University Auxiliary and Research Services Corporation

Financial Report
June 30, 2012

McGladrey

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Contents

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Independent Auditor's Report

To the 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, 2012 and 2011, 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 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 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 the Organization as of June 30, 2012 and 2011, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

San Diego, CA
October 5, 2012

University Auxiliary and Research Services Corporation

Statements of Financial Position
June 30, 2012 and 2011

Assets	**2012**	2011
Current Assets		
Cash and cash equivalents	**$ 641,078**	$ 4,612,547
Sponsored programs receivable	**672,906**	641,262
Other receivables (Note 7)	**110,956**	119,855
Due from SMUC (Note 7)	**273,960**	-
Deposits	**-**	844,226
Certificates of deposit	**11,891,486**	7,564,084
Investments (Note 2)	**2,212,128**	-
Inventory	**29,326**	196,354
Total current assets	**15,831,840**	13,978,328
Other Assets		
Other assets	**61,081**	61,081
Property and equipment, net (Notes 3 and 5)	**6,244,339**	500,359
Total other assets	**6,305,420**	561,440
Total assets	**$ 22,137,260**	$ 14,539,768

See Notes to Financial Statements.

Liabilities and Net Assets	**2012**	2011
Current Liabilities		
Accounts payable (Note 7)	**$ 913,754**	$ 1,063,787
Due to CSUSMF (Note 7)	**8,373,994**	6,541,575
Deferred revenue	**902,316**	898,604
Accrued payroll and benefits	**333,031**	232,119
Other current liabilities	**286,922**	460,129
Total current liabilities	**10,810,017**	9,196,214
Accrued postretirement benefit costs (Note 6)	**1,205,268**	1,027,987
Total liabilities	**12,015,285**	10,224,201
Commitments and Contingencies (Note 5)		
Net Assets		
Unrestricted:		
Board-designated:		
Operating reserves	**1,465,858**	1,353,141
Program reserves	**628,708**	454,287
Campus programs	**1,776,604**	1,998,314
Equipment	**6,244,339**	500,359
Scholarship	**6,466**	9,466
Total net assets	**10,121,975**	4,315,567
	$ 22,137,260	$ 14,539,768

University Auxiliary and Research Services Corporation

Statements of Activities
Years Ended June 30, 2012 and 2011

	2012	2011
Revenue, Gains and Other Support:		
Federal grants and contracts	$ 6,325,338	$ 6,694,845
Other sponsored programs	1,263,991	2,365,550
Campus programs (Note 7)	3,332,302	2,750,209
Commercial operations	1,639,947	4,706,748
Commissions (Note 5)	347,515	-
Interest income	37,344	30,868
Net realized and unrealized loss on investments (Note 2)	(6,260)	-
Child care center in-kind rental income (Note 5)	478,022	-
Ground lease income (Note 5)	253,627	-
Rental income (Note 7)	145,680	145,680
Other income (Note 5)	200,000	-
Total revenue, gains and other support	14,017,506	16,693,900
Expenses (Note 6):		
Program services:		
Sponsored programs (Note 7)	6,448,461	8,028,714
Campus programs (Notes 5 and 7)	3,306,530	2,488,097
Commercial operations	1,604,854	4,435,580
Student scholarships	48,627	54,988
Total program services	11,408,472	15,007,379
General administration (Notes 5 and 7)	3,088,237	2,302,974
Total expenses	14,496,709	17,310,353
Change in net assets before transfer of assets	(479,203)	(616,453)
Transfer of Assets to CSUSMF (Note 7)	-	(20,665,734)
Transfer of Assets from SMUC (Notes 3 and 5)	6,285,611	-
Net Assets, beginning	4,315,567	25,597,754
Net Assets, ending	$ 10,121,975	$ 4,315,567

See Notes to Financial Statements.

