

**UNIVERSITY AUXILIARY AND
RESEARCH SERVICES CORPORATION**

Financial Statements and Supplemental Information

Years Ended June 30, 2009 and 2008 (Restated)

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Financial Statements and Supplemental Information
Years Ended June 30, 2009 and 2008 (Restated)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of University Auxiliary and Research Services Corporation (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of University Auxiliary and Research Services Corporation'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, 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of University Auxiliary and Research Services Corporation as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 16, subsequent to the issuance of the University Auxiliary and Research Services Corporation's 2008 financial statements, we became aware that those financial statements reflected incorrect assets, expenses, and net assets. In our original report we provided an unqualified opinion on the 2008 financial statements, and our opinion on the restated financial statements, as expressed herein, remains unqualified.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009 on our consideration of University Auxiliary and Research Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of University Auxiliary and Research Services Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The accompanying supplemental California State University San Marcos supporting schedules as required by California State University San Marcos are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

AKT LLP

Carlsbad, California
September 30, 2009

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Statements of Financial Position

June 30, 2009 and 2008 (Restated)

	<u>2009</u>	<u>(Restated) 2008</u>
ASSETS		
Current Assets:		
Cash	\$ 891,137	\$ 6,570,542
Accounts receivable, sponsored programs, net of allowance for doubtful accounts of \$0 (2009) and \$140,020 (2008)	1,050,037	782,403
Other receivables	620,944	494,359
Deposits	941,432	220,950
Investments	8,191,039	2,557,727
Pledges receivable, net	1,363,709	1,227,940
Inventory	804,960	1,045,697
Total Current Assets	<u>13,863,258</u>	<u>12,899,618</u>
Other Assets:		
Cash - restricted	1,722,391	1,565,559
Pledges receivable, net	745,117	985,655
Investments	11,269,311	14,656,912
Other assets	61,081	61,081
Property and equipment, net of accumulated depreciation	1,014,856	1,936,487
Total Other Assets	<u>14,812,756</u>	<u>19,205,694</u>
Total Assets	<u>\$ 28,676,014</u>	<u>\$ 32,105,312</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,189,108	\$ 434,090
Deferred revenue	853,665	667,725
Accrued payroll and benefits	192,182	250,389
Other current liabilities	250,498	68,059
Total Current Liabilities	<u>2,485,453</u>	<u>1,420,263</u>
Accumulated Post-Retirement Benefit Obligation	<u>619,840</u>	<u>464,880</u>
Total Liabilities	<u>3,105,293</u>	<u>1,885,143</u>
Net Assets:		
Unrestricted:		
Board designated:		
Operating reserves	2,188,399	2,295,712
Program reserves	1,497,807	2,602,674
Campus programs	19,422	2,781,157
Equipment	1,014,856	1,936,487
Scholarship	372,176	504,899
Total Unrestricted	<u>5,092,660</u>	<u>10,120,929</u>
Temporarily restricted	4,917,287	4,612,656
Permanently restricted	15,560,774	15,486,584
Total Net Assets	<u>25,570,721</u>	<u>30,220,169</u>
Total Liabilities and Net Assets	<u>\$ 28,676,014</u>	<u>\$ 32,105,312</u>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Statement of Activities

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support:				
Federal grants and contracts	\$ 5,311,286	\$ -	\$ -	\$ 5,311,286
Other sponsored programs	1,470,760	-	-	1,470,760
Campus programs	3,088,562	-	-	3,088,562
Commercial operations	5,527,055	-	-	5,527,055
Contributions	1,595,028	774,240	74,190	2,443,458
Investment income	168,846	178,924	-	347,770
Net realized and unrealized losses on investments	(3,121,257)	52,878	-	(3,068,379)
Rental income	227,862	-	-	227,862
Net assets released from restriction, satisfaction of program restrictions	701,411	(701,411)	-	-
Total Revenue, Gains and Other Support	14,969,553	304,631	74,190	15,348,374
Expenses:				
Program Services:				
Sponsored programs	5,879,539	-	-	5,879,539
Campus programs	5,666,139	-	-	5,666,139
Commercial operations	4,973,623	-	-	4,973,623
Student scholarships	846,031	-	-	846,031
Occupancy and student housing	139,618	-	-	139,618
Total Program Services	17,504,950	-	-	17,504,950
General administration	1,830,922	-	-	1,830,922
Contribution of property and equipment	661,950	-	-	661,950
Total Expenses	19,997,822	-	-	19,997,822
Increase (Decrease) in Net Assets	(5,028,269)	304,631	74,190	(4,649,448)
Net Assets, beginning	10,120,929	4,612,656	15,486,584	30,220,169
Net Assets, ending	\$ 5,092,660	\$ 4,917,287	\$ 15,560,774	\$ 25,570,721

