California State University San Marcos Foundation

Financial Report
June 30, 2011

Contents

McGladrey

Independent Auditor's Report

Board of Directors
California State University
San Marcos Foundation
San Marcos, CA

We have audited the accompanying statement of financial position of California State University San Marcos Foundation (the Foundation) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

McGladrey & Pullen, LLP

San Diego, CA
September 21, 2011

California State University San Marcos Foundation

Statement of Financial Position
June 30, 2011

Assets	
Current Assets	
Cash and cash equivalents	$ 112,229
Other receivables (Note 2)	812,177
Due from UARSC (Notes 4 and 8)	6,541,575
Pledges receivable, net (Note 3)	559,061
Total current assets	8,025,042
Other Assets	
Pledges receivable, net (Note 3)	858,319
Investments, at fair value (Note 5)	15,593,707
Total other assets	16,452,026
	$ 24,477,068

Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 58,710
Total liabilities	58,710
Net Assets (Note 8):	
Unrestricted:	
Board-designated:	
Campus programs	2,726,152
Scholarship	558,349
Undesignated	168,698
Donor-restricted endowment fund deficiencies (Note 7)	(168,698)
Total unrestricted	3,284,501
Temporarily restricted (Notes 6 and 7)	4,993,579
Permanently restricted (Notes 6 and 7)	16,140,278
Total net assets	24,418,358
	$ 24,477,068

See Notes to Financial Statements.

California State University San Marcos Foundation

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support:				
Campus programs	$ 447,145	$ -	$ -	$ 447,145
Contributions	1,751,005	100,073	521,945	2,373,023
Interest income	14,226	-	-	14,226
Investment income	-	145,276	-	145,276
Net realized and unrealized gain on investments	1,417,704	1,613,464	-	3,031,168
Net assets released from restriction (Note 6)	688,319	(688,319)	-	-
Total revenue, gains and other support	4,318,399	1,170,494	521,945	6,010,838
Expenses:				
Program services:				
Campus programs	1,537,878	-	-	1,537,878
Student scholarships	486,253	-	-	486,253
Total program services	2,024,131	-	-	2,024,131
Fundrasing	182,429	-	-	182,429
General administration	51,654	-	-	51,654
Total expenses	2,258,214	-	-	2,258,214
Change in net assets before transfer of net assets	2,060,185	1,170,494	521,945	3,752,624
Transfer of Net Assets from UARSC	1,224,316	3,823,085	15,618,333	20,665,734
Net Assets, beginning	-	-	-	-
Net Assets, ending	$ 3,284,501	$ 4,993,579	$ 16,140,278	$ 24,418,358

See Notes to Financial Statements.

California State University San Marcos Foundation

Statement of Cash Flows
Year Ended June 30, 2011

Cash Flows From Operating Activities	
Change in net assets	$ 3,752,624
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Contributions restricted for long-term investment	(521,945)
Net realized and unrealized gain on investments	(3,031,168)
(Increase) in:	
Other receivables	(115,645)
Due from UARSC	(795,752)
Pledges receivable, net	(98,943)
Increase in:	
Accounts payable	58,710
Net cash used in operating activities	(752,119)
Cash Flows From Investing Activities	
Purchases of investments	(2,544,465)
Proceeds from sale of investments	2,886,868
Net cash provided by investing activities	342,403
Cash Flows From Financing Activities	
Contributions restricted for long-term investment	521,945
Net cash provided by financing activities	521,945
Change in cash and cash equivalents	112,229
Cash and Cash Equivalents, beginning of year	-
Cash and Cash Equivalents, end of year	$ 112,229
Supplemental Disclosure of Noncash Activities	
Transfer of assets from UARSC (Note 8):	
Other receivables	$ 696,532
Pledges receivable	1,318,437
Investments	12,904,942
	14,919,911
Receivable established: Due from UARSC	5,745,823
	$ 20,665,734

See Notes to Financial Statements.

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

Nature of operations: California State University San Marcos Foundation (the Foundation) is a nonprofit California corporation which is an auxiliary organization of the California State University (the University), organized and operated in accordance with the California Code of Regulations and the Education Code of the State of California. The Foundation was formed in 2009 to focus on attracting gifts to the University and to assist the University in accumulating and managing endowment, student loan and student scholarship funds (See Note 8).