University Auxiliary and Research Services Corporation

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	$ (479,203)	$ (616,453)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	541,631	219,616
Net realized and unrealized loss on investments	6,260	-
Change in accumulated postretirement benefit obligation	177,281	253,457
(Increase) decrease in:		
Sponsored programs receivable	(31,644)	215,932
Other receivables	8,899	(93,896)
Deposits	844,226	(212,590)
Cash equivalents, restricted	-	1,716,347
Inventory	167,028	515,378
Increase (decrease) in:		
Accounts payable	(150,033)	(217,025)
Due from SMUC	(273,960)	-
Due to CSUSMF	1,832,419	795,752
Deferred revenue	3,712	(389,243)
Accrued payroll and benefits	100,912	41,299
Other current liabilities	(173,207)	128,096
Net cash provided by (used in) operating activities	2,574,321	2,356,670
Cash Flows From Investing Activities		
Purchases of investments	(2,218,388)	-
Changes in certificates of deposit	(4,327,402)	385,920
Net cash provided by (used in) investing activities	(6,545,790)	385,920
Change in cash and cash equivalents	(3,971,469)	2,742,590
Cash and Cash Equivalents, beginning of year	4,612,547	1,869,957
Cash and Cash Equivalents, end of year	$ 641,078	$ 4,612,547

(Continued)

University Auxiliary and Research Services Corporation

Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Supplemental Disclosures of Noncash Activities:		
Transfer of assets to CSUSMF (Note 7):		
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
Transfer of assets from SMUC (Note 5):		
Property and equipment	$ 6,285,611	$ -

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 and an auxiliary organization of California State University San Marcos (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 or SMUC), 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 income 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.

There were no temporarily or permanently restricted net assets as of June 30, 2012 and 2011.

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. At June 30, 2012, the Organization's cash balance at this institution did not exceed the current FDIC-insured limits.

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 uncollectible amounts. Management determined no allowance was necessary at June 30, 2012 and 2011.

Investments: Investments in equity securities and mutual funds with readily determinable fair values, based on daily share prices, are reported at fair value with gains and losses included in the statements of activities.

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.

Inventory: Inventory at June 30, 2012 consists primarily of food and is valued at the lower of cost (first-in, first-out method) or fair value. Inventory at June 30, 2011 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 resulted in credits on account, which were recorded as deposits on the statements of financial position.

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 30 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.

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

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, and determining the allowance for doubtful accounts for receivables.

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 (UBI), 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.

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 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. As of June 30, 2012 and 2011, the Organization has addressed uncertainty in its income tax position under the guidance, and there are no unrecognized/derecognized tax benefits requiring an accrual.

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

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, 2008 and prior.

Subsequent events: The Organization has evaluated subsequent events through October 5, 2012, 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.

Recent accounting guidance: In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, *Balance Sheet (Topic 210)*. The objective of this Update is to provide enhanced disclosures that will enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The guidance provided in this Update is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this Update is not expected to have a material impact on the Organization's financial position, results of activities or cash flows.

Note 2. Investments

Investments consisted of the following at June 30:

	2012	2011
Core fixed income institutional mutual funds	$ 903,764	$ -
Domestic equity securities	1,308,364	-
	$ 2,212,128	$ -

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 2. Investments (Continued)

Investments at fair value, as of June 30, 2012, according to the fair value hierarchy were as follows:

	Total	Level 1	Level 2	Level 3
Core fixed income institutional mutual funds	$ 903,764	$ 903,764	$ -	$ -
Domestic equity securities	1,308,364	1,308,364	-	-
	$ 2,212,128	$ 2,212,128	$ -	$ -

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

	2012	2011
Beginning balance	$ -	$ 12,904,942
Net additions, purchases, sales and maturities	2,218,388	-
Net realized and unrealized loss	(6,260)	-
Transfer of assets to CSUSMF (Note 7)	-	(12,904,942)
Ending balance	$ 2,212,128	$ -

Note 3. Property and Equipment

Property and equipment consisted of the following at June 30:

	2012	2011
Land improvements	$ 1,818,992	$ -
Building and improvements	4,102,220	-
Furniture and equipment	1,524,124	1,159,725
Leasehold improvements	1,737,591	1,737,591
	9,182,927	2,897,316
Less accumulated depreciation	(2,938,588)	(2,396,957)
	$ 6,244,339	$ 500,359

On July 1, 2011, SMUC 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, land improvements, and related furniture and equipment totaling $6,285,611, net of accumulated depreciation (see Note 5).

Note 4. Endowments

The Organization transferred all of its endowment net assets to CSUSMF on July 1, 2010 (see Note 7). As a result, 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 7)	1,475,972	(467,703)	(15,618,333)	(14,610,064)
Endowment net assets, end of year	$ -	$ -	$ -	$ -

Note 5. 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 June 30, 2014. Total rent expense was approximately $183,100 for each of the years ended June 30, 2012 and 2011.

