purchases of investments	-	(770,536)
Proceeds from sale of investments	-	1,813,088
Net cash provided by investing activities	-	1,042,552
Cash Flows From Financing Activities		
Contributions restricted for long-term investment	-	57,559
Net cash provided by financing activities	-	57,559
Change in cash and cash equivalents	2,742,590	978,820
Cash and Cash Equivalents, beginning of year	1,869,957	891,137
Cash and Cash Equivalents, end of year	$ 4,612,547	$ 1,869,957

(Continued)

University Auxiliary and Research Services Corporation

Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Supplemental Disclosures of Noncash Activities:		
Transfer of assets to CSUSMF (Note 11):		
Other receivables	$ 696,532	$ -
Pledges receivable	1,318,437	-
Investments	12,904,942	-
	14,919,911	-
Liability established: Due to CSUSMF	5,745,823	-
Total amount of net assets transferred to CSUSMF	$ 20,665,734	$ -

See Notes to Financial Statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: University Auxiliary and Research Services Corporation (formerly named California State University San Marcos Foundation) (the Organization) is a nonprofit California corporation which is an auxiliary organization of The California State University (the University), organized and operated in accordance with the California Code of Regulations and the Education Code of the State of California. The Organization was organized in December 1989 to assist the University in various activities, including developing and administering research, and educational grants and contracts; accumulating and managing endowment, student loan and student scholarship funds; and administering various education-related functions, special programs and other activities.

The Organization's financial statements are included as a component unit of the University's annual general-purpose financial statements. This is required by accounting principles generally accepted in the United States applicable to governmental entities.

Affiliated organizations: The Organization is related to other auxiliaries of the University, including San Marcos University Corporation (the Corporation), Associated Students, Inc. (ASI) and California State University San Marcos Foundation (CSUSMF). These auxiliaries, although independent, and the University periodically provide various services to one another.

A summary of significant accounting policies is as follows:

Basis of accounting and reporting: The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds and accumulated endowment earnings in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment earnings to fund current operations.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: The Organization maintains accounts at one financial institution with funds insured by the Federal Deposit Insurance Corporation (FDIC). The Organization's accounts at this institution may, at times, exceed FDIC-insured limits. On October 3, 2008, when the Troubled Asset Relief Program (TARP) became law, FDIC-insured limits on deposits increased from $100,000 to $250,000 and FDIC insurance coverage was expanded to provide unlimited insurance on accounts that do not pay interest, including most checking accounts. These changes to deposit insurance expire on December 31, 2013. At June 30, 2011, the Organization's cash balance at this institution exceeded FDIC-insured limits by $4,432,948.

The Organization considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Sponsored programs receivable: The sponsored programs receivable arise in the normal course of sponsored research. It is the policy of management to review the outstanding receivable at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectable amounts. No allowance was considered necessary at June 30, 2011 and 2010 because management believes all amounts are collectable.

Investments: The Organization had significant investments in equity securities and mutual funds at June 30, 2010. The investments in equity securities and mutual funds with readily determinable fair values, based on daily share prices and daily provided net asset values, were reported at fair value with gains and losses included in the statements of activities.

Investments in alternative investments as of June 30, 2010 represented shares in hedge funds that held, among other investments, bonds, bank loans, busted converts, mezzanine debt, distressed assets, equity and real estate. The Organization accounted for its investment in these hedge funds at fair value, using net asset value per share of the hedge funds. There were no investments at June 30, 2011 (See Note 11).

The investments of the Organization are exposed to interest rate and market risk. Economic conditions can impact these risks and resulting fair values can be either positively or adversely affected. If the level of risk increases in the near term, it is possible that the investment balances and the amounts reported in the financial statements could be materially affected by market fluctuations. Although the fair value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Organization and its beneficiaries.

Pledges receivable: Pledges at June 30, 2010 that were expected to be collected within one year were recorded at their net realizable value. Pledges that were expected to be collected in future years were discounted to their estimated net present value. There were no pledges receivable at June 30, 2011 (See Note 11).

Inventory: Inventory consists primarily of education books and is valued at the lower of cost (first-in, first-out method) or fair value. Books returned to vendors resulting in credits on account are recorded as deposits on the statements of financial position.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are recorded at cost, if purchased, or at the fair value of the contribution, if donated. Certain equipment acquired through grants and contracts is subject to restrictions on its use and disposition subsequent to the conclusion of the related grants and contracts. A physical inventory list is maintained by the Organization of these assets as required by the grant funding agency. The funding source may have a reversionary interest in the property as well as the right to determine the use of any proceeds from sale of equipment purchased with their respective funds. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment, generally three to 10 years. The estimated lives of leasehold improvements are the shorter of the useful life or the term of the lease.

Long-lived assets: The Organization evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected future undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period which the determination is made. Management has determined that no impairment of long-lived assets currently exists.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates include assessing the lives and methods for recording depreciation of property and equipment, determining the fair value of investments, determining the allowance for doubtful accounts for receivables, and discounting of pledges receivable.

Revenue recognition: Revenue from federal grants and contracts and other sponsored programs is recognized as support in the fiscal year in which allowable expenditures have been made. Revenue from federal grants and contracts and other sponsored programs received prior to incurring the related expenses have been deferred. Revenues from registration fees received in advance of classes occurring have been deferred. Revenue from commercial operations is recognized upon sale of products.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs benefited.

Income taxes: The Organization is a qualified nonprofit organization that is generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. This exemption is for all income taxes except for those assessed on unrelated business income, if any. In order to maintain that status, the Organization is precluded from making certain expenditures, principally in support of political parties. Management believes that no such expenditures have been made. The Organization is not a private foundation.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The Organization adopted accounting guidance relating to accounting for uncertainty in income taxes, which is primarily codified in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740. The Organization files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to the Organization include such matters as the tax-exempt status of the entity and various positions relative to potential sources of unrelated business taxable income (UBI). UBI is reported on Form 990-T, as appropriate. The benefit of tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying statements of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Upon the adoption and as of June 30, 2010, the Organization has addressed uncertainty in its income tax position under the guidance, and there are no unrecognized/derecognized tax benefits requiring an accrual.

Forms 990 and 990-T filed by the Organization are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Management believes Forms 990 and 990-T have been filed appropriately. Forms 990 and 990-T filed by the Organization are no longer subject to examination for the fiscal years ended June 30, 2007 and prior.

