

**AUXILIARY ORGANIZATIONS
ASSOCIATION**

Chico, California

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORT**

June 30, 2011 and 2010

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June 30, 2011 and 2010

*Auxiliary Organizations
Association*

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ORGANIZATIONAL DATA

June 30, 2011

*Auxiliary Organizations
Association*

NATURE AND PURPOSE

The Auxiliary Organizations Association was organized in 1970 to facilitate communication and information sharing amongst auxiliary organizations operating within the California State University system. The Association is a nonprofit corporation organized under Section 501(c)(3) of the Internal Revenue Code.

OFFICERS

| | |
|-----------------|---------------------|
| Karen Finley | President |
| Debbie Astone | President-Elect |
| Richard Jackson | Secretary/Treasurer |
| Dave Edwards | Past-President |

REPRESENTATIVES

NORTH

Chris Brown
Jerri Carmo
Cora Culla
Taren Mulhause

SOUTH

Christina Brown
Tariq Marji
Dan Cornthwaite
Paul Storey



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INDEPENDENT AUDITORS' REPORT

To the Executive Committee
Auxiliary Organizations Association
Chico, California

We have audited the accompanying statements of financial position of Auxiliary Organizations Association (the Association), a nonprofit organization, as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Association as of June 30, 2011 and 2010, and the changes in 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 audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents 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.

Matson and Isom

November 28, 2011

STATEMENTS OF FINANCIAL POSITION**Auxiliary Organizations
Association**

| June 30 | 2011 | 2010 |
|---|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 120,210 | \$ - |
| Investments | 168,438 | 156,664 |
| Accounts receivable | 84,310 | 113,757 |
| Prepaid expenses | 42,242 | 44,569 |
| Total Current Assets | 415,200 | 314,990 |
| SOFTWARE | | |
| Net of accumulated amortization | - | 11,363 |
| Total Assets | \$ 415,200 | \$ 326,353 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 33,500 | \$ 6,656 |
| Deferred income | 72,281 | 50,287 |
| Total Current Liabilities | 105,781 | 56,943 |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated | 55,761 | 101,376 |
| Board designated | 253,658 | 168,034 |
| Total Net Assets | 309,419 | 269,410 |
| Total Liabilities and Net Assets | \$ 415,200 | \$ 326,353 |

The accompanying notes are an integral part of these financial statements.

**STATEMENTS OF ACTIVITIES
AND CHANGES IN NET ASSETS**

*Auxiliary Organizations
Association*

| Years Ended June 30 | 2011 | 2010 |
|---|-------------------|-------------------|
| UNRESTRICTED NET ASSETS | | |
| REVENUES AND OTHER SUPPORT | | |
| Membership dues | \$ 121,574 | \$ 107,828 |
| Conference sponsorship | 206,500 | 30,000 |
| Annual conference fees | 164,378 | - |
| Special events and committees | 7,790 | 2,024 |
| Interest and dividend income | 4,380 | 5,569 |
| Realized and unrealized gains | 18,108 | 13,116 |
| Total Revenues and Other Support | 522,730 | 158,537 |
| EXPENSES | | |
| Program services: | | |
| Executive committee meetings | 34,195 | 34,157 |
| Annual conference meeting | 5,004 | 8,933 |
| Annual conference expenses | 240,594 | 50,847 |
| Committee meetings | 52,582 | 35,879 |
| Legislative liaison | 8,000 | 8,000 |
| COGR dues | 4,325 | 4,325 |
| Web site expense | 10,964 | 10,572 |
| Legal services | 20,000 | 20,000 |
| Bad debt | - | 2,000 |
| Management and general | 107,057 | 71,955 |
| Total Expenses | 482,721 | 246,668 |
| Increase (Decrease) in Unrestricted Net Assets | 40,009 | (88,131) |
| Unrestricted Net Assets - Beginning of Year | 269,410 | 357,541 |
| Unrestricted Net Assets - End of Year | \$ 309,419 | \$ 269,410 |