The minimum future rental payments are as follows:

Years Ending June 30,	Amount
2013	$ 183,099
2014	139,104
	$ 322,203

Book store operating agreement: On July 7, 2011, the Organization entered into an agreement with an unrelated third party to operate the campus bookstore. The term of the agreement is through June 30, 2021, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the unrelated third party purchased the remaining bookstore inventory, made capital improvements of approximately $158,000, and made a payment of $200,000 for a one-time contribution to the Organization. If the Organization terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Organization is required to purchase any existing inventory at the time of termination at fair value according to the agreement, reimburse the unrelated third party for the book value of its capital improvements, and refund the unamortized portion of the one-time contribution. As consideration for the agreement, the Organization will receive an annual 12.5 percent commission on gross revenue up to $4 million plus 13.5 percent from gross revenue in excess of $4 million. Commission revenue for the year ended June 30, 2012 was $347,515. The one-time contribution was recorded as other income for the year ended June 30, 2012.

Note 5. Commitments and Contingencies (Continued)

Child care center lease agreement: On July 1, 2011, SMUC transferred the assets and functions of the campus child care center, Center for Children and Families, to the Organization. The child care assets consisted of a building, land improvements, and related furniture and equipment, with a net book value of $6,285,611 at July 1, 2011. As part of the transfer, the organization assumed the Child Care Center Development Agreement (the Agreement) with Children's Creative Learning Center (CCLC), a California Corporation, which terminated on August 30, 2012. CCLC operated and managed the center for the children rent-free. Management estimated that the value of the agreement was $478,022 for the year ended June 30, 2012. This amount is included in the statement of activities for the year ended June 30, 2012 as rental income and campus programs expense.

Along with the assets for the child care center, the ground lease was also transferred to the Organization. Management estimated that the value of the lease agreement was $253,627 for the year ended June 30, 2012. This amount is reflected in the statement of activities for the year ended June 30, 2012 as property ground lease income and land leasing costs, which is included in campus programs expense.

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, 2012.

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 activities or financial position.

Note 6. Accrued Postretirement Benefit Costs

The Organization has a postretirement program that provides lifetime medical and dental coverage to retiring employees aged 65 or older 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, 2012 and 2011 were $177,281 and $253,457, respectively.

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

	2012	2011
Benefit obligation, beginning of year	$ 768,689	$ 812,779
Service cost	134,708	177,750
Interest cost	46,121	55,621
Amendments	-	202,799
Actuarial gains (losses)	386,918	(480,260)
Benefit obligation, end of year	$ 1,336,436	$ 768,689

Note 6. Accrued Postretirement Benefit Costs (Continued)

	2012	2011
Funded status:		
Unamortized prior service cost	$ 412,787	$ 439,114
Unrecognized net actuarial (gain)	(281,619)	(698,412)
Accrued benefit cost	1,205,268	1,027,987
Funded status, end of year	$ 1,336,436	$ 768,689

	2012	2011
Net periodic benefit cost:		
Service cost	$ 134,708	$ 177,750
Interest cost	46,121	55,621
Amortization of prior service cost	26,327	26,327
Amortization of net (gain)	(29,875)	(6,241)
	$ 177,281	$ 253,457

No benefits were paid during the years ended June 30, 2012 and 2011.

Weighted-average assumptions used to determine the benefit obligation included a discount rate of 4.30 percent and 6.00 percent and a health care cost trend rate of 7.00 percent and 7.30 percent for the years ended June 30, 2012 and 2011, respectively.

Note 7. 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 $4,604,583 and $5,848,937 for the years ended June 30, 2012 and 2011, respectively. Amounts due to the University at June 30, 2012 and 2011 were $456,811 and $345,383, respectively, and are included in accounts payable.

The University reimburses the Organization for services and programs. The total amount received by the Organization was $984,523 and $570,696 for the years ended June 30, 2012 and 2011, respectively, and is recorded as campus program revenue. Amounts due from the University at June 30, 2012 and 2011 were $4,049 and $32,292, 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 $12,140, expiring on December 31, 2012. Total rental income was $145,680 for the years ended June 30, 2012 and 2011. The future minimum rental receipts for the year ending June 30, 2013 are $72,840.

Operating advance: In July 2004, the Organization entered into an agreement with SMUC to provide certain personnel and other operating services. The total amount incurred for these services and costs was $273,960 and $236,631 for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012, there was an amount due from SMUC for these services in the amount of $273,960.