The Foundation'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 Foundation is related to other auxiliaries of the University, including the University Auxiliary and Research Services Corporation (UARSC), San Marcos University Corporation and Associated Students, Inc. 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 Foundation 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 Foundation may spend the funds and accumulated endowment earnings in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment earnings to fund current operations.

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

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

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

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

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

Investments: The Foundation has significant investments in equity securities and mutual funds, and is therefore subject to concentrations of credit risk. The investments in equity securities and mutual funds with readily determinable fair values, based on daily share prices and daily provided net asset values, are reported at fair value with gains and losses included in the statements of activities.

Investments in alternative investments represent shares in hedge funds that hold, among other investments, bonds, bank loans, busted converts, mezzanine debt, distressed assets, equity and real estate. The Foundation accounted for its investment in these hedge funds at fair value, using net asset value per share of the hedge funds.

The investments of the Foundation 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 Foundation and its beneficiaries.

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 uncollectable pledges may be established based on specific circumstances.

Long-lived assets: The Foundation 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 determining the fair value of investments, determining the allowance for doubtful accounts for receivables, and discounting of pledges receivable.

Revenue recognition: Revenue from campus programs is recognized in the fiscal year in which it is realized or realizable.

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

The Foundation 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 Foundation 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 Foundation include such matters as the tax-exempt status of the entity and various positions relative to potential sources of unrelated business taxable income (UBI). UBI is reported on Form 990-T, as appropriate. The benefit of tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

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

Forms 990 filed by the Foundation are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. The Foundation will be filing the initial Form 990 subsequent to the issuance of these financial statements.

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

Subsequent events: The Foundation has evaluated subsequent events through September 21, 2011, the date the financial statements were available to be issued, and has determined that there were no subsequent events to recognize in these financial statements.

Recent accounting guidance: In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update requires new fair value measurement disclosures about transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements (purchases, sales, issuances and settlements on a gross basis). The update also clarifies existing disclosures about the level of disaggregation and about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Foundation is in the process of assessing the effect that the implementation of the new guidance will have on its financial position and results of operations. The adoption of this standard is not expected to have a material impact on the Foundation’s financial position, results of operations or cash flows.

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

Note 2. Other Receivables

Other receivables consisted of the following at June 30, 2011:

Student loan receivable	$ 782,751
Other	29,426
	$ 812,177

Note 3. Pledges Receivable

Pledges receivable consisted of the following at June 30, 2011:

Amounts due:	
In one year or less	$ 559,061
Between one and five years	24,000
More than five years	2,500,000
Gross pledges	3,083,061
Less unamortized present value discount at rates ranging from 3.61% to 4.20%	(1,570,681)
Less allowance for uncollectable pledges	(95,000)
Pledges receivable, net	$ 1,417,380

Note 4. Restricted Amounts Due From UARSC

The following amounts are included in the amount due from UARSC and are restricted for the following purposes at June 30, 2011:

Endowment, uninvested	$ 1,937,270
Student loans	390,313
	$ 2,327,583

Note 5. Investments

Investments consisted of the following at June 30, 2011:

Core fixed income institutional mutual funds	$ 3,053,994
Domestic equity securities	3,442,042
Domestic equity mutual funds	3,763,066
International equity mutual funds	3,049,906
Hedge funds	2,284,699
	$ 15,593,707

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

- Level 1—Observable inputs such as quoted prices in active markets. Classifications currently include 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 currently include institutional mutual funds that have net asset values provided daily.

Note 5. Investments (Continued)

- Level 3—Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Classifications currently include 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, and commingled domestic equity mutual funds that do not have daily pricing on an active exchange but where a substantial portion of a fund's fair value could be determined based on quoted market prices of underlying investments held by the fund.

Investments at fair value according to the fair value hierarchy are as follows:

	Total	Level 1	Level 2	Level 3
Core fixed income institutional mutual funds	$ 3,053,994	$ -	$ 3,053,994	$ -
Domestic equity securities	3,442,042	3,442,042	-	-
Domestic equity mutual funds	3,763,066	2,000,332	-	1,762,734
International equity mutual funds	3,049,906	3,049,906	-	-
Hedge funds	2,284,699	-	-	2,284,699
	$ 15,593,707	$ 8,492,280	$ 3,053,994	$ 4,047,433

The following tables reflect a reconciliation of beginning and ending investment balances in the Foundation's Level 3 investments for the year ended June 30, 2011:

	Domestic Equity Mutual Funds	Hedge Funds
Beginning balance	$ -	$ -
Transfer of assets from UARSC (Note 8)	-	1,953,980
Purchases	1,500,000	-
Unrealized gain	262,734	330,719
Ending balance	$ 1,762,734	$ 2,284,699

	Domestic Equity Mutual Funds	Hedge Funds
Cost	$ 1,500,000	$ 1,828,040
Total net unrealized gains	262,734	456,659
Fair value	$ 1,762,734	$ 2,284,699

Note 5. Investments (Continued)

The following table reflects a reconciliation of beginning and ending investment balances for the Foundation's total investments for the year ended June 30, 2011:

Beginning balance	$ -
Transfer of assets from UARSC (Note 8)	12,904,942
Net realized and unrealized gain	3,031,168
Net (sales) and (maturities) over purchases	(342,403)
Ending balance	$ 15,593,707

Uninvested endowments are included in restricted amounts due from UARSC (Note 4).

The Foundation uses the net asset value to determine the fair value of all the underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists the investments in investment companies:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund	$ 1,247,122	1	$ -	Quarterly	45 written days
Hedge fund	1,037,577	1	-	Quarterly	60 written days

Note 6. Restrictions on Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2011:

Campus programs:	
Capital improvements	$ 322,598
Campus programs	3,328,451
Student scholarships	1,342,530
	$ 4,993,579

Permanently restricted net assets consisted of the following at June 30, 2011:

Earnings thereon are available for the following purposes:	
Campus programs	$ 6,129,304
Student scholarships	8,684,940
Student loans	1,326,034
	$ 16,140,278

Note 6. Restrictions on Net Assets (Continued

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

Satisfaction of donor restrictions:		
Capital improvements	$	18,351
Student scholarships		28,054
Campus programs		364,051
Appropriation of earnings for use:		
Student scholarships		276,733
Satisfaction of time restrictions		1,130
	$	688,319

Note 7. Endowments

The Foundation's endowments consist of 68 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 Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation 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 Foundation in a manner that is consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation

7. The investment policies of the Foundation

Note 7. Endowments (Continued)

At June 30, 2011, the endowments net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (168,698)	$ 1,949,710	$ 16,140,278	$ 17,921,290

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	$ -	$ -	$ -	$ -
Transfer of assets from UARSC (Note 8)	(1,475,972)	467,703	15,618,333	14,610,064
	(1,475,972)	467,703	15,618,333	14,610,064
Investment return:				
Investment income, net of fees	-	145,276	-	145,276
Net realized and unrealized gain	1,417,704	1,613,464	-	3,031,168
Total investment return	1,417,704	1,758,740	-	3,176,444
Contributions	-	-	521,945	521,945
Appropriation of investment earnings for expenditure	(110,430)	(276,733)	-	(387,163)
Endowment net assets, end of year	$ (168,698)	$ 1,949,710	$ 16,140,278	$ 17,921,290

The investment management and advisory fees paid were $75,366 for the year ended June 30, 2011.

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 Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are charged to unrestricted net assets, totaling $168,698 for the year ended June 30, 2011. These deficiencies resulted from unfavorable market fluctuations in 2009. Endowment funds that had deficiencies in the previous year and have gains in the current year record the gains as unrestricted until the deficiency is restored. $1,373,641 of gains were recorded as unrestricted for the year ended June 30, 2011.

Note 7. Endowments (Continued)

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

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

Spending policy: The Foundation has a policy of appropriating for expenditure each year a percentage of the prior three-year average endowment balance by taking into account investment performance from the prior year. In establishing this policy, the Foundation considered the long-term expected return on its endowment. For the year ended June 30, 2011, the spending rate was 3 percent for scholarship-only endowments. For the year ended June 30, 2012, the Board has approved a spending rate of 4 percent on all 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 Foundation expects the current spending policy to allow its endowment to grow at the average annual rate of inflation. This is consistent with the Foundation'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 8. Transactions With Affiliates

Net assets transferred from UARSC: On July 1, 2010, the UARSC transferred $20,665,734 of net assets to the Foundation. The Foundation was established in 2009 to focus on attracting gifts to the University. UARSC, 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 to initiate the transfer of gift-funded assets to the Foundation. UARSC 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.