Subsequent events: The Organization has evaluated subsequent events through September 21, 2011, the date the financial statements were available to be issued, and has determined that there were no subsequent events to recognize in these financial statements other than what has been disclosed in Note 12.

Reclassification: Certain items on the financial statements as of and for the year ended June 30, 2010 have been reclassified, with no effect on total net assets, to be consistent with the classifications adopted as of and for the year ended June 30, 2011.

Recent accounting guidance: In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.* This update requires new fair value measurement disclosures about transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements (purchases, sales, issuances and settlements on a gross basis). The update also clarifies existing disclosures about the level of disaggregation and about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The Organization is in the process of assessing the effect that the implementation of the new guidance will have on its financial position and results of operations. The adoption of this standard is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820)* to provide clarifications for ASC 820. The update also describes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with United States generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The guidance provided in this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Organization is in the process of assessing the effect that the implementation of the new guidance will have on its financial position and results of operations. The adoption of this standard is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

Note 2. Other Receivables

Other receivables consisted of the following at June 30:

	2011	2010
Student loan receivable	$ -	$ 696,532
Other	119,855	25,959
	$ 119,855	$ 722,491

The student loan receivable was transferred to CSUSMF on July 1, 2010 (See Note 11).

Note 3. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2011	2010
Amounts due:		
In one year or less	$ -	$ 446,061
Between one and five years	-	56,000
More than five years	-	2,562,015
Gross pledges	-	3,064,076
Less unamortized present value discount at rates ranging from 3.61% to 4.49%	-	(1,650,639)
Less allowance for uncollectable pledges	-	(95,000)
Pledges receivable, net	$ -	$ 1,318,437

The pledges receivable were transferred to CSUSMF on July 1, 2010 (See Note 11).

Note 4. Restricted Cash Equivalents

Cash equivalents are restricted for the following purposes at June 30:

	2011	2010
Endowment, uninvested	$ -	$ 1,326,034
Student loans	-	390,313
	$ -	$ 1,716,347

The cash restrictions were transferred to CSUSMF on July 1, 2010 (See Note 11).

Note 5. Investments

Investments consisted of the following at June 30:

	2011	2010
Core fixed income institutional mutual funds	$ -	$ 3,006,495
Domestic equity securities	-	2,472,601
Domestic equity mutual funds	-	3,106,463
International equity mutual funds	-	2,365,403
Hedge funds	-	1,953,980
	$ -	$ 12,904,942

The investments were transferred to CSUSMF on July 1, 2010 (See Note 11).

As required by the Fair Value Measurements Topic of the FASB ASC, which establishes a three-tiered fair value hierarchy, the Organization prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets. Classifications included equity securities and mutual funds that have share prices and net asset values provided daily.
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly. Classifications included institutional mutual funds that have net asset values provided daily.
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Classifications included hedge funds that do not have daily pricing but for which fair value could be determined based on the most recent report of the net asset value of the fund.

Note 5. Investments (Continued)

Investments at fair value, as of June 30, 2010, according to the fair value hierarchy were as follows:

	Total	Level 1	Level 2	Level 3
Core fixed income institutional mutual funds	$ 3,006,495	$ -	$ 3,006,495	$ -
Domestic equity securities	2,472,601	2,472,601	-	-
Domestic equity mutual funds	3,106,463	3,106,463	-	-
International equity mutual funds	2,365,403	2,365,403	-	-
Hedge funds	1,953,980	-	-	1,953,980
	$ 12,904,942	$ 7,944,467	$ 3,006,495	$ 1,953,980

The following tables reflect a reconciliation of beginning and ending investment balances in the Organization's Level 3 investments for the years ended June 30:

	2011	2010
Beginning balance	$ 1,953,980	$ 1,491,212
Net realized and unrealized gain	-	425,123
Purchases	-	37,645
Transfer of assets to CSUSMF (Note 11)	(1,953,980)	-
Ending balance	$ -	$ 1,953,980

The following table reflects a reconciliation of beginning and ending investment balances for the Organization's total investments for the years ended June 30:

	2011	2010
Beginning balance	$ 12,904,942	$ 12,187,612
Net realized and unrealized gain	-	1,759,882
Net additions, purchases, sales and maturities	-	(1,042,552)
Transfer of assets to CSUSMF (Note 11)	(12,904,942)	-
Ending balance	$ -	$ 12,904,942

The Organization used the net asset value to determine the fair value of all the underlying investments which (a) did not have readily determinable fair value and (b) prepared their financial statements consistent with the measurement principles of an investment company or one that had the attributes of an investment company. The following table lists the investments in investment companies at June 30, 2010:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund	$ 1,070,177	1	$ -	Quarterly	45 written days
Hedge fund	883,803	1	-	Quarterly	60 written days

Note 6. Property and Equipment

Property and equipment consisted of the following at June 30:

	2011	2010
Equipment	$ 1,159,725	$ 1,159,725
Leasehold improvements	1,737,591	1,737,591
	2,897,316	2,897,316
Less accumulated depreciation	(2,396,957)	(2,177,341)
	$ 500,359	$ 719,975

Note 7. Restrictions on Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	2011	2010
Campus programs:		
Capital improvements	$ -	$ 340,948
Student scholarships	-	37,779
Campus programs	-	1,658,218
Pledges receivable, net	-	1,318,437
Accumulated and unappropriated earnings on donor-restricted endowments	-	467,703
	$ -	$ 3,823,085

Permanently restricted net assets consisted of the following at June 30:

	2011	2010
Earnings thereon are available for the following purposes:		
Campus programs	$ -	$ 5,761,151
Student scholarships	-	8,531,148
Student loans	-	1,326,034
	$ -	$ 15,618,333

Note 7. Restrictions on Net Assets (Continued)

Net assets released from time and donor restrictions, by incurring expenses or costs satisfying the restricted purpose or by occurrence of events specified by the donors, were as follows:

	2011	2010
Satisfaction of donor restrictions:		
Capital improvements	$ -	$ 180,166
Student scholarships	-	39,135
Campus programs	-	30
Appropriation of earnings for use:		
Student scholarships	-	362,413
Satisfaction of time restrictions	-	1,337,288
	$ -	$ 1,919,032

The Organization transferred all of its restricted net assets to CSUSMF on July 1, 2010 (See Note 11)

Note 8. Endowments

The Organization's endowments consisted of 68 individual funds established for a variety of purposes at June 30, 2010. The endowments were all donor-restricted for the purpose of student scholarships, student loans and campus program activities.