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS*Auxiliary Organizations
Association*

| Years Ended June 30 | 2011 | 2010 |
|--|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (Decrease) in net assets | \$ 40,009 | \$ (88,131) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Amortization expense | 11,363 | 11,364 |
| Realized and unrealized gains | (18,108) | (13,116) |
| Changes in: | | |
| Accounts receivable | 29,447 | (102,266) |
| Prepaid expenses | 2,327 | (38,152) |
| Accounts payable | 26,844 | (49,033) |
| Deferred income | 21,994 | (3,773) |
| Net Cash Provided (Used) by Operating Activities | 113,876 | (283,107) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change in Local Agency Investment Fund | 10,423 | 198,230 |
| Sale (Purchase) of investment in registered investment companies (mutual funds) | (4,089) | 84,877 |
| Net Cash Provided by Investing Activities | 6,334 | 283,107 |
| Net Change in Cash and Cash Equivalents | 120,210 | - |
| Cash and Cash Equivalents - Beginning of Year | - | - |
| Cash and Cash Equivalents - End of Year | \$ 120,210 | \$ - |

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Auxiliary Organizations Association (the Association) is a nonprofit corporation organized and operated to facilitate communication and sharing of information regarding auxiliary organizations operating within the California State University system. Membership is open to any auxiliary organization operating within the California State University as an entity described in *California Education Code*, Section 89901.

Basis of Accounting The financial statements of the Association have been prepared on the accrual basis of accounting; and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates The preparation of the financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Basis of Presentation Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents Through June 2011, The CSU, Chico Research Foundation (the Foundation) advanced cash to provide funds as needed. The Association reimbursed the Foundation monthly using its short-term deposits in the Local Agency Investment Fund (LAIF). In June 2011, LAIF balances were transferred to a commercial deposit account. The Association considers highly liquid investments, such as bank deposits, money market accounts and certificates of deposit with maturities of 90 days or less, as "cash equivalents." At times, the Association's cash and cash equivalents may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits.

Accounts Receivable The Association's accounts receivable consists of amounts due from business partners attending the annual conference as well as members' annual dues. Accounts receivable also includes amounts paid to initiate the Auxiliaries Multiple Employer VEBA Trust, which will be repaid as additional auxiliaries participate in the trust. The Association records allowances for doubtful accounts based on payment history and correspondence with those who have balances outstanding. The Association did not record an allowance for doubtful accounts as of June 30, 2011 and 2010.

Fair Value Measurements The Association accounts for certain assets and liabilities in accordance with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value under generally accepted accounting principles.

The Association classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement.

Valuations within the hierarchy levels are based upon the following:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Foundation's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended June 30, 2011.

LAIF: The Association held short-term deposits in the LAIF, which is a State of California, Treasurer's Office, investment pool. Balances held in LAIF were transferred to a cash account in June 2011. The fair value of the LAIF pool at June 30, 2010, was 100.16% of the carrying value and was deemed to not represent a material difference. The LAIF pool included structured notes and asset-backed securities representing 5.42% of the total portfolio as of June 30, 2010, which were subject to market risk as interest rates fluctuate. The value of each participating LAIF dollar is valued daily and represents the fair value of the portfolio assets divided by the amortized cost.

Registered Investment Companies (Mutual Funds): Each investor in the mutual fund will typically receive units of participation in the mutual fund. These units are valued daily, based on the underlying securities owned by the mutual fund. The Association's mutual fund investments have underlying securities which include domestic and international equity securities as well as treasury and corporate bonds.

Software Software is comprised of website design costs, including application and infrastructure development and installation. Software is amortized over the estimated useful life of three years using the straight-line method. Accumulated amortization amounted to \$34,091 and \$22,727 for the years ended June 30, 2011 and 2010. Amortization expense of \$11,363 and \$11,364 were recorded for the years ended June 30, 2011 and 2010, respectively.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

**Auxiliary Organizations
Association**

Income Taxes The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business income. Unrelated business income was insignificant, and accordingly, no provision for income taxes was recorded. The Association has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Association files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2007 and beyond, and the California returns for tax years 2006 and beyond, remain subject to examination by the taxing authorities.

The Association accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the Association's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740, also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Association's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2011 and 2010, and the Association does not expect this to change significantly over the next 12 months.

Date of Management Evaluation Management has evaluated subsequent events through November 28, 2011, the date on which the financial statements were available to be issued.