Note 7. Transactions With Affiliates (Continued)

On July 1, 2010, the Organization entered into a payroll processing agreement with ASI. Under this agreement, all ASI employees became employees of the Organization. During the years ended June 30, 2012 and 2011, the Organization invoiced ASI for $816,268 and $756,992 for payroll and benefits, administration fees and supplies, respectively. As of June 30, 2012 and 2011, the Organization had receivables due from ASI in the amounts of $43,112 and $56,160, respectively, which are included in other receivables.

On July 1, 2010, the Organization transferred approximately $21 million of net assets to CSUSMF, the philanthropic nonprofit auxiliary of the University.

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

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, 2012 and 2011 in terms of balances held by the Organization that are being managed on behalf of CSUSMF. The balances due to CSUSMF on June 30, 2012 and 2011 were $8,373,994 and $6,541,575, respectively.

Supplementary Information

University Auxiliary and Research Services Corporation
Schedule of Net Assets
June 30, 2012
(for inclusion in The California State University)

Assets	
Current assets	
Cash and cash equivalents	$ 641,078
Short-term Investments	14,103,614
Accounts receivable, net	1,057,822
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other assets	29,326
Total current assets	15,831,840
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	6,244,339
Other assets	61,081
Total noncurrent assets	6,305,420
	$ 22,137,260
Liabilities	
Current liabilities	
Accounts payable	$ 9,287,748
Accrued salaries and benefits payable	333,031
Accrued compensated absences, current portion	211,090
Deferred revenue	902,316
Capitalized lease obligations, current portion	-
Long-term debt obligations, current portion	-
Self-Insurance claims liability, current portion	-
Other liabilities	75,832
Total current liabilities	10,810,017
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)	1,205,268
Total noncurrent liabilities	1,205,268
	12,015,285
Net assets:	
Invested in capital assets, net of related debt	6,244,339
Restricted for:	
Nonexpendable, endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Other	-
Unrestricted	3,877,636
Total net assets	$ 10,121,975

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012
(for inclusion in The California State University)

Revenues:	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of $0)	$ -
Grants and contracts, noncapital:	
Federal	6,325,338
State	866,842
Local	53,835
Nongovernmental	343,314
Sales and services of educational activities	3,477,982
Sales and services of auxiliary enterprises (net of scholarship allowances of $0)	2,719,111
Other operating revenues	-
Total operating revenues	13,786,422
Expenses:	
Operating expenses:	
Instruction	2,993,299
Research	3,820,849
Public service	299,941
Academic support	206,259
Student services	1,277,994
Institutional support	3,703,255
Operation and maintenance of plant	-
Student grants and scholarships	48,627
Auxiliary enterprise expenses	1,604,854
Depreciation and amortization	541,631
Total operating expenses	14,496,709
Operating (loss)	(710,287)
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Federal grant, Pell	-
Gifts, noncapital	-
Investment income, net	31,084
Endowment income	-
Interest on capital-related debt	-
Other nonoperating revenues	6,485,611
Net nonoperating revenues	6,516,695
Income before other additions	5,806,408
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase in net assets	5,806,408
Net assets:	
Net assets at beginning of year, as previously reported	4,315,567
Restatements	-
Net assets at end of year, as restated	$ 10,121,975

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation

Other Information

June 30, 2012

(for inclusion in The California State University)

1 **Restricted cash and cash equivalents at June 30, 2012:**

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, 2012:**

	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	1,308,364	-	-	-	1,308,364
Fixed income securities (Treasury notes, GNMAs)	-	-	-	-	-
Real estate	-	-	-	-	-
Certificates of deposit	11,891,486	-	-	-	11,891,486
Notes receivable	-	-	-	-	-
Mutual funds	903,764	-	-	-	903,764
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	14,103,614	-	-	-	14,103,614
Less endowment investments (enter as negative number)	-	-	-	-	-
Total investments	$ 14,103,614	$ -	$ -	-	14,103,614

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2012
(for inclusion in The California State University)

2.2 Restricted noncurrent investments at June 30, 2012 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, 2012	$ -

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Other Information
Year Ended June 30, 2012
(for inclusion in The California State University)