The Board of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner that is consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Note 8. Endowments (Continued)

At June 30, 2010, the endowments net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,475,972)	$ 467,703	$ 15,618,333	$ 14,610,064

The Organization transferred all of its endowment net assets to CSUSMF on July 1, 2010 (See Note 11).

Changes in endowment net assets for the year ended June 30, 2011 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,475,972)	$ 467,703	$ 15,618,333	$ 14,610,064
Transfer of assets to CSUSMF (Note 11)	1,475,972	(467,703)	(15,618,333)	(14,610,064)
Endowment net assets, end of year	$ -	$ -	$ -	$ -

Changes in endowment net assets for the year ended June 30, 2010 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (3,121,257)	$ 552,185	$ 15,560,774	$ 12,991,702
Investment return:				
Investment income, net of fees	-	197,366	-	197,366
Net realized and unrealized gain	1,679,317	80,565	-	1,759,882
Total investment return	1,679,317	277,931	-	1,957,248
Contributions	-	-	57,559	57,559
Appropriation of investment earnings for expenditure	(34,032)	(362,413)	-	(396,445)
Endowment net assets, end of year	$ (1,475,972)	$ 467,703	$ 15,618,333	$ 14,610,064

The investment management and advisory fees paid were $64,200 for the year ended June 30, 2010.

Note 8. Endowments (Continued)

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are charged to unrestricted net assets totaling $1,475,972 for the year ended June 30, 2010. These deficiencies resulted from unfavorable market fluctuations in 2009. Endowment funds that had deficiencies in the previous year and have gains in the current year record the gains as unrestricted until the deficiency is restored. $1,679,317 of gains were recorded as unrestricted for the year ended June 30, 2010.

Return objectives and risk parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding for programs supported by its endowment and increase the value of the original contributed capital by an amount not less than the annual increase in inflation. In order to meet this objective, the endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of 5 percent plus the annual rate of inflation (the Target Return). The temporarily restricted endowment asset portfolio is structured to provide liquidity for short-term cash needs and safety of principal while seeking to enhance the portfolio's return. In achieving the Target Return, the Organization seeks to maintain a level of portfolio risk by allocating investments to core fixed income mutual funds, domestic equity securities, domestic and international equity mutual funds, hedge funds and cash instruments in a ratio similar to other peer university endowments of similar size as surveyed annually by National Association of College and University Business Officers.

Investment strategy: The investment strategy of the Organization is to develop a diversified portfolio of passive investments. For core fixed-income mutual funds and equity funds, the selection of such holdings is based on the merits of long-term ownership without the intent of short-term trading. To achieve the Target Return, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends), less expenses.

Spending policy: The Organization has a policy of appropriating for expenditure each year a percentage of the prior three-year average endowment balance by taking into account investment performance from the prior year. In establishing this policy, the Organization considered the long-term expected return on its endowment. Until recently, the annual spending rate on all endowments was set at 4 percent. Because of the prior year economic downturn, the rate for the year ending June 30, 2010 was set at 2 percent for scholarship endowments and 0 percent for campus program endowments. The rate is reviewed annually and may or may not change in future years depending on investment performance. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at the average annual rate of inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Note 9. Commitments and Contingencies

Leases: The Organization has entered into various operating lease agreements with the University for office facilities with monthly rents totaling $3,666 through June 30, 2013. The lease agreement for 435 E. Carmel Street may be terminated by either party upon a six-month written notice and has monthly rent of $11,592 expiring on December 31, 2011. Total rent expense was approximately $183,100 and $181,000, for the years ended June 30, 2011 and 2010, respectively.

The minimum future rental payments are as follows:

Years Ending June 30,	Amount
2012	$ 113,548
2013	43,996
	$ 157,544

Sponsored programs: The Organization receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and operating subsidies. Disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability to the Organization. However, in the opinion of management, any such disallowed claims would not have a material adverse impact on the overall financial position of the Organization at June 30, 2011.

Legal proceedings: The Organization is involved in legal proceedings arising in the normal course of business. Management believes the final outcome of these proceedings will not have a material adverse effect on the Organization's results of operations or financial position.

Note 10. Accrued Postretirement Benefit Cost

The Organization has a postretirement program which provides lifetime medical and dental coverage to retiring employees aged 65 with at least 10 years of service. Medical coverage will be provided through the CalPERS medical program. Dependents of eligible retirees will also receive lifetime medical coverage. Expenses under the program for the years ended June 30, 2011 and 2010 were $253,457 and 154,690, respectively.

The following tables include the postretirement healthcare benefits which are unfunded and the amounts recognized in the financial statements as of and for the years ended June 30:

	2011	2010
Benefit obligation, beginning of year	$ 812,779	$ 526,516
Service cost	177,750	117,211
Interest cost	55,621	32,639
Amendments	202,799	-
Actuarial losses	(480,260)	136,413
Benefit obligation, end of year	$ 768,689	$ 812,779

Note 10. Accrued Postretirement Benefit Cost (Continued)

	2011	2010
Funded status:		
Benefit obligation, end of year	$ 768,689	$ 812,779
Unamortized prior service cost	439,114	262,642
Unrecognized net actuarial (gain)/loss	(698,412)	(224,393)
Accrued benefit cost	1,027,987	774,530
Funded status, end on year	(768,689)	(812,779)

	2011	2010
Net periodic benefit cost:		
Service cost	$ 177,750	$ 117,211
Interest cost	55,621	32,639
Amortization of prior service cost	26,327	17,509
Amortization of net (gain) loss	(6,241)	(12,669)
Net periodic benefit cost:	$ 253,457	$ 154,690

No benefits were paid during the years ended June 30, 2011 and 2010, and the Organization does not anticipate having to pay any premiums for the year ending June 30, 2012.

Weighted-average assumptions used to determine the benefit obligation included a discount rate of 6.00 percent and 5.50 percent and a health care cost trend rate of 7.30 percent and 7.60 percent for the years ended June 30, 2011 and 2010, respectively.

Note 11. Transactions With Affiliates

Reimbursed costs: The Organization reimburses the University for salaries and other program-related costs for personnel working on contracts, other programs and campus programs. The total amount paid to the University for these services was $5,848,937 and $7,692,688 for the years ended June 30, 2011 and 2010, respectively. Amounts due to the University at June 30, 2011 and 2010 were $345,383 and $635,308, respectively, and are included in accounts payable.