2. INVESTMENTS

The following is a schedule of the assets at fair value, by level within the fair value hierarchy, as of June 30, 2011.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Registered investment companies (mutual funds) - blend funds | \$ 168,438 | \$ - | \$ - | \$ 168,438 |

The following is a schedule of the assets at fair value, by level within the fair value hierarchy, as of June 30, 2010.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|------------------|----------------|-------------------|
| Local Agency Investment Fund (LAIF) | \$ - | \$ 10,423 | \$ - | \$ 10,423 |
| Registered investment companies (mutual funds) - blend funds | 146,241 | - | - | 146,241 |
| Total Investments at Fair Value | \$ 146,241 | \$ 10,423 | \$ - | \$ 156,664 |

3. NET ASSETS

Unrestricted board-designated net assets result from the Executive Committee policy that reserve balances shall be between a minimum of 50%, or a maximum of 100%, of the following year's operating budget. The board-designated balance includes reserves for working capital, conferences, and special projects.

4. RELATED-PARTY TRANSACTIONS

Through June 2011, the Association had an agreement with the Foundation to provide administrative, information technology, accounting, and financial services. The fee for these services was \$33,075 and \$31,500 for the years ended June 30, 2011 and 2010, respectively. Additionally, the Association utilized the Foundation's checking account for operational activities. As of July 2011, the agreement with the Foundation expired and will not be renewed.

5. DEFERRED INCOME

The Association's dues are billed on a calendar-year basis. Dues for the period July 1 to December 31 are recorded as deferred income and recorded as income during the following fiscal year. Deferred income totaled \$72,281 and \$50,287 at June 30, 2011 and 2010, respectively.

SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNCTIONAL EXPENSES*Auxiliary Organizations**Association*

Page 1 of 2

| <u>June 30, 2011</u> | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------------|-------------------|
| Annual conference meeting | \$ 5,004 | \$ - | \$ 5,004 |
| Annual conference expenses | 52,765 | - | 52,765 |
| Committee meetings | 52,582 | - | 52,582 |
| Executive committee: | | | |
| Meetings and travel | 34,195 | - | 34,195 |
| Special projects | - | 25,757 | 25,757 |
| Legislative liaison | 8,000 | - | 8,000 |
| Legal services: | | | |
| Personnel counsel | 20,000 | - | 20,000 |
| Travel | 187,829 | - | 187,829 |
| Audit fees | - | 7,800 | 7,800 |
| Accounting services | - | 33,075 | 33,075 |
| Insurance | - | 1,731 | 1,731 |
| COGR dues | 4,325 | - | 4,325 |
| Website expense | 10,964 | 3,450 | 14,414 |
| Depreciation | - | 11,364 | 11,364 |
| Miscellaneous | - | 23,880 | 23,880 |
| Total Expenses | \$ 375,664 | \$ 107,057 | \$ 482,721 |

See independent auditors' report.

SCHEDULE OF FUNCTIONAL EXPENSES*Auxiliary Organizations**Association*

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| <u>June 30, 2010</u> | <u>Program Services</u> | <u>Management and General</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------------|-------------------|
| Annual conference meeting | \$ 8,933 | \$ - | \$ 8,933 |
| Annual conference expenses | 47,314 | - | 47,314 |
| Committee meetings | 35,879 | - | 35,879 |
| Executive committee: | | | |
| Meetings and travel | 34,157 | - | 34,157 |
| Special projects | - | 7,950 | 7,950 |
| Legislative liaison | 8,000 | - | 8,000 |
| Legal services: | | | |
| Personnel counsel | 20,000 | - | 20,000 |
| Travel | 3,533 | - | 3,533 |
| Audit fees | - | 7,350 | 7,350 |
| Accounting services | - | 31,500 | 31,500 |
| Insurance | - | 1,589 | 1,589 |
| COGR dues | 4,325 | - | 4,325 |
| Website expense | 10,572 | 6,375 | 16,947 |
| Depreciation | - | 11,364 | 11,364 |
| Bad debt expense | 2,000 | - | 2,000 |
| Miscellaneous | - | 5,827 | 5,827 |
| Total Expenses | \$ 174,713 | \$ 71,955 | \$ 246,668 |

See independent auditors' report.