3.1 Composition of capital assets at June 30, 2012:

	Balance June 30, 2011	Prior Period Adjustments	Reclassifications	Balance June 30, 2011 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2012
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	-	-	-	-	4,102,220	-	-	4,102,220
Improvements, other than buildings	-	-	-	-	1,818,992	-	-	1,818,992
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	1,737,591	-	-	1,737,591	-	-	-	1,737,591
Personal property:								
Equipment	1,159,725	-	-	1,159,725	364,399	-	-	1,524,124
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total depreciable capital assets	2,897,316	-	-	2,897,316	6,285,611	-	-	9,182,927
Total capital assets	2,897,316	-	-	2,897,316	6,285,611	-	-	9,182,927
Less accumulated depreciation:								
Buildings and building improvements	-	-	-	-	(167,610)	-	-	(167,610)
Improvements, other than buildings	-	-	-	-	(137,465)	-	-	(137,465)
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	(1,268,437)	-	-	(1,268,437)	(146,263)	-	-	(1,414,700)
Personal property:								
Equipment	(1,128,520)	-	-	(1,128,520)	(90,293)	-	-	(1,218,813)
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation	(2,396,957)	-	-	(2,396,957)	(541,631)	-	-	(2,938,588)
Net capital assets	$ 500,359	$ -	$ -	$ 500,359	$ 5,743,980	$ -	$ -	$ 6,244,339

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2012
(for inclusion in The California State University)

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2012:

Depreciation and amortization expense related to capital assets	$	541,631
Amortization expense related to other assets		-
Total depreciation and amortization	$	541,631

4 Long-term liabilities activity schedule:

	Balance June 30, 2011	Prior Period Adjustments	Reclassifications	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion	Long-Term Portion
Accrued compensated absences	$ 214,809	$ -	$ -	$ 214,809	$ 211,090	$ (214,809)	$ 211,090	$ 211,090	$ -
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	$ 214,809	$ -	$ -	$ 214,809	$ 211,090	$ (214,809)	$ 211,090	$ 211,090	$ -

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2012
(for inclusion in The California State University)

5 **Future minimum lease payments:**

Year ending June 30:	Principal	Interest	Principal and Interest
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			$ -

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation

Other Information

June 30, 2012

(for inclusion in The California State University)

6 **Long-term debt obligation schedule:**

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

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2012
(for inclusion in The California State University)

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

	Auxiliary Organizations GASB	Auxiliary Organizations FASB	Total Auxiliaries
Capital assets, net of accumulated depreciation	$ -	$ 6,244,339	$ 6,244,339
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	$ -	$ 6,244,339	$ 6,244,339

7.2 Calculation of net assets - Restricted for nonexpendable - endowments

	GASB	FASB	Total Auxiliaries
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, 2012
(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	$	991,722
Reimbursements to University for other than salaries of University personnel		3,612,861
Payments received from University for services, space and programs		984,523
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)		(456,811)
Other amounts (payable to) University (enter as negative number)		-
Accounts receivable from University		4,049
Bond principal and interest payments paid to the University		-

9 Other Postemployment Benefits Obligation (OPEB)

Annual required contribution (ARC)	$	177,281
Contributions during the year		-
Increase in net OPEB obligation (NOO)		177,281
NOO - beginning of year		1,027,987
NOO - end of year	$	1,205,268

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2012
(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, 2011, as previously reported		$ 4,315,567
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, 2011, as restated		$ 4,315,567

See Independent Auditor's Report.

University Auxiliary and Research Services Corporation
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June 30, 2012
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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 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 Report
Year Ended June 30, 2012

Contents

University Auxiliary and Research Services Corporation

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster 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**	**$ 33,726**
Allergy, Immunology and Transplantation Research	93.855	N/A	35,228
Biomedical Research and Research Training	93.859	N/A	1,439,536
			1,508,490
Passed through Harvard-Beth Israel Deaconess Medical Center:			
ARRA – Recovery Act of 2009: Trans-NIH Recovery Act Research Support	**93.701**	**3R24RR016001-1051**	**6,096**
Passed through from La Jolla Institute for Allergy & Immunology:			
Allergy, Immunology and Transplantation Research	93.855	5R01A1070902-03, 04	39,167
Total National Institutes of Health			1,553,753
U.S. Department of Education			
Direct Program:			
Child Care Access Means Parents in School	84.335	N/A	4,203
Office of Science Financial Assistance Program	81.049	N/A	38,724
			42,927
Passed through from Palomar College:			
Higher Education Institutional Aid	84.031	P031S100109	177,980
Total U.S. Department of Education			220,907
U.S. Department of Health and Human Services			
Direct Program:			
Family and Community Violence Prevention Program	93.910	N/A	298,945
			298,945
Passed through from Vista Community Clinic:			
Family and Community Violence Prevention Program	93.910	YEPMP090032	25,000
Total U.S. Department of Health and Human Services			323,945
National Science Foundation			
Direct Programs:			
Engineering Programs	47.041	N/A	60,056
Biological Sciences	47.074	N/A	3,689
Social, Behavioral and Economic Sciences	47.075	N/A	58,825
Education and Human Resources	47.076	N/A	575,128
Polar Programs	47.078	N/A	150,079
International Science and Engineering	47.079	N/A	49,903
Cyberinfrastructure	47.080	N/A	31,963
			929,643
Passed through from SDSU:			
Education Human Resources	47.076	DUE 1044172	7,106
Total National Science Foundation			936,749