The University reimburses the Organization for services and programs. The total amount received by the Organization was $570,696 and $306,490 for the years ended June 30, 2011 and 2010, respectively. Amounts due from the University at June 30, 2011 and 2010 were $32,292 and $15,449, respectively, and are included in other receivables.

Lease: The Organization as a lessor has entered into an operating lease agreement to rent storage space to the University at 435 E. Carmel Street. The monthly rental income is $12,506, expiring on December 31, 2012. Total rental income was $145,680 for the years ended June 30, 2011 and 2010.

Note 11. Transactions With Affiliates (Continued)

The future minimum rental receipts are as follows:

Years Ending June 30,	Amount
2012	$ 150,070
2013	75,035
	$ 225,105

Operating advance: In July 2004, the Organization entered into an agreement with San Marcos University Corporation to provide certain personnel and other operating services. The total amount charged to the Corporation for these services and costs was $236,631 and $216,672 for the year ended June 30, 2011 and 2010, respectively. No amounts were due at June 30, 2011 and 2010.

On July 1, 2010 the Organization entered into a payroll processing agreement with Associated Students Inc. Under this agreement, all ASI employees became employees of the Organization. During the year ended June 30, 2011 the Organization invoiced ASI for $756,992 for payroll and benefits, administration fees and supplies. As of June 30, 2011, the Organization had a receivable due from ASI in the amount of $56,160.

On July 1, 2010, the Organization transferred approximately $21 million of net assets to the California State University San Marcos Foundation, the philanthropic nonprofit auxiliary of the University. The amount represented approximately 81 percent of the Organization's June 30, 2010 total net assets of approximately $26 million.

CSUSMF was established in 2009 to focus on attracting gifts to the University. The Organization, in conformity with guidelines of the California Non-Profit Public Benefit Law and in accordance with its activities as described in its Articles of Incorporation, approved by resolution at its August 2009 meeting of the Board of Directors initiating the transfer of gift-funded assets to CSUSMF. The Organization provided sufficient and adequate notice to the California Attorney General and Registry of Charitable Trusts, and received notice from the Attorney General in March 2010 that there was no objection to the transfer.

On July 1, 2010, the fair value of net assets transferred to CSUSMF consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Unrestricted net assets:				
Board-designated for:				
Scholarship	$ 500,847	$ -	$ -	$ 500,847
Campus programs	2,199,441	-	-	2,199,441
Temporarily restricted net assets:				
Capital improvements	-	340,948	-	340,948
Student scholarships	-	37,779	-	37,779
Campus programs	-	1,658,218	-	1,658,218
Pledges receivable, net	-	1,318,437	-	1,318,437
Endowment net assets	(1,475,972)	467,703	15,618,333	14,610,064
Total net assets transferred	$ 1,224,316	$ 3,823,085	$ 15,618,333	$ 20,665,734

Note 11. Transactions With Affiliates (Continued)

The Organization has an operating agreement with CSUSMF to provide certain administrative services, including cash management processes, gift account administration, and accounting and financial reporting assistance. The Organization receives an administrative fee when CSUSMF funds are expended. The due to affiliate liability represents the status of that relationship as of June 30, 2011 in terms of balances held by the Organization that are being managed on behalf of the CSUSMF. The balance due to CSUSMF on June 30, 2011 was $6,541,575.

Note 12. Subsequent Event

On July 1, 2011, San Macros University Corporation transferred the assets and functions of the campus child care center, Center for Children and Families, to the Organization. The child care center assets consist of a building and related equipment totaling approximately $6,528,599, net of accumulated depreciation.

The annual revenues and expenses are assumed by a third-party management company that assumes all financial operating risks of the center. There are negligible or no liabilities related to the child care center. The functions of each auxiliary support the University and are allowable under California Education Code Section 89900 et seq.

San Marcos University Corporation also approved a transfer of $2,000,000 in cash reserves from the Corporation to the Organization as a contribution to the University president for use toward the advancement of the educational mission of the University.

On July 1, 2011, the Organization began utilizing an outside company to operate the campus bookstore. The Organization is currently finalizing a contract wherein the outside company will purchase the remaining bookstore inventory and credit memos due from vendors. The Organization will receive commissions based on bookstore revenues under the agreement.

Supplemental Schedules

University Auxiliary and Research Services Corporation
Schedule of Net Assets
June 30, 2011
(for inclusion in The California State University)

Assets		
Current assets		
Cash and cash equivalents	$	4,612,547
Short-term investments		7,564,084
Accounts receivable, net		761,117
Leases receivable, current portion		-
Notes receivable, current portion		-
Pledges receivable, net		-
Prepaid expenses and other assets		1,040,580
Total current assets		13,978,328
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		-
Endowment investments		-
Other long-term investments		-
Capital assets, net		500,359
Other assets		61,081
Total noncurrent assets		561,440
	$	14,539,768
Liabilities		
Current liabilities		
Accounts payable	$	7,605,362
Accrued salaries and benefits payable		232,119
Accrued compensated absences, current portion		214,809
Deferred revenue		898,604
Capitalized lease obligations, current portion		-
Long-term debt obligations, current portion		-
Self-insurance claims liability, current portion		-
Other liabilities		245,320
Total current liabilities		9,196,214
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		-
Self-insurance claims liabilities, net of current portion		-
Depository accounts		-
Other liabilities (OPEB)		1,027,987
Total noncurrent liabilities		1,027,987
		10,224,201
Net assets:		
Invested in capital assets, net of related debt		500,359
Restricted for:		
Nonexpendable, endowments		-
Expendable:		
Scholarships and fellowships		-
Research		-
Loans		-
Capital projects		-
Debt service		-
Other		-
Unrestricted		3,815,208
Total net assets	$	4,315,567

See independent auditor's report.

University Auxiliary and Research Services Corporation
Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011
(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	6,694,845
State	981,656
Local	47,926
Nongovernmental	1,335,968
Sales and services of educational activities	2,895,889
Sales and services of auxiliary enterprises (net of scholarship allowances of $0)	- 4,706,748
Other operating revenues	-
Total operating revenues	16,663,032
Expenses:	
Operating expenses:	
Instruction	2,762,853
Research	4,252,299
Public service	530,120
Academic support	123,400
Student services	1,515,128
Institutional support	3,416,369
Operation and maintenance of plant	-
Student grants and scholarships	54,988
Auxiliary enterprise expenses	4,435,580
Depreciation and amortization	219,616
Total operating expenses	17,310,353
Operating income (loss)	(647,321)
Nonoperating revenues (expenses):	
State appropriations, noncapital	$ -
Federal grant, Pell	-
Gifts, noncapital	-
Investment income, net	-
Endowment income	-
Interest on capital-related debt	-
Other nonoperating revenues (expenses)	(20,634,866)
Net nonoperating revenues (expenses)	(20,634,866)
Income (loss) before other additions	(21,282,187)
State appropriations, capital	
Grants and gifts, capital	
Additions (reductions) to permanent endowments	-
Increase (decrease) in net assets	(21,282,187)
Net assets:	
Net assets at beginning of year, as previously reported	25,597,754
Restatements	-
Net assets at end of year, as restated	$ 4,315,567

See independent auditor's report.