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Statement of Activities

Year Ended June 30, 2008 (Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support:				
Federal grants and contracts	\$ 4,396,539	\$ -	\$ -	\$ 4,396,539
Other sponsored programs	4,145,934	-	-	4,145,934
Campus programs	2,775,725	-	-	2,775,725
Commercial operations	5,739,165	-	-	5,739,165
Contributions	1,348,637	294,556	1,332,513	2,975,706
Investment income	195,744	316,725	-	512,469
Net realized and unrealized gains on investments	-	(1,236,300)	-	(1,236,300)
Rental income	309,312	-	-	309,312
Gain on sale of mineral rights	-	-	1,453,110	1,453,110
Net assets released from restriction, satisfaction of program restrictions	3,592,110	(3,592,110)	-	-
Total Revenue, Gains and Other Support	22,503,166	(4,217,129)	2,785,623	21,071,660
Expenses:				
Program Services:				
Sponsored programs	5,970,310	-	-	5,970,310
Campus programs	5,738,260	-	-	5,738,260
Commercial operations	5,007,243	-	-	5,007,243
Student scholarships	611,683	-	-	611,683
Occupancy and student housing	133,602	-	-	133,602
Total Program Services	17,461,098	-	-	17,461,098
General administration	1,803,722	-	-	1,803,722
Contribution of property and equipment	7,681,138	-	-	7,681,138
Total Expenses	26,945,958	-	-	26,945,958
Increase (Decrease) in Net Assets	(4,442,792)	(4,217,129)	2,785,623	(5,874,298)
Net Assets, beginning (as previously stated)	13,828,221	8,829,785	12,700,961	35,358,967
Prior Period Adjustment	735,500	-	-	735,500
Net Assets, beginning (as restated)	14,563,721	8,829,785	12,700,961	36,094,467
Net Assets, ending	\$ 10,120,929	\$ 4,612,656	\$ 15,486,584	\$ 30,220,169

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Statements of Cash Flows

Years Ended June 30, 2009 and 2008 (Restated)

	2009	(Restated) 2008
Cash Flows from Operating Activities:		
Decrease in net assets	\$ (4,649,448)	\$ (5,874,298)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	279,973	319,576
Noncash contribution of property and equipment	661,950	7,681,138
Net realized and unrealized losses on investments	3,068,379	1,236,300
Gain on sale of mineral rights	-	(1,453,110)
Change in accumulated post-retirement benefit obligation	154,960	154,960
Changes in operating assets and liabilities:		
Accounts receivable, sponsored programs, net	(267,634)	1,240,674
Other receivables	(126,585)	(319,472)
Deposits	(720,482)	(58,025)
Pledges receivable, net	104,769	1,215,802
Inventory	240,737	(315,856)
Accounts payable	755,018	(974,275)
Deferred revenue	185,940	(18,078)
Accrued payroll and benefits	(58,207)	(88,641)
Other current liabilities	182,439	(50,378)
Net Cash Provided (Used) by Operating Activities	(188,191)	2,696,317
Cash Flows from Investing Activities:		
Purchases of investments	(6,930,639)	(12,165,319)
Proceeds from sale of investments	1,616,549	7,837,081
Proceeds from sale of mineral rights	-	1,588,001
Loan payments from related parties	-	295,300
Purchases of property and equipment	(20,292)	(1,910,885)
Net Cash Used by Investing Activities	(5,334,382)	(4,355,822)
Net Decrease in cash	(5,522,573)	(1,659,505)
Cash, beginning	8,136,101	9,795,606
Cash, ending	<u>\$ 2,613,528</u>	<u>\$ 8,136,101</u>
Cash consists of the following:		
Cash	\$ 891,137	\$ 6,570,542
Cash - restricted	1,722,391	1,565,559
	<u>\$ 2,613,528</u>	<u>\$ 8,136,101</u>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2009 and 2008 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

University Auxiliary and Research Services Corporation (formerly named California State University San Marcos Foundation) (Organization) is a nonprofit California corporation which is an auxiliary organization of The California State University (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 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 government accounting standards which apply to the University.

Financial Statement Presentation

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

- 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.
- 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 income to fund current operations.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified 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.

Revenue from grants/contracts is recognized to the extent of eligible costs incurred up to an amount not to exceed the total grant/contract authorized. Deferred revenue results from grant awards received that are applicable to the subsequent period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2009 and 2008 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the change in net assets.

Accounts Receivable

The accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary at June 30, 2009 because management believes all amounts were collectible.

Pledges Receivable

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are discounted to their estimated net present value. After pledges are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Inventory

Inventory consists primarily of education books and is valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at the fair market value of the contribution, if donated. Certain equipment acquired through grant and contract exchange transactions is subject to restrictions on its use and disposition subsequent to the conclusion of the related grants and contracts. Equipment acquired through exchange transactions is expensed as an allowable grant expenditure. 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.

Mineral Rights

Mineral rights were being amortized using the straight-line method over a period of seven years and were included in other assets. The mineral rights were sold in the year ended June 30, 2008.

Income Taxes

The Organization is a qualified nonprofit organization that is exempt from 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.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued the fair value measurement standard, which became effective for the Organization on December 1, 2008. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The standard does not require any new fair value measurements but applies to assets and liabilities that are required to be recorded at fair value under other accounting standards. The standard establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Financial Statements
Years Ended June 30, 2009 and 2008 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, and payables approximate fair values as of June 30, 2009 and 2008, due to the relative short maturities of these instruments.