Note 8. Transactions with Affiliates (Continued)

On July 1, 2010, the fair value of net assets transferred from UARSC 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 Foundation has an operating agreement with UARSC to receive certain administrative services, including cash management processes, gift account administration, and accounting and financial reporting assistance. UARSC receives an administrative fee when Foundation funds are expended. The due from affiliate asset represents the status of that relationship as of June 30, 2011 in terms of balances held by UARSC that are being managed on behalf of the Foundation. The balance due from UARSC on June 30, 2011 was $6,541,575.

Supplemental Schedules

California State University San Marcos Foundation
Schedule of Net Assets
June 30, 2011
(for inclusion in The California State University)

Assets	
Current assets	
Cash and cash equivalents	$ 112,229
Short-term investments	-
Accounts receivable, net	7,353,752
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	559,061
Prepaid expenses and other assets	-
Total current assets	8,025,042
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	858,319
Endowment investments	15,593,707
Other long-term investments	-
Capital assets, net	-
Other assets	-
Total noncurrent assets	16,452,026
	$ 24,477,068
Liabilities	
Current liabilities	
Accounts payable	$ 58,710
Accrued salaries and benefits payable	-
Accrued compensated absences, current portion	-
Deferred revenue	-
Capitalized lease obligations, current portion	-
Long-term debt obligations, current portion	-
Self-insurance claims liability, current portion	-
Other liabilities	-
Total current liabilities	58,710
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)	-
Total noncurrent liabilities	-
	58,710
Net assets:	
Invested in capital assets, net of related debt	-
Restricted for:	
Nonexpendable, endowments	16,140,278
Expendable:	
Scholarships and fellowships	1,342,530
Research	-
Loans	-
Capital projects	322,598
Debt service	-
Other	3,328,451
Unrestricted	3,284,501
Total net assets	$ 24,418,358

See independent auditor's report.

California State University San Marcos Foundation
Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011
(for inclusion in The California State University)

Revenues:	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of $0)	$ -
Grants and contracts, noncapital:	
Federal	-
State	-
Local	-
Nongovernmental	-
Sales and services of educational activities	447,145
Sales and services of auxiliary enterprises (net of scholarship allowances of $0)	-
Other operating revenues	-
Total operating revenues	447,145
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	164,253
Academic support	641,086
Student services	572,666
Institutional support	393,956
Operation and maintenance of plant	-
Student grants and scholarships	486,253
Auxiliary enterprise expenses	-
Depreciation and amortization	-
Total operating expenses	2,258,214
Operating income (loss)	(1,811,069)
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Federal grant, Pell	-
Gifts, noncapital	1,851,078
Investment income, net	145,276
Endowment income	3,031,168
Interest on capital-related debt	-
Other nonoperating revenues (expenses)	20,679,960
Net nonoperating revenues (expenses)	25,707,482
Income (loss) before other additions	23,896,413
State appropriations, capital	
Grants and gifts, capital	
Additions (reductions) to permanent endowments	521,945
Increase (decrease) in net assets	24,418,358
Net assets:	
Net assets at beginning of year, as previously reported	-
Restatements	-
Net assets at end of year, as restated	$ 24,418,358

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1	**Restricted amounts due from UARSE at June 30, 2011:**	
	Portion of restricted amounts due from UARSE related to endowments	$ -
	All other amounts due from UARSE	-
	Total restricted amounts due from UARSE	$ -

2.1 Composition of investments at June 30, 2011:

	Current	Noncurrent Unrestricted	Noncurrent Restricted	Total Noncurrent	Total
State of California Surplus Money Investment Fund (SMIF)	$ -	$ -	$ -	$ -	$ -
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
Wachovia Short-Term Fund	-	-	-	-	-
Wachovia Medium-Term Fund	-	-	-	-	-
Wachovia Equity Fund	-	-	-	-	-
Debt securities	-	-	-	-	-
Equity securities	-	-	3,442,042	3,442,042	3,442,042
Fixed income securities (Treasury notes, GNMAs)	-	-	-	-	-
Real estate	-	-	-	-	-
Certificates of deposit	-	-	-	-	-
Notes receivable	-	-	-	-	-
Mutual funds	-	-	9,866,966	9,866,966	9,866,966
Collateralized mortgage obligations:					
Inverse floaters	-	-	-	-	-
Interest-only strips	-	-	-	-	-
Agency pass-through	-	-	-	-	-
Private pass-through	-	-	-	-	-
Other major investments:					
Hedge Fund-Goldentree	-	-	1,247,122	1,247,122	1,247,122
Hedge Fund-Giovine	-	-	1,037,577	1,037,577	1,037,577
Other	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Total investments	-	-	15,593,707	15,593,707	15,593,707
Less endowment investments (enter as negative number)	-	-	(15,593,707)	(15,593,707)	(15,593,707)
Total investments	$ -	$ -	$ -	$ -	$ -