University Auxiliary and Research Services Corporation

Other Information

June 30, 2011

(for inclusion in The California State University)

1 Restricted cash and cash equivalents at June 30, 2011:

Portion of restricted cash and cash equivalents related to endowments	$ -
All other restricted cash and cash equivalents	-
Total restricted cash and cash equivalents	$ -

2.1 Composition of investments at June 30, 2011:

	Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
State of California Surplus Money Investment Fund (SMIF)	$ -	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
Wachovia Short-Term Fund	-	-	-	-	-
Wachovia Medium-Term Fund	-	-	-	-	-
Wachovia Equity Fund	-	-	-	-	-
Debt securities	-	-	-	-	-
Equity securities	-	-	-	-	-
Fixed income securities (Treasury notes, GNMAs)	-	-	-	-	-
Real estate	-	-	-	-	-
Certificates of deposit	7,564,084	-	-	-	7,564,084
Notes receivable	-	-	-	-	-
Mutual funds	-	-	-	-	-
Collateralized mortgage obligations:					
Inverse floaters	-	-	-	-	-
Interest-only strips	-	-	-	-	-
Agency pass-through	-	-	-	-	-
Private pass-through	-	-	-	-	-
Other major investments:				-	-
Hedge Fund-Goldentree	-	-	-	-	-
Hedge Fund-Giovine	-	-	-	-	-
Other	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Total investments	7,564,084	-	-	-	7,564,084
Less endowment investments (enter as negative number)	-	-	-	-	-
Total investments	$ 7,564,084	-	-	-	7,564,084

See independent auditor's report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2011
(for inclusion in The California State University)

2.2 Restricted noncurrent investments at June 30, 2011 related to:

	Amount
Endowment Funds	$ -
Unrestricted-Endowment funds below principal	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total restricted noncurrent investments at June 30, 2011	$ -

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University Auxiliary and Research Services Corporation

Other Information

Year ended June 30, 2010

(for inclusion in The California State University)

3.1 Composition of capital assets at June 30, 2011:

	Balance June 30, 2010	Prior Period Adjustments	Reclassifications	Balance June 30, 2010 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2011
Nondepreciable capital assets:								
Land and land improvements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Works of art and historical treasures	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	-	-	-	-	-	-	-	-
Total nondepreciable capital assets	-	-	-	-	-	-	-	-
Depreciable capital assets:								
Buildings and building improvements	-	-	-	-	-	-	-	-
Improvements, other than buildings	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	1,737,591	-	-	1,737,591	-	-	-	1,737,591
Personal property:								
Equipment	1,159,725	-	-	1,159,725	-	-	-	1,159,725
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total depreciable capital assets	2,897,316	-	-	2,897,316	-	-	-	2,897,316
Total capital assets	2,897,316	-	-	2,897,316	-	-	-	2,897,316
Less accumulated depreciation:								
Buildings and building improvements	-	-	-	-	-	-	-	-
Improvements, other than buildings	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	(1,165,331)	-	-	(1,165,331)	(103,106)	-	-	(1,268,437)
Personal property:								
Equipment	(1,012,010)	-	-	(1,012,010)	(116,510)	-	-	(1,128,520)
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation	(2,177,341)	-	-	(2,177,341)	(219,616)	-	-	(2,396,957)
Net capital assets	$ 719,975	$ -	$ -	$ 719,975	$ (219,616)	$ -	$ -	$ 500,359

See independent auditor's report.

University Auxiliary and Research Services Corporation
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June 30, 2011
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3.2 Detail of depreciation and amortization expense for the year ended June 30, 2011:

Depreciation and amortization expense related to capital assets	$ (219,616)
Amortization expense related to other assets	-
Total depreciation and amortization	$ (219,616)

4 Long-term liabilities activity schedule:

	Balance June 30, 2010	Prior Period Adjustments	Reclassifications	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion	Long-Term Portion
Accrued compensated absences	$ 162,031	$ -	$ -	$ 162,031	$ 214,809	$ (162,031)	$ 214,809	$214,809	$ -
Capitalized lease obligations:									
Gross balance	-	-	-	-	-	-	-	-	-
Unamortized premium (discount) on capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations:									
Revenue Bonds	-	-	-	-	-	-	-	-	-
Other bonds (non-Revenue Bonds)	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Other:									
Premium on Bond	-	-	-	-	-	-	-	-	-
Description	-	-	-	-	-	-	-	-	-
Description	-	-	-	-	-	-	-	-	-
Description	-	-	-	-	-	-	-	-	-
Description	-	-	-	-	-	-	-	-	-
Total long-term debt obligations	-	-	-	-	-	-	-	-	-
Unamortized bond premium (discount)	-	-	-	-	-	-	-	-	-
Unamortized loss on refunding	-	-	-	-	-	-	-	-	-
Total long-term debt obligations, net	-	-	-	-	-	-	-	-	-
Total long-term liabilities	$ 162,031	$ -	$ -	$ 162,031	$ 214,809	$ (162,031)	$ 214,809	$214,809	$ -

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University Auxiliary and Research Services Corporation
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June 30, 2011
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5 Future minimum lease payments:

Year ending June 30:	Principal	Interest	Principal and Interest
2012	$ -	$ -	$ -
2013	-	-	-
2014	-	-	-
2015 - 2019	-	-	-
2020 - 2024	-	-	-
2025 - 2029	-	-	-
2030 - 2034	-	-	-
2035 - 2039	-	-	-
2040 - 2044	-	-	-
2045 - 2049	-	-	-
2050 - 2054	-	-	-
2055 - 2059	-	-	-
Thereafter	-	-	-
Total minimum lease payments			-
Less amounts representing interest			-
Present value of future minimum lease payments			-
Less current portion			-
Capitalized lease obligation, net of current portion			$ -