In August 2008, the FASB issued a standard for Endowments of Not-for-Profit Organizations, which is effective for fiscal years ending after December 15, 2008. The standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The standard requires additional disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The standard also requires classifying the portion of a donor-restricted endowment that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

Note 2 – 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 and supporting services benefited.

Note 3 – Concentration of Credit Risk

The Organization maintains its cash balances at one financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). On May 20, 2009, the Helping Families Save Their Homes Act temporarily increased FDIC deposit insurance limits from \$100,000 to \$250,000 until December 31, 2013. Non-interest bearing transaction accounts at financial institutions that participate in the FDIC's Transaction Account Guarantee Program are fully guaranteed by the FDIC for the entire amount in the account until December 31, 2009. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. At June 30, 2009, the Organization's uninsured cash balance was \$2,173,458.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Financial Statements
Years Ended June 30, 2009 and 2008 (Restated)

Note 4 – Restricted Cash

Cash is restricted for the following purposes:

	<u>2009</u>	<u>2008</u>
Endowment	\$ 1,326,034	\$ 1,326,034
Student loans	396,357	239,525
	<u>\$ 1,722,391</u>	<u>\$ 1,565,559</u>

Note 5 – Investments

The following table presents the financial instruments carried at fair value as of June 30, 2009, by caption on the statements of financial position by the fair value measurement valuation hierarchy:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Bonds funds	\$ 11,107,020	\$ -	\$ -	\$ 11,107,020
Equity funds	6,862,118	-	-	6,862,118
Alternative investments	-	-	1,491,212	1,491,212
	<u>\$ 17,969,138</u>	<u>\$ -</u>	<u>\$ 1,491,212</u>	<u>\$ 19,460,350</u>

Changes in the fair value of level 3 investments for the year ended June 30, 2009 are as follows:

Fair value, beginning	\$ 1,791,668
Net unrealized losses	<u>(300,456)</u>
Fair value, ending	<u>\$ 1,491,212</u>

The following table presents the financial instruments carried at fair value as of June 30, 2008, by caption on the statements of financial position by the fair value measurement valuation hierarchy:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Bonds funds	\$ 9,718,673	\$ -	\$ -	\$ 9,718,673
Equity funds	5,704,298	-	-	5,704,298
Alternative investments	-	-	1,791,668	1,791,668
	<u>\$ 15,422,971</u>	<u>\$ -</u>	<u>\$ 1,791,668</u>	<u>\$ 17,214,639</u>

Changes in the fair value of level 3 investments for the year ended June 30, 2008 are as follows:

Fair value, beginning	\$ 1,328,040
Purchases	500,000
Net unrealized losses	<u>(36,372)</u>
	<u>\$ 1,791,668</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Notes to Financial Statements**

Years Ended June 30, 2009 and 2008 (Restated)

Note 6 – Other Receivables

Other receivables consist of the following:

	<u>2009</u>		<u>2008</u>
Advances to San Marcos University Corporation	\$ 172,234	\$	324,465
Other	<u>448,710</u>		<u>169,894</u>
	<u>\$ 620,944</u>	\$	<u>494,359</u>

Note 7 – Pledges Receivable

Pledges receivable consist of the following:

	<u>2009</u>		<u>2008</u>
Gross pledges	\$ 4,322,011	\$	4,927,878
Less imputed discount	<u>(1,367,070)</u>		<u>(1,635,662)</u>
	2,954,941		3,292,216
Less allowance for uncollectible pledges	<u>(846,115)</u>		<u>(1,078,621)</u>
	<u>\$ 2,108,826</u>	\$	<u>2,213,595</u>

	<u>2009</u>		<u>2008</u>
Pledges receivable consist of the following:			
Due in less than one year	\$ 1,363,709	\$	1,227,940
Due after one to five years	183,242		280,590
Due after five years	<u>561,875</u>		<u>705,065</u>
	<u>\$ 2,108,826</u>	\$	<u>2,213,595</u>

The net present value of the pledges due in more than one year is discounted at the rate of 5% for the years ended June 30, 2009 and 2008, respectively.

Note 8 – Property and Equipment

Property and equipment consist of the following:

	<u>2009</u>		<u>2008</u>
Equipment	\$ 1,159,725	\$	1,139,433
Leasehold improvements	1,737,591		1,737,591
Building	<u>-</u>		<u>1,103,250</u>
	2,897,316		3,980,274
Less accumulated depreciation	<u>(1,882,460)</u>		<u>(2,043,787)</u>
	<u>\$ 1,014,856</u>	\$	<u>1,936,487</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Financial Statements
Years Ended June 30, 2009 and 2008 (Restated)

Note 9 – Notes Receivable - Related Parties

The Organization had a note receivable of \$295,300 due from the University. Annual payments of \$83,089, including interest at 6%, were due December 2007 through December 2010. The loan was paid in full during the year ended June 30, 2008.