(Continued)

University Auxiliary and Research Services Corporation

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster 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	$ 35,912
Forestry Research	10.652	N/A	68,055
			103,967
Passed through from San José State University:			
Water Pollution Control State, Interstate and Tribal Program Support	66.419	198910092, OS83359701-1	161,669
			161,669
National Aeronautics & Space Administration			
Passed through from UCSD:			
Science Program	43.001	NNX11AF24G	26,112
			26,112
Department of Housing and Urban Development			
Passed through from the City of San Diego:			
Healthy Homes and Lead Hazard Control Programs	14.901	FR5300N17	10,004
Total research and development expenditures of federal awards			* 3,337,106
TRIO Cluster:			
U.S. Department of Education			
Direct Programs:			
TRIO Cluster:			
TRIO – Student Support Services	84.042	N/A	290,559
TRIO – Talent Search	84.044	N/A	224,026
TRIO – Upward Bound	84.047	N/A	312,725
Total TRIO Cluster			827,310
National Institutes of Health			
Direct Programs:			
ARRA - Recovery Act of 2009: Trans-NIH Recovery Act Research Support	**93.701**	**N/A**	**88**
Biomedical Research and Research Training	93.859	N/A	1,084,853
			1,084,941

(Continued)

University Auxiliary and Research Services Corporation

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster 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		32,653
Migrant Education – College Assistance Migrant Program	84.149	N/A		408,063
Child Care Access Means Parents in School	84.335	N/A		54,546
				495,262
Passed through from California Department of Education:				
Improving Teacher Quality State Grant	84.367	CN100261, CN110113		42,019
National Writing Project	84.928	U928A100001 10/11		44,309
Passed through from Palomar College:				
Higher Education Institutional Aid	84.031	P031S100109		97,873
Passed through from San Diego County Office of Education:				
Fund for the Improvement of Education	84.215	U215X090454	*	125,072
Arts in Education	84.351	U351D080077-10		22,500
Total U.S. Department of Education				827,035
National Science Foundation				
Passed through University Enterprises:				
Education Human Resources	47.076	HRD-0802628		25,996
				25,996
Passed through Physics Teacher Education:				
Mathematical and Physical Sciences	47.049	PHY-0808790		18,404
				18,404
Passed through from Miami Dade College:				
Computer and Information Science and Engineering	47.070	CNS-0940575		98,550
Total National Science Foundation				142,950
U.S. Department of Agriculture, Forest Service				
Direct Program:				
Forestry Research	10.652	N/A		69,019
Total U.S. Department of Agriculture, Forest Service				69,019
Learn & Serve America Higher Education				
Passed through from CSU Office of the Chancellor:				
Service Learning Program	94.005	10LHPCA001		18,970
Total Learn & Serve America Higher Education				18,970
National Endowment for the Arts				
Direct Program:				
Promotion of the Arts Grants to Organizations & Individuals	45.024	N/A		18,000
Total National Endowment for the Arts				18,000
U.S. Department of Labor				
Passed through from California Employment Development:				
WIA Adult Program	17.258	R97334SM9		7
Total U.S. Department of Labor				7
Total expenditures of federal awards				$ 6,325,338

* Denotes Major Program
N/A - Not Applicable

See Notes to Schedule of Expenditures of Federal Awards

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) under programs of the federal government for the year ended June 30, 2012. 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*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles obtained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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, 2012, and have issued our report thereon dated October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the 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 previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies in internal control over financial reporting as Findings 2012-01 and 2012-02. 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.

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 Organization's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Organization's response, and accordingly, we express no opinion on it.