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University Auxiliary and Research Services Corporation
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6 Long-term debt obligation schedule:

Year ending June 30:	Revenue Bonds			All Other Long-Term Debt Obligations			Total		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2013	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-
2015 - 2019	-	-	-	-	-	-	-	-	-
2020 - 2024	-	-	-	-	-	-	-	-	-
2025 - 2029	-	-	-	-	-	-	-	-	-
2030 - 2034	-	-	-	-	-	-	-	-	-
2035 - 2039	-	-	-	-	-	-	-	-	-
2040 - 2044	-	-	-	-	-	-	-	-	-
2045 - 2049	-	-	-	-	-	-	-	-	-
2050 - 2054	-	-	-	-	-	-	-	-	-
2055 - 2059	-	-	-	-	-	-	-	-	-
Total	$ -	-	-	-	-	-	-	-	-

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University Auxiliary and Research Services Corporation
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7.1 Calculation of net assets invested in capital assets, net of related debt

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
Capital assets, net of accumulated depreciation	$ -	$ 500,359	$ 500,359
Capitalized lease obligations, current portion	-	-	-
Capitalized lease obligations, net of current portion	-	-	-
Long-term debt obligations, current portion	-	-	-
Long-term debt obligations, net of current portion	-	-	-
Portion of outstanding debt that is unspent at year-end	-	-	-
Other:			
(description)	-	-	-
(description)	-	-	-
(description)	-	-	-
(description)	-	-	-
Net assets invested in capital assets, net of related debt	$ -	$ 500,359	$ 500,359

7.2 Calculation of net assets - Restricted for nonexpendable - endowments

Portion of restricted cash and cash equivalents related to endowments	$ -	$ -	$ -
Endowment investments	-	-	-
Other adjustments: (please list)	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
Net assets - Restricted for nonexpendable - endowments per SNA	$ -	$ -	$ -

See independent auditor's report.

University Auxiliary and Research Services Corporation
Other Information
Year ended June 30, 2011
(for inclusion in The California State University)

8 Transactions with related entities:

		Amount
Reimbursements to University for salaries of University personnel working on contracts, grants and other programs	$	1,681,231
Reimbursements to University for other than salaries of University personnel		4,167,706
Payments received from University for services, space and programs		570,696
Gifts-in-kind to the University from auxiliary organizations		-
Gifts (cash or assets) to the University from recognized auxiliary organizations		-
Accounts (payable to) University (enter as negative number)		(345,383)
Other amounts (payable to) University (enter as negative number)		-
Accounts receivable from University		32,292
Bond principal and interest payments paid to the University		-

9 Other Postemployment Benefits Obligation (OPEB)

Annual required contribution (ARC)	$	253,457
Contributions during the year		-
Increase in net OPEB obligation (NOO)		253,457
NOO - beginning of year		774,530
NOO - end of year	$	1,027,987

University Auxiliary and Research Services Corporation
Other Information
June 30, 2011
(for inclusion in The California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

Description	Amount
Add description	$ -
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total pollution remediation liabilities	-
Less current portion	-
Pollution remediation liabilities, net of current portion	$ -

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

	Net Asset Class	Amount Dr. (Cr.)
Net assets as of June 30, 2010, as previously reported		$ 25,597,754
Prior period adjustments:		
1 Building-Tilt-Up Classroom		-
2 Accum Deprec-Bldg		-
3 (list description of each adjustment)		-
4 (list description of each adjustment)		-
5 (list description of each adjustment)		-
6 (list description of each adjustment)		-
7 (list description of each adjustment)		-
8 (list description of each adjustment)		-
9 (list description of each adjustment)		-
10 (list description of each adjustment)		-
Net assets as of June 30, 2010, as restated		$ 25,597,754

See independent auditor's report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2011
(for inclusion in The California State University)

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

	Debit	Credit
Net asset class: Bldg		
1 Building		
Accum Deprec - Bldg		
Net Asset - Bldg		
Net asset class:		
2 (breakdown of adjusting journal entry)		
Net asset class:		
3 (breakdown of adjusting journal entry)		
Net asset class:		
4 (breakdown of adjusting journal entry)		
Net asset class:		
5 (breakdown of adjusting journal entry)		
Net asset class:		
6 (breakdown of adjusting journal entry)		
Net asset class:		
7 (breakdown of adjusting journal entry)		
Net asset class:		
8 (breakdown of adjusting journal entry)		
Net asset class:		
9 (breakdown of adjusting journal entry)		
Net asset class:		
10 (breakdown of adjusting journal entry)		

See independent auditor's report.

University Auxiliary and Research Services Corporation

Compliance Reports
Year Ended June 30, 2011

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University Auxiliary and Research Services Corporation

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Cluster or Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Expenditures
Research and Development Cluster:			
National Institutes of Health			
Direct Programs:			
ARRA – Recovery Act of 2009: Trans-NIH Recovery Act Research Support	**93.701**	**N/A**	**$ 158,799**
Allergy, Immunology and Transplantation Research	93.855	N/A	43,631
Biomedical Research and Research Training	93.859	N/A	840,657
			1,043,087
Passed through Harvard-Beth Israel Deaconess Medical Center:			
ARRA – Recovery Act of 2009: Trans-NIH Recovery Act Research Support	**93.701**	**3R24RR016001-1051**	**105,281**
Passed through from La Jolla Institute for Allergy & Immunology:			
Allergy, Immunology and Transplantation Research	93.855	R01A1070902-02, 5R01A1070902-03	52,639
Total National Institutes of Health			1,201,007
U.S. Department of Education			
Direct Program:			
Child Care Access Means Parents in School	84.335	N/A	56,569
			56,569
U.S. Department of Health and Human Services			
Direct Program:			
Family and Community Violence Prevention Program	93.910	N/A	324,072
			324,072
Passed through from Vista Community Clinic:			
Family and Community Violence Prevention Program	93.910	YEPMP090032-01-00,	39,077
Total U.S. Department of Health and Human Services			363,149
National Science Foundation			
Direct Programs:			
Geosciences	47.050	N/A	70,321
Engineering Programs	47.041	N/A	65,936
Biological Sciences	47.074	N/A	40,075
Social, Behavioral and Economic Sciences	47.075	N/A	68,448
Education and Human Resources	47.076	N/A	416,102
Polar Programs	47.078	N/A	51,360
International Science and Engineering	47.079	N/A	39,625
Cyberinfrastructure	47.080	N/A	27,924
Total National Science Foundation			779,791