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

	Amount
Endowment Funds	$ 14,203,008
Unrestricted-Endowment funds below principal	(168,698)
Temporarily Restricted-Endowment funds	1,559,397
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total restricted noncurrent investments at June 30, 2011	$ 15,593,707

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3.1 Composition of capital assets at June 30, 2011:

	Balance June 30, 2010	Prior Period Adjustments	Reclassifications	Balance June 30, 2010 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2011
Nondepreciable capital assets:								
Land and land improvements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Works of art and historical treasures	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	-	-	-	-	-	-	-	-
Total nondepreciable capital assets	-	-	-	-	-	-	-	-
Depreciable capital assets:								
Buildings and building improvements	-	-	-	-	-	-	-	-
Improvements, other than buildings	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-	-	-
Personal property:								
Equipment	-	-	-	-	-	-	-	-
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total depreciable capital assets	-	-	-	-	-	-	-	-
Total capital assets	-	-	-	-	-	-	-	-
Less accumulated depreciation:								
Buildings and building improvements	-	-	-	-	-	-	-	-
Improvements, other than buildings	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-	-	-
Personal property:								
Equipment	-	-	-	-	-	-	-	-
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation	-	-	-	-	-	-	-	-
Net capital assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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3.2 Detail of depreciation and amortization expense for the year ended June 30, 2011:

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

4 Long-term liabilities activity schedule:

	Balance June 30, 2010	Prior Period Adjustments	Reclassifications	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion	Long-Term Portion
Accrued compensated absences	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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5 Future minimum lease payments:

Year ending June 30,	Principal	Interest	Principal and Interest
2012	$ -	$ -	$ -
2013	-	-	-
2014 - 2018	-	-	-
2019 - 2023	-	-	-
2024 - 2028	-	-	-
2029 - 2033	-	-	-
2034 - 2038	-	-	-
2039 - 2043	-	-	-
2044 - 2048	-	-	-
2049 - 2053	-	-	-
2054 - 2058	-	-	-
2059 - 2063	-	-	-
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:

	Revenue Bonds			All Other Long-Term Debt Obligations			Total		
Year ending June 30,	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2013	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-
2015 - 2019	-	-	-	-	-	-	-	-	-
2020 - 2024	-	-	-	-	-	-	-	-	-
2025 - 2029	-	-	-	-	-	-	-	-	-
2030 - 2034	-	-	-	-	-	-	-	-	-
2035 - 2039	-	-	-	-	-	-	-	-	-
2040 - 2044	-	-	-	-	-	-	-	-	-
2045 - 2049	-	-	-	-	-	-	-	-	-
2050 - 2054	-	-	-	-	-	-	-	-	-
2055 - 2059	-	-	-	-	-	-	-	-	-
2060 - 2064	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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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	$ -	$ -	$ -
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	$ -	$ -	$ -

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	-	-	15,593,707
Other adjustments: (please list)			
Portion of restricted uninvested amounts due from UARSC related to endowments	-	-	2,327,583
Unappropriated temporarily restricted endowment earnings	-	-	(1,949,710)
Amount of endowments underwater below principal	-	-	168,698
	-	-	-
	-	-	-
Net assets—Restricted for nonexpendable—endowments per SNA	$ -	$ -	$ 16,140,278

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8 Transactions with related entities:

	Amount
Reimbursements to University for salaries of University personnel working on contracts, grants and other programs	
Reimbursements to University for other than salaries of University personnel	
Payments received from University for services, space and programs	
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)	
Other amounts (payable to) University (enter as negative number)	
Accounts receivable from University	
Bond principal and interest payments paid to the University	

9 Other Postemployment Benefits Obligation (OPEB)

Annual required contribution (ARC)	
Contributions during the year	
Increase in net OPEB obligation (NOO)	-
NOO - beginning of year	-
NOO - end of year	$ -

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10 Pollution remediation liabilities under GASB Statement No. 49:

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

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

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

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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)		

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