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 LLP

San Diego, CA
October 17, 2012

McGladrey

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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, 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, 2012. 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-03.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 financial statements of the Organization as of and for the year ended June 30, 2012, and have issued our report thereon dated October 5, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Organization's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

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 LLP

San Diego, CA
October 17, 2012

University Auxiliary and Research Services Corporation

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

I. Summary of 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? __X__ Yes ______ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster
84.215	Fund for the Improvement of Education

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

2012-01: 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. As a result, we noted the following during our audit:

Context:

a. The Organization recorded certain transactions which grossed up revenue and expense, which should have been recorded as "net" transactions. The organization recorded certain transactions which netted revenue and expense, which should have been recorded as "gross" revenue or expense.

b. The Organization did not properly defer revenues at the end of the fiscal year for two programs, which collect registration fees for various noncredit courses offered during the following fiscal year.

c. The Organization recorded a duplicate transaction related to fees from an affiliated organization, which resulted in excess revenue and receivable amounts.

Effect: The instances of errors noted above resulted in the following:

a. The net adjustment of these classification errors was an adjustment to increase revenue and increase expense by approximately $446,000.

b. An adjustment was recorded to decrease revenue and increase deferred revenue liability by approximately $112,000.

c. An adjustment was recorded to decrease revenue and decrease receivables by approximately $197,000.

We consider the above errors related to revenue recognition to be significant deficiencies in internal control over financial reporting.

Cause: Lack of proper controls, supervision and review 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's response: The Organization provides payroll services to another campus auxiliary organization in which total payroll costs are reimbursed to the Organization by the campus auxiliary. Since all auxiliary reporting is consolidated at the campus level, management believed it was best to net the total payroll cost reimbursement as an offset to the total payroll expense on the Organization's books since the revenues and costs associated with the payroll transactions also appear on the other campus auxiliary's statement of activities. After discussion with the auditors, management agreed the amounts should have been recorded as gross amounts on the Organization's statements and that the consolidation would take place at the campus level. Management will develop a process to confer with its auditors during the year in regards to proper recording of such transactions.

Management needs to improve its processes to review all revenue transactions near the end of the fiscal year to assure all deferred revenue items are properly identified and recorded as liabilities instead of revenues.

2012-02: Allocation of Internal Project Expenses

Criteria: According to the Accounts Receivable Topic of the FASB ASC, accounts receivable are defined as claims against customers and others that arise from selling goods, providing services or advancing funds.

Condition: The Organization does not have proper controls in place to review receivables and to facilitate the recording of expense allocations amongst projects.

Context: The Organization reduced its expenses and recorded a receivable for internal project expenses when it should have just allocated and recorded those expenses directly to the projects.

Effect: The error resulted in a recorded current year adjustment to decrease receivables and to increase expense approximately $127,000. We consider the error to be a significant deficiency in internal control over financial reporting.

Cause: Lack of proper controls over expense allocation.

Recommendation: We recommend the Organization design and establish internal controls to facilitate the allocation of expenses to internal projects.

Views of responsible officials and planned corrective actions:

Management's response: Management will establish internal controls to facilitate the proper recording of cost reimbursements and charges to/from other campus auxiliaries related to accounting and other administrative services which are provided by the Organization.

B. Compliance Findings

None reported.

III. Federal Award Findings and Questioned Costs

A. Significant Deficiencies

None reported.

B. Compliance Findings

2012-03: Timely Submission of Data Collection Form

Criteria: According to OMB Circular A-133 Section 320 (Report Submission), the data collection form should be submitted on the earlier of 30 days following the receipt of the auditor's report or nine months after the end of the audit period.

Condition: The Organization does not have proper controls in place to identify and comply with reporting criteria of the OMB.

Context: The Organization filed the data collection form on June 28, 2012, while the audit report was issued on September 21, 2011.

Effect: Unknown.

Cause: Lack of proper controls over reporting criteria.

Recommendation: We recommend the Organization design and establish internal controls to identify and comply with reporting deadlines.

Views of responsible officials and planned corrective actions:

Management's response: Management will develop internal controls, which include receipt of proper confirmation from its audit services provider that compliance reporting, such as the Data Collection Form, has been submitted on a timely basis.

Findings and Questioned Costs reported during the year ended June 30, 2011 were as follows:

For Financial Statements—Significant Deficiencies:

2011-01: 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 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.

Status: Finding repeated in 2012 (see Finding 2012-01).