Note 10 – Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>		<u>2008</u>
Campus programs:			
Capital improvements	\$ 2,171,222	\$	2,361,376
Student scholarships	76,914		74,591
Campus programs	2,116,966		1,380,150
Unappropriated endowment earnings	552,185		796,539
	<u>\$ 4,917,287</u>	<u>\$</u>	<u>4,612,656</u>

Earnings from permanently restricted net assets are available for the following purposes:

	<u>2009</u>		<u>2008</u>
Endowments:			
Campus programs	\$ 5,743,642	\$	5,545,940
Student scholarships	8,491,098		8,217,183
Student loans	1,326,034		1,723,461
	<u>\$ 15,560,774</u>	<u>\$</u>	<u>15,486,584</u>

Note 11 – Endowments

The Organization's endowment consists of 69 individual funds established for a variety of purposes. The endowments are all donor-restricted for the purpose of student scholarships, student loans, and campus program activities.

The Board of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (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

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Financial Statements
Years Ended June 30, 2009 and 2008 (Restated)

Note 11 – Endowments, continued

At June 30, 2009, the endowments net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>(3,121,257)</u>	\$ <u>552,185</u>	\$ <u>15,560,774</u>	\$ <u>12,991,702</u>

At June 30, 2008, the endowments net asset composition by type of fund consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>796,539</u>	\$ <u>15,486,584</u>	\$ <u>16,283,123</u>

Changes in endowment net assets for the year ended June 30, 2009, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 796,539	\$ 15,486,584	\$ 16,283,123
Investment return:				
Interest and dividends	-	178,924	-	178,924
Realized and unrealized loss	<u>(3,121,257)</u>	<u>52,878</u>	<u>-</u>	<u>(3,068,379)</u>
Total investment return	<u>(3,121,257)</u>	<u>231,802</u>	<u>-</u>	<u>(2,889,455)</u>
Contributions	-	-	74,190	74,190
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(476,156)</u>	<u>-</u>	<u>(476,156)</u>
Endowment net assets, end of year	\$ <u>(3,121,257)</u>	\$ <u>552,185</u>	\$ <u>15,560,774</u>	\$ <u>12,991,702</u>

Changes in endowment net assets for the year ended June 30, 2008, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,204,583	\$ 12,700,961	\$ 14,905,544
Investment return:				
Interest and dividends	-	316,725	-	316,725
Realized and unrealized loss	<u>-</u>	<u>(1,236,300)</u>	<u>1,453,110</u>	<u>216,810</u>
Total investment return	<u>-</u>	<u>(919,575)</u>	<u>1,453,110</u>	<u>533,535</u>
Contributions	-	-	1,332,513	1,332,513
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(488,469)</u>	<u>-</u>	<u>(488,469)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>796,539</u>	\$ <u>15,486,584</u>	\$ <u>16,283,123</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2009 and 2008 (Restated)

Note 11 – 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 that are reported in unrestricted net assets were \$3,121,257 and \$0 for the years ended June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations in 2009 and 2008.

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 permanently restricted endowment asset portfolio is structured to achieve a compounded annual return, net of investment management expenses, of five 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 principle 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 equity, fixed income, alternative, 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 equity and fixed-income investments, 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).

Spending Policy

The Organization has a policy of appropriating for distribution each year a percentage of the prior 3-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%. Because of the recent economic downturn, the rate for the year ending June 30, 2010 is set at 2% for scholarship endowments and 0% 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 12 – Commitments and Contingencies

Leases

The Organization has entered into various operating lease agreements for office facilities. The agreements require annual and monthly payments which are adjusted annually based on the consumer price index. The lease agreement for 435 E. Carmel Street may be terminated by either party upon a six-month written notice. Total rent expense was approximately \$135,000 and \$131,000 for the years ended June 30, 2009 and 2008, respectively.

The Organization leased equipment under various lease agreements and had a computer refresh program with the University which expired in July 2008. Rent expense associated with equipment leases was approximately \$6,000 for the year ended June 30, 2008, respectively.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Financial Statements
Years Ended June 30, 2009 and 2008 (Restated)

Note 12 – Commitments and Contingencies, Continued

The minimum future rental payments are as follows:

Year ending June 30, <u>2010</u>	\$ 66,114
Thereafter	<u>-</u>
	<u>\$ 66,114</u>

Note 13 – Accumulated Post-Retirement Benefit Obligation

The Organization has a post-retirement program which provides 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.

The following table includes the funded status of the post-retirement healthcare benefits and the amounts recognized in the financial statements for the year ended June 30, 2009:

Benefit obligation, beginning of year	\$ 464,880
Net periodic benefit cost:	
Service cost	123,880
Interest cost	24,365
Amortization of prior service cost	17,509
Amortization of actuarial gain	<u>(10,794)</u>
Benefit obligation, end of year	619,840
Plan assets	<u>-</u>
Accumulated benefit obligation, end of year	<u>\$ 619,840</u>

The following table includes the funded status of the post-retirement healthcare benefits and the amounts recognized in the financial statements for the year ended June 30, 2008:

Benefit obligation, beginning of year	\$ 309,920
Net periodic benefit cost:	
Service cost	123,880
Interest cost	24,365
Amortization of prior service cost	17,509
Amortization of actuarial gain	<u>(10,794)</u>
Benefit obligation, end of year	464,880
Plan assets	<u>-</u>
Accumulated benefit obligation, end of year	<u>\$ 464,880</u>

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

Weighted average assumptions used to determine the benefit obligation included a discount rate of 6.25% and a healthcare cost trend rate of 7.90% for the year ended June 30, 2009.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2009 and 2008 (Restated)

Note 14 – Transactions with Affiliates

Reimbursed Costs

The Organization reimburses the University for salaries and other program related costs for personnel working on contracts, grants and other programs. The total amount paid to the University for these services was \$5,535,431 and \$5,784,387 for the years ended June 30, 2009 and 2008, respectively. Amounts due to the University at June 30, 2009 and 2008 were \$596,462 and \$294,568, respectively.

The University reimburses the Organization for services, space, and programs. The total amount received by the Organization was \$772,975 and \$1,513,551 for the years ended June 30, 2009 and 2008, respectively. Amounts due from the University at June 30, 2009 and 2008 were \$230,727 and \$40,654, respectively.

Operating Advance

In July 2004, the Organization entered into an agreement with San Marcos University Corporation to advance money for certain personnel and other operating services. An advance due from the San Marcos University Corporation, including accrued interest, was \$172,234 and \$324,465 at June 30, 2009 and 2008, respectively.

Contribution of Property and Equipment

In September 2007, the Organization contributed a classroom building to California State University San Marcos. The original cost of the building was \$1,103,250. The book value, net of accumulated depreciation, of the building transferred at June 30, 2009 was \$661,950.

Note 15 – Reclassifications

Certain items in the 2008 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

Note 16 – Restatement of Financial Statements

The statement of financial position and statement of activities for the year ended June 30, 2008 has been restated due to the identification of a building that was not previously recorded on the Organization's financial statements. The building was completed in 1997 with an initial cost of \$1,103,250 and had accumulated depreciation of \$367,750 at June 30, 2007. The inclusion of this building increased property and equipment and beginning net assets by \$735,500 on the restated 2008 financial statements.

SUPPLEMENTAL INFORMATION



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**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, California

We have audited the financial statements of University Auxiliary and Research Services Corporation (a nonprofit organization) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated September 30, 2009. We conducted our audits 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

In planning and performing our audits, we considered University Auxiliary and Research Services Corporation'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 University Auxiliary and Research Services Corporation'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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiency 2009-1 described in the accompanying schedule of findings and questioned costs to be a material weakness in internal control over financial reporting.

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

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Auxiliary and Research Services Corporation'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 audits, 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*.

University Auxiliary and Research Services Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit University Auxiliary and Research Services Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of directors, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
September 30, 2009



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of University Auxiliary and Research Services Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. University Auxiliary and Research Services Corporation's major federal programs are identified in the summary of auditors' 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 University Auxiliary and Research Services Corporation's management. Our responsibility is to express an opinion on University Auxiliary and Research Services Corporation'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 University Auxiliary and Research Services Corporation'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 of University Auxiliary and Research Services Corporation's compliance with those requirements.

In our opinion, University Auxiliary and Research Services Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of University Auxiliary and Research Services Corporation 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 University Auxiliary and Research Services Corporation'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, 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 University Auxiliary and Research Services Corporation's internal control over compliance.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(continued)

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of management, board of directors, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Carlsbad, California
September 30, 2009

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-through Grantor Number	Expenditures
<u>National Institutes of Health</u>			
Direct Programs:			
Drug Abuse and Addiction Research	93.279	N/A	\$ 45,369
Gene Discovery Research	93.855	N/A	160,122
Microbiology and Infectious Diseases Research	93.856	N/A	36,246
Biomedical Research and Research Training	93.859	N/A	1,819,620
Marc u star	93.880	N/A	245,306
			<u>2,306,663</u>
Passed through the La Jolla Institute for Allergy and Immunology Biomedical Research	93.855	N/A	66,530
Total National Institutes of Health			<u>2,373,193</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
TRIO Cluster:			
TRIO - Student Support Services	84.042	N/A	269,066
TRIO - Talent Search	84.044	N/A	223,716
TRIO - Upward Bound	84.047	N/A	280,418
			<u>773,200</u>
Strengthening Institutions	84.031	N/A	271,463
Strengthening Global Studies and World Languages Program	84.016	N/A	36,293
Migrant Education - College Assistance Migrant Program	84.149	N/A	441,918
			<u>749,674</u>
Passed Through from California Department of Education:			
Improving Teacher Quality State Grant	84.367	N/A	61,736
Reading Development	84.354	N/A	22,351
Fund for the improvement of Education	84.215	N/A	46,325
National Writing Project	84.928	N/A	45,765
			<u>176,177</u>
Total U.S. Department of Education			<u>1,699,051</u>
<u>Department of Health and Human Services</u>			
Direct Programs:			
Community Programs to Improve Minority Health	93.137	N/A	68,937
<u>National Oceanic and Atmospheric Administration</u>			
Passed Through from San Jose State University:			
Coastal Services Center	11.473	N/A	48,228