(Continued)

University Auxiliary and Research Services Corporation

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Cluster or Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number		Federal Expenditures
U.S. Department of Agriculture, Forest Service				
Direct Program:				
Hispanic Serving Institutions Education Grants	10.223	N/A		$ 39,324
Forestry Research	10.652	N/A		67,894
				107,218
Passed through from the California Department of Public Health:				
ARRA – Recovery Act of 2009: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	**10.561**	**09-11461**		**30,881**
Total U.S. Department of Agriculture, Forest Service				138,099
National Archives and Records Administration				
Direct Program:				
National Historical Publications and Records Grant	89.003	N/A		28,296
				28,296
Environmental Protection Agency				
Passed through from Southern CA Coastal Water Research Project:				
Water Quality Management Planning	66.454	2P-00T08309		6,373
				6,373
Passed through from San José State University:				
Water Pollution Control State, Interstate and Tribal Program Support	66.419	198910092, OS83359701-1		85,687
				85,687
Department of Housing and Urban Development				
Passed through from the City of San Diego:				
Healthy Homes and Lead Hazard Control Programs	14.901	FR5300N17, CALHH0204-09		24,379
Total Research and Development Expenditures of Federal Awards			*	2,683,350
TRIO Cluster:				
U.S. Department of Education				
Direct Programs:				
TRIO Cluster:				
TRIO – Student Support Services	84.042	N/A		292,348
TRIO – Talent Search	84.044	N/A		233,224
TRIO – Upward Bound	84.047	N/A		288,431
Total TRIO Cluster				814,003
National Institutes of Health				
Direct Programs:				
ARRA - Recovery Act of 2009: Trans-NIH Recovery Act Research Support	**93.701**	**N/A**	*	**164,063**
Biomedical Research and Research Training	93.859	N/A		1,478,645
				1,642,708
Passed through Harvard-Beth Israel Deaconess Medical Center:				
ARRA – Recovery Act of 2009: Trans-NIH Recovery Act Research Support	**93.701**	**3R24RR016001-09S1**	*	**29,361**
Total National Institutes of Health				1,672,069

(Continued)

University Auxiliary and Research Services Corporation

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Cluster or Title	Catalog of Federal Domestic Assistance Number	Pass-Through Entity Identifying Number		Federal Expenditures
U.S. Department of Education				
Direct Programs:				
Higher Education Institutional Aid	84.031	N/A	*	409,831
Migrant Education – College Assistance Migrant Program	84.149	N/A		443,600
				853,431
Passed through from California Department of Education:				
Improving Teacher Quality State Grant	84.367	CN090046, CN100261		50,374
National Writing Project	84.928	U928A100001 10/11		41,703
Passed through from Palomar College:				
Higher Education Institutional Aid	84.031	P0315100109	*	57,334
Passed through from San Diego County Office of Education:				
Fund for the Improvement of Education	84.215	U215X060230, U215X090454		67,789
Arts in Education	84.351	U351D080077-10		22,500
Total U.S. Department of Education				1,093,131
National Science Foundation				
Direct Programs:				
Education and Human Resources	47.076	N/A		7,129
				7,129
Passed through from San Diego State University Research Foundation:				
Education and Human Resources	47.076	DUE-0717791		4,767
Passed through from University of California San Diego:				
ARRA – Recovery Act of 2009: Education and Human Resources	**47.076**	**DUE-0934895**		**49,063**
Passed through from Miami Dade College:				
Computer and Information Science and Engineering	47.070	CNS-0940575		77,967
Total National Science Foundation				138,926
U.S. Department of Agriculture, Forest Service				
Direct Program:				
Forestry Research	10.652	N/A		93,756
Total U.S. Department of Agriculture, Forest Service				93,756
Department of Labor				
Passed through from California Employment Development:				
WIA Adult Program	17.258	R974334SM9	*	199,610
Total U.S. Department of Labor				199,610
Total Expenditures of Federal Awards				$ 6,694,845

* Denotes Major Program
N/A - Not Applicable

See Notes to Schedule of Expenditures of Federal Awards.

University Auxiliary and Research Services Corporation

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of University Auxiliary and Research Services Corporation (the Organization) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in preparation of, the financial statements.

Note 2. Indirect Cost

Indirect costs are charged to federal grants and contracts at predetermined rates. The predetermined rates for the period from July 1, 2010 through June 30, 2011 ranged between 0 percent and 48 percent of direct program costs (excluding capital expenditures). The Organization recovered $1,003,094 in indirect costs for the year ended June 30, 2011.

McGladrey

Independent Auditor's 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*

Board of Directors
University Auxiliary and Research
Services Corporation
San Marcos, CA

We have audited the financial statements of University Auxiliary and Research Services Corporation (the Organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. 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 Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting as 2011-01. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

The views of responsible officials and planned corrective actions to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

McGladrey & Pullen, LLP

San Diego, CA
September 21, 2011

McGladrey

Independent Auditor's Report on Compliance With Requirements That Could Have A Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
University Auxiliary and Research
Services Corporation
San Marcos, CA

Compliance

We have audited University Auxiliary and Research Services Corporation's (the Organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2011. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance

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and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Organization as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

McGladrey & Pullen, LLP

San Diego, CA
September 21, 2011

University Auxiliary and Research Services Corporation

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	____ Yes	X No	
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X Yes	____	None Reported
Noncompliance material to financial statements noted?	____ Yes	X No	

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____ Yes	X No	
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	X	None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	____ Yes	X No	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster
84.031	Higher Education Institutional Aid
17.258	WIA Adult Program
93.701	Trans-NIH Recovery Act Research Support

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? ____ Yes X No

II. Financial Statement Findings

A. Significant Deficiencies

2011-01: Revenue Recognition

Criteria: According to the Revenue Recognition Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), revenues of an entity during a period are generally measured by the exchange values of the assets (goods or services) or liabilities involved, and recognition involves consideration of two factors: (1) being realized or realizable; and (2) being earned.

Condition: The Organization does not have proper controls in place to identify revenue recognition criteria for its diverse revenue streams.

Context: The Organization recorded revenue and offsetting expenses for costs already recorded and recorded revenue for cash held for others.

Effect: The errors resulted in recorded current year adjustments to increase liabilities $92,000, decrease revenues $1,723,000 and decrease expense $1,631,000. We considered the error to be a significant deficiency in internal control over financial reporting.

Cause: Lack of proper controls over revenue recognition.