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
 Schedule of Expenditures of Federal Awards, Continued
 Year Ended June 30, 2009

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-through Grantor Number	Expenditures
<u>National Science Foundation</u>			
Direct Programs:			
Geosciences	47.050	N/A	102,566
Engineering Programs	47.041	N/A	41,153
Biological Sciences	47.074	N/A	68,810
Social, Behavioral, and Economic Sciences	47.075	N/A	111,083
Education and Human Resources	47.076	N/A	249,930
Polar Programs	47.078	N/A	52,999
Cyberinfrastructure	47.080	N/A	130,602
			<u>757,143</u>
Passed Through from San Diego State University:			
Education and Human Resources	47.076	N/A	45,786
			<u>45,786</u>
Total National Science Foundation			<u>802,929</u>
<u>U.S. Department of Agriculture, Forest Service</u>			
Direct Program:			
Forestry Research	10.652	N/A	228,996
			<u>228,996</u>
<u>National Archives and Records Administration</u>			
Direct Program:			
National Historical Publications and Records Grant	89.003	N/A	37,275
			<u>37,275</u>
<u>National Endowment For The Humanities</u>			
Direct Program:			
Humanities Research	45.161	N/A	47,777
			<u>47,777</u>
<u>Corporation for National and Community Service</u>			
Passed Through from San Francisco State University:			
Strengthening Service-learning Infrastructure	94.005	N/A	4,900
			<u>4,900</u>
Total expenditures of federal awards			<u>\$ 5,311,286</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Note to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Note 1 – Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of University Auxiliary and Research Services Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified
 Internal control over financial reporting:
 Significant deficiency(ies) identified? yes no
 Material weakness(es) identified? yes no
 Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:
 Significant deficiency(ies) identified? yes no
 Material weakness(es) identified? yes no
 Type of auditors’ report issued on compliance for major programs Unqualified
 Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.652	Forestry Research
47.075	Social, Behavioral, and Economic Sciences
47.076	Education and Human Resources
	<u>R&D Cluster:</u>
93.279	Drug Abuse and Addiction Research
93.855	Gene Discovery Research
93.856	Microbiology and Infectious Diseases Research
93.859	Biomedical Research and Research Training

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? yes no

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Findings and Questioned Costs, continued
Year Ended June 30, 2009

Section II – Financial Statement Findings

2009-1 Property and Equipment

During the fiscal year, the Organization's management and the University determined that a building with a cost of \$1,103,250 had not been recorded in property and equipment on the financial statements of the Organization since inception in 1997. A prior period adjustment was recorded to increase property and equipment and net assets to include the building. We consider the error a material weakness in internal control over financial reporting.

We recommend that the Organization improve its communication with the University to ensure that all transactions are recorded correctly.

Section III – Federal Award Findings

None

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2009

2008-1 Pledges Receivable

During the 2008 audit, we identified a \$2,000,000 pledge that was reported as contribution revenue in the year ended June 30, 2008. This pledge was dated and received by the development department during the year ended June 30, 2007 but was not recorded until the subsequent year. We consider this to be a material weakness in internal control over financial reporting. We did not identify similar findings during the 2009 audit.

**SUPPLEMENTAL CALIFORNIA STATE UNIVERSITY SAN MARCOS
SUPPORTING SCHEDULES**

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Schedule of Net Assets

June 30, 2009

(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$ 891,137
Short-term investments	8,191,039
Accounts receivable, net	1,670,981
Leases receivable, current portion	—
Notes receivable, current portion	—
Pledges receivable, net	1,363,709
Prepaid expenses and other assets	1,746,392
Total current assets	<u>13,863,258</u>

Noncurrent assets:

Restricted cash and cash equivalents	1,722,391
Accounts receivable, net	—
Leases receivable, net of current portion	—
Notes receivable, net of current portion	—
Student loans receivable, net	—
Pledges receivable, net	745,117
Endowment investments	11,269,311
Other long-term investments	—
Capital assets, net	1,014,856
Other assets	61,081
Total noncurrent assets	<u>14,812,756</u>

Total assets 28,676,014

Liabilities:

Current liabilities:

Accounts payable	1,189,108
Accrued salaries and benefits payable	192,182
Accrued compensated absences— current portion	186,984
Deferred revenue	853,665
Capitalized lease obligations — current portion	—
Long-term debt obligations — current portion	—
Self-insurance claims liability - current portion	—
Other liabilities	63,514
Total current liabilities	<u>2,485,453</u>

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)	619,840
Total noncurrent liabilities	<u>619,840</u>

Total liabilities 3,105,293

Net assets:

Invested in capital assets, net of related debt	1,014,856
Restricted for:	
Nonexpendable — endowments	15,560,774
Expendable:	
Scholarships and fellowships	76,914
Research	—
Loans	—
Capital projects	2,171,222
Debt service	—
Other	2,669,151
Unrestricted	4,077,804
Total net assets	<u>\$ 25,570,721</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Schedule of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2009

(for inclusion in the California State University)

Revenues:

Operating revenues:

Student tuition and fees (net of scholarship allowances of \$ _____)	\$	—
Grants and contracts, noncapital:		
Federal		5,311,286
State		351,845
Local		195,506
Nongovernmental		923,409
Sales and services of educational activities		3,316,424
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ _____)		5,527,055
Other operating revenues		—
		<u>—</u>
Total operating revenues		<u>15,625,525</u>

Expenses:

Operating expenses:

Instruction		3,075,837
Research		3,965,478
Public service		492,823
Academic support		942,501
Student services		945,917
Institutional support		3,813,689
Operation and maintenance of plant		—
Student grants and scholarships		846,031
Auxiliary enterprise expenses		4,973,623
Depreciation and amortization		279,973
		<u>—</u>
Total operating expenses		<u>19,335,872</u>
Operating income (loss)		<u>(3,710,347)</u>

Nonoperating revenues (expenses):

State appropriations, noncapital		—
Federal grant - Pell		—
Gifts, noncapital		2,369,268
Investment income, net		168,846
Endowment income		(2,889,455)
Interest on capital-related debt		—
Other nonoperating revenues (expenses)		(661,950)
		<u>—</u>
Net nonoperating revenues (expenses)		<u>(1,013,291)</u>
Income (loss) before other additions		<u>(4,723,638)</u>

State appropriations, capital

Grants and gifts, capital

Additions to permanent endowments

Increase (decrease) in net assets

Net assets:

Net assets at beginning of year, as previously reported		29,521,444
Restatements		698,725
		<u>—</u>
Net assets at end of year, as restated		<u>\$ 25,570,721</u>

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1 Restricted cash and cash equivalents at June 30, 2009:

Portion of restricted cash and cash equivalents related to endowments	\$ 1,326,033
All other restricted cash and cash equivalents	<u>396,258</u>
Total restricted cash and cash equivalents	<u>\$ 1,722,391</u>

2 Composition of investments at June 30, 2009:

	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	—	—	2,057,344	2,057,344	2,057,344
Fixed income securities (Treasury notes, GNMA's)	922,425	—	—	—	922,425
Real estate	—	—	—	—	—
Certificates of deposit	7,268,614	—	—	—	7,268,614
Notes receivable	—	—	—	—	—
Mutual funds	—	—	7,720,754	7,720,754	7,720,754
Collateralized mortgage obligations:					
Inverse floaters	—	—	—	—	—
Interest-only strips	—	—	—	—	—
Agency pass-through	—	—	—	—	—
Private pass-through	—	—	—	—	—
Other investments:					
Hedge Fund-Goldentree	—	—	668,219	668,219	668,219
Hedge Fund-Giovine	—	—	822,994	822,994	822,994
Add description	—	—	—	—	—
Add description	—	—	—	—	—
Add description	—	—	—	—	—
Add description	—	—	—	—	—
Add description	—	—	—	—	—
Add description	—	—	—	—	—
Total investments	<u>8,191,039</u>	<u>—</u>	<u>11,269,311</u>	<u>11,269,311</u>	<u>19,460,350</u>
Less endowment investments (enter as negative number)			<u>(14,234,741)</u>	<u>(14,234,741)</u>	<u>(14,234,741)</u>
Total investments	<u>8,191,039</u>	<u>—</u>	<u>(2,965,430)</u>	<u>(2,965,430)</u>	<u>5,225,609</u>

2.1 - Restricted noncurrent investments at June 30, 2009 related to:

	Amount
Endowment Funds	\$ 14,234,741
Unrestricted-Endowment funds below principal	<u>(2,965,430)</u>
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Add description	—
Total restricted noncurrent investments at June 30, 2009	<u>\$ 11,269,311</u>

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3 Composition of capital assets at June 30, 2009:

	Balance June 30, 2008	Prior period Adjustments	Reclassifications	Balance 30-Jun-08 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2009
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	---	1,103,250	---	1,103,250	---	(1,103,250)	---	---
Improvements, other than buildings	---	---	---	---	---	---	---	---
Infrastructure	---	---	---	---	---	---	---	---
Leasehold improvements	1,737,591	---	---	1,737,591	---	---	---	1,737,591
Personal property:								
Equipment	1,139,433	---	---	1,139,433	20,292	---	---	1,159,725
Library books and materials	---	---	---	---	---	---	---	---
Intangible assets	---	---	---	---	---	---	---	---
Total depreciable capital assets	2,877,024	1,103,250	---	3,980,274	20,292	(1,103,250)	---	2,897,316
Total cost	2,877,024	1,103,250	---	3,980,274	20,292	(1,103,250)	---	2,897,316
Less accumulated depreciation:								
Buildings and building improvements	---	404,525	---	404,525	36,775	(441,300)	---	---
Improvements, other than buildings	---	---	---	---	---	---	---	---
Infrastructure	---	---	---	---	---	---	---	---
Leasehold improvements	776,359	---	---	776,359	238,125	---	---	1,014,484
Personal property:								
Equipment	862,903	---	---	862,903	5,073	---	---	867,976
Library books and materials	---	---	---	---	---	---	---	---
Intangible assets	---	---	---	---	---	---	---	---
Total accumulated depreciation	1,639,262	404,525	---	2,043,787	279,973	(441,300)	---	1,882,460
Net capital assets	\$ 1,237,762	698,725	---	1,936,487	(259,681)	(661,950)	---	1,014,856