Recommendation: We recommend the Organization design and establish internal controls to identify the appropriate revenue recognition criteria for each revenue stream.

Views of responsible officials and planned corrective actions:

Management will adjust its accounting and financial statement reporting procedures to offset the collection of indirect recovery revenues against indirect expenses already recorded related to its method of tracking indirect recovery through the accounting records. For FY 10/11, indirect revenue of $1,164,000 was recorded with an offsetting indirect expense of $1,164,000 during the indirect recovery tracking process. In the future, these amounts will be offset on the statement of activities so as not to overstate revenues and expenses by the offsetting amounts.

Management will also review its process of receiving and transferring funds to other related campus entities that pertain to business arrangements whereas UARSC receives funds for eventual transfer to the other entities. For FY 10/11, UARSC received $559,000 from various Riverside, CA county agencies that was transferred to California State University San Marcos (CSUSM) as part of the development of CSUSM educational programs in Temecula, CA. UARSC recorded the funds as revenue when received and as expense when the funds were transferred to CSUSM. Management has initiated procedures to review future business arrangements such as these so that funds received are held as a liability and not recorded as revenues.

B. Compliance Findings

No matters were reported.

III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiencies

No matters were reported.

B. Compliance Findings

No matters were reported.

University Auxiliary and Research Services Corporation

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2011

Findings and Questioned Costs reported during the year ended June 30, 2010 were as follows:

For Financial Statements—Significant Deficiencies and Material Weaknesses:

2010-01: Revenue Recognition

Criteria: According to the Revenue Recognition Topic of the FASB ASC, revenues of an entity during a period are generally measured by the exchange values of the assets (goods or services) or liabilities involved, and recognition involves consideration of two factors: (1) being realized or realizable; and (2) being earned.

Condition: The Organization does not have proper controls in place to identify revenue recognition criteria for its diverse revenue streams.

Context: The Organization failed to defer revenues for certain projects, while erroneously deferring other project revenues which had been earned.

Effect: The errors resulted in recorded current year adjustments to increase liabilities and decrease unrestricted revenue $251,000 and to decrease liabilities and increase unrestricted revenue $309,000, with a net decrease in liabilities of $58,000 and net increase in unrestricted revenue $58,000, and a passed adjustment to restate the prior year by decreasing net assets $11,000 and increasing current year unrestricted revenue $11,000. We consider the error to be a significant deficiency in internal control over financial reporting.

Cause: Lack of proper controls over revenue recognition.

Recommendation: We recommend the Organization design and establish internal controls to identify the appropriate revenue recognition criteria for each revenue stream.

Status: Finding repeated in 2011 (see Finding 2011-01).

2010-02: Inventory Costing

Criteria: According to the Inventory Topic of the FASB ASC, inventories should generally be priced at cost. Cost includes both direct and indirect acquisition and production costs that are incurred to bring the inventory to its present condition and location.

Condition: The Organization did not have proper controls in place for the implementation of its new inventory system.

Context: A new bookstore accounting system had been installed at the beginning of the fiscal year that produced various monthly reports that were used by management to record cost of goods sold and calculate ending inventory. The processes and calculations used by the bookstore accounting system were not fully understood by management at time of implementation and contributed to an understatement by year-end of cost of goods sold. In addition, operating procedures to properly record outstanding vendor invoices payable and vendor credits on returned items were not adequately established by fiscal year-end.

Effect: The error resulted in a current year adjustment to increase liabilities and commercial operations expense $384,000. We consider the error to be a material weakness in internal control over financial reporting.

2010-02: Inventory Costing (Continued)

Cause: The Organization was unaware of the methodology used by its new inventory system to price inventory items.

Recommendation: We recommend the Organization engage a specialist to establish controls over its new inventory system.

Status: The Finding was remediated in 2011. The Organization worked with a specialist to develop standard operating procedures and controls over its inventory.

2010-03: Property and Equipment

Criteria: According to the Property, Plant and Equipment Topic of the FASB ASC, the lives used in computing depreciation shall be based on estimates of the period over which the assets will be of economic benefit to the entity. Such lives may be the same as the assets' physical lives, but frequently are shorter. Remaining lives of property shall be periodically reviewed and revised to recognize changes in conditions.

Two basic types of depreciation methods are acceptable: straight line (based on periods of time or usage) and accelerated (decreasing charge). An accelerated method (e.g., declining balance or sum-of-the-years digits) is desirable if evidence indicates that the decline in value of the property is greater in the earlier years of its life or maintenance costs increase significantly as the asset ages. When these factors are absent, the straight-line method is more desirable.

Condition: The Organization did not have proper controls in place for the tracking of property and equipment.

Context: The Organization discontinued the use and lease of a facility in a prior year and continued to depreciate the improvements until writing them off in the current year. The Organization also overdepreciated other assets due to errors in the calculation of depreciation.

Effect: The combination of errors resulted in a current year adjustment increasing assets and reducing expense $30,000, and a net passed adjustment related to the prior year by decreasing net assets $75,000 and decreasing current year expense $75,000. We consider the combination of errors a material weakness in internal control over financial reporting.

Cause: Improper review of fixed assets and the use of manual schedules to calculate depreciation.

Recommendation: We recommend the Organization consider purchasing fixed-asset tracking and depreciation software designed to help the Organization monitor its assets, properly calculate depreciation and assist in continued re-evaluation of property and equipment in use.

Status: The Finding was remediated in 2011. The Organization initiated processes to review all capitalized property and equipment items on a quarterly basis to assure each item was properly depreciated.

University Auxiliary and Research Services Corporation

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2011

2010-04: Classification of Statement of Activities Accounts

Criteria: According to FASB ASC 958-720-05-4, a statement of activities or notes to financial statements should provide information about expenses reported by their functional classification, such as major classes of program services and supporting activities.

Condition: The Organization does not have an established process to review and identify statement of activities account classifications for financial statement reporting purposes.

Context: The Organization had difficulty providing reconciliation between the statement of activities amounts and the books and records.

Effect: There is a reasonable possibility that the entity would fail to detect an error in the statement of activities without a formal process to determine how accounts should be classified. We consider the matter to be a significant deficiency in internal control over financial reporting.

Cause: No established process for properly reporting functional classifications of items in the statement of activities.

Recommendation: We recommend the Organization develop a formal process for classifying items in the statement of activities.

Status: The Finding was remediated in 2011. The Organization was able to use the mapping put together during the prior year audit to classify items for the current year.