Detail of depreciation and amortization expense for the year ended June 30, 2009:

Depreciation and amortization expense related to capital assets	\$ 279,973
Amortization expense related to other assets	---
Total depreciation and amortization	\$ 279,973

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4 Long-term liabilities activity schedule:

	Balance June 30, 2008	Prior period adjustments	Reclassifications	Balance June 30, 2008 (restated)	Additions	Reductions	Balance June 30, 2009	Current portion	Long-term portion
Accrued compensated absences	\$ 155,125	—	—	155,125	186,984	(155,125)	186,984	186,984	—
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	—	—	—	—	—	—	—	—	—
Description	—	—	—	—	—	—	—	—	—
Total long-term debt obligations	—	—	—	—	—	—	—	—	—
Unamortized bond premium / (discount)	—	—	—	—	—	—	—	—	—
Unamortized loss on refunding	—	—	—	—	—	—	—	—	—
Total long-term debt obligations, net	—	—	—	—	—	—	—	—	—
Total long-term liabilities	\$ 155,125	—	—	155,125	186,984	(155,125)	186,984	186,984	—

5 Future minimum lease payments:

	Principal	Interest	Principal and Interest
Year ending June 30:			
2010	—	—	—
2011	—	—	—
2012	—	—	—
2013	—	—	—
2014 - 2018	—	—	—
2019 - 2023	—	—	—
2024 - 2028	—	—	—
2029 - 2033	—	—	—
2034 - 2038	—	—	—
2039 - 2043	—	—	—
2044 - 2048	—	—	—
2049 - 2053	—	—	—
2054 - 2058	—	—	—
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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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
2010	\$ ---	---	---	---	---	---	---	---	---
2011	---	---	---	---	---	---	---	---	---
2012	---	---	---	---	---	---	---	---	---
2013	---	---	---	---	---	---	---	---	---
2014	---	---	---	---	---	---	---	---	---
2015-2019	---	---	---	---	---	---	---	---	---
2020 - 2024	---	---	---	---	---	---	---	---	---
2025 - 2029	---	---	---	---	---	---	---	---	---
2030 - 2034	---	---	---	---	---	---	---	---	---
2035 - 2039	---	---	---	---	---	---	---	---	---
2040 - 2044	---	---	---	---	---	---	---	---	---
2045 - 2049	---	---	---	---	---	---	---	---	---
2050 - 2054	---	---	---	---	---	---	---	---	---
2055 - 2059	---	---	---	---	---	---	---	---	---
Total	\$ ---	---	---	---	---	---	---	---	---

7 Calculation of net assets - Invested in capital assets, net of related debt

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
Capital assets, net of accumulated depreciation	\$ ---	1,014,856	1,014,856
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)	---	---	---
(description)	---	---	---
Net assets - invested in capital assets, net of related debt	\$ ---	1,014,856	1,014,856

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7.2 Calculation of net assets - Restricted for nonexpendable - endowments

Portion of restricted cash and cash equivalents related to endowments	\$	---	1,326,633	1,326,633
Endowment investments		---	14,234,741	14,234,741
Other adjustments: (please list)		---	---	---
		---	---	---
		---	---	---
		---	---	---
		---	---	---
Net assets - Restricted for nonexpendable - endowments per SNA	\$	---	15,560,774	15,560,774

OK

8 Transactions with Related Entities

	<u>Amount</u>
Reimbursements to University for salaries of University personnel working on contracts, grants, and other programs	\$ 1,027,121
Reimbursements to University for other than salaries of University personnel	4,508,310
Payments received from University for services, space, and programs	772,975
Gifts-in-kind to the University from Auxiliary Organizations	---
Amounts (payable to) University (enter as negative number)	(596,462)
Amounts receivable from University	230,727
Bond principal and interest payments paid to the University	---

9 Other Postemployment Benefits Obligation (OPEB)

Annual required contribution (ARC)	\$	154,960
Contributions during the year		---
Increase (decrease) in net OPEB obligation (NOO)		<u>154,960</u>
NOO - beginning of year		464,880
NOO - end of year	\$	<u>619,840</u>

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

<u>Description</u>	<u>Amount</u>
NONE	\$ ---
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	<u>---</u>

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

	<u>Net Asset</u>	<u>Amount</u>
	<u>Class</u>	<u>Dr. (Cr.)</u>
Net assets as of June 30, 2008, as previously reported	\$	(29,521,444)
Prior period adjustments:		
1 Building-Tilt-Up Classroom		(1,103,250)
2 Accum Deprec-Bldg		404,525
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, 2008, as restated	\$	<u>(30,220,169)</u>

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

	Debit	Credit
Net asset class: _____ Bldg _____		
1 Building	\$ 1,103,250	
Accum Deprec-Bldg	\$	404,525
Net Asset - Bldg	\$	698,725
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)	---	---