

**CALIFORNIA STATE UNIVERSITY
SAN MARCOS FOUNDATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2007 and 2006

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended June 30, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of California State University San Marcos Foundation (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of California State University San Marcos Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California State University San Marcos Foundation as of June 30, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007 on our consideration of California State University San Marcos Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

AKT LLP

Carlsbad, California
October 9, 2007

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 8,792,749	\$ 7,667,847
Accounts receivable, sponsored programs	2,023,077	1,672,708
Other receivables	174,887	182,013
Deposits	162,925	582,691
Pledges receivable, net	889,003	783,896
Current portion of note receivable - related party	65,814	62,089
Inventory	<u>729,841</u>	<u>647,328</u>
TOTAL CURRENT ASSETS	12,838,296	11,598,572
OTHER ASSETS		
Cash - restricted for endowment	1,002,857	1,191,536
Pledges receivable, net	1,058,074	1,247,409
Investments	14,122,701	12,306,214
Other assets	195,972	216,230
Notes receivable - related parties, net of current portion	229,486	471,972
Property and equipment, net	<u>7,290,816</u>	<u>2,408,096</u>
TOTAL OTHER ASSETS	<u>23,899,906</u>	<u>17,841,457</u>
TOTAL ASSETS	<u>\$ 36,738,202</u>	<u>\$ 29,440,029</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,408,365	\$ 583,342
Deferred revenue	685,803	482,696
Accrued payroll and benefits	648,950	635,807
Other current liabilities	<u>118,437</u>	<u>134,959</u>
TOTAL CURRENT LIABILITIES	2,861,555	1,836,804
NET ASSETS		
Unrestricted		
Board designated:		
Operating reserves	3,647,641	3,434,078
Program reserves	2,151,053	2,271,559
Campus programs	6,612,300	932,098
Equipment	1,113,418	1,218,457
Scholarship	<u>303,809</u>	<u>278,288</u>
Total unrestricted	13,828,221	8,134,480
Temporarily restricted	7,347,465	7,126,512
Permanently restricted	<u>12,700,961</u>	<u>12,342,233</u>
TOTAL NET ASSETS	<u>33,876,647</u>	<u>27,603,225</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,738,202</u>	<u>\$ 29,440,029</u>

See notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT				
Federal grants and contracts	\$ 5,164,634	\$ -	\$ -	\$ 5,164,634
Other sponsored programs	7,143,986	-	-	7,143,986
Campus programs	1,934,190	-	-	1,934,190
Commercial operations	5,575,541	-	-	5,575,541
Contributions	456,358	497,279	358,728	1,312,365
Investment income	763,069	667,823	-	1,430,892
Net realized and unrealized gains on investments	-	808,533	-	808,533
Rental income	382,905	-	-	382,905
Net assets released from restriction, satisfaction of program restrictions	<u>1,752,682</u>	<u>(1,752,682)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	23,173,365	220,953	358,728	23,753,046
EXPENSES				
Program services				
Sponsored programs	6,386,468	-	-	6,386,468
Campus programs	3,349,575	-	-	3,349,575
Commercial operations	5,466,008	-	-	5,466,008
Student scholarships	448,100	-	-	448,100
Occupancy and student housing	<u>126,034</u>	<u>-</u>	<u>-</u>	<u>126,034</u>
Total program services	15,776,185	-	-	15,776,185
General administration	<u>1,703,439</u>	<u>-</u>	<u>-</u>	<u>1,703,439</u>
TOTAL EXPENSES	17,479,624	-	-	17,479,624
INCREASE IN NET ASSETS	5,693,741	220,953	358,728	6,273,422
NET ASSETS AT BEGINNING OF YEAR	<u>8,134,480</u>	<u>7,126,512</u>	<u>12,342,233</u>	<u>27,603,225</u>
NET ASSETS AT END OF YEAR	\$ <u>13,828,221</u>	\$ <u>7,347,465</u>	\$ <u>12,700,961</u>	\$ <u>33,876,647</u>

See notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT				
Federal grants and contracts	\$ 5,665,027	\$ -	\$ -	\$ 5,665,027
Other sponsored programs	2,270,853	-	-	2,270,853
Campus programs	2,749,001	-	-	2,749,001
Commercial operations	4,700,057	-	-	4,700,057
Contributions	308,856	3,027,183	1,465,563	4,801,602
Investment income	52,166	760,252	-	812,418
Net realized and unrealized gains on investments	-	552,123	-	552,123
Rental income	229,743	-	-	229,743
Net assets released from restriction, satisfaction of program restrictions	<u>577,699</u>	<u>(577,699)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	16,553,402	3,761,859	1,465,563	21,780,824
EXPENSES				
Program services				
Sponsored programs	6,905,324	-	-	6,905,324
Campus programs	3,422,481	-	-	3,422,481
Commercial operations	4,274,580	-	-	4,274,580
Student scholarships	266,398	-	-	266,398
Occupancy and student housing	125,860	-	-	125,860
Total program services	<u>14,994,643</u>	<u>-</u>	<u>-</u>	<u>14,994,643</u>
General administration	<u>1,283,826</u>	<u>-</u>	<u>-</u>	<u>1,283,826</u>
TOTAL EXPENSES	16,278,469	-	-	16,278,469
INCREASE IN NET ASSETS	274,933	3,761,859	1,465,563	5,502,355
NET ASSETS AT BEGINNING OF YEAR	<u>7,859,547</u>	<u>3,364,653</u>	<u>10,876,670</u>	<u>22,100,870</u>
NET ASSETS AT END OF YEAR \$	<u><u>8,134,480</u></u>	<u><u>7,126,512</u></u>	<u><u>12,342,233</u></u>	<u><u>27,603,225</u></u>

See notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 6,273,422	\$ 5,502,355
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	283,340	307,472
Amortization	20,258	20,259
Net realized and unrealized gains on investments	(808,533)	(552,123)
(Increase) decrease in operating assets:		
Accounts receivable, sponsored programs	(350,369)	(167,292)
Other receivables	7,126	231,701
Deposits	419,766	(582,691)
Pledges receivable, net	84,228	188,316
Inventory	(82,513)	(337,669)
Increase (decrease) in operating liabilities:		
Accounts payable	825,023	149,070
Deferred revenue	203,107	44,350
Accrued payroll and benefits	13,143	421,292
Other current liabilities	(16,522)	(7,919)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,871,476</u>	<u>5,217,121</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,307,954)	(472,401)
Proceeds from sale of investments	1,300,000	-
Loans to related parties	-	(534,335)
Loan payments from related parties	238,761	274
Purchases of property and equipment	(5,166,060)	(1,244,727)
NET CASH USED BY INVESTING ACTIVITIES	<u>(5,935,253)</u>	<u>(2,251,189)</u>
NET INCREASE IN CASH	936,223	2,965,932
CASH AT BEGINNING OF YEAR	<u>8,859,383</u>	<u>5,893,451</u>
CASH AT END OF YEAR	<u>\$ 9,795,606</u>	<u>\$ 8,859,383</u>
CASH CONSISTS OF THE FOLLOWING:		
Cash	\$ 8,792,749	\$ 7,667,847
Cash - restricted for endowment	1,002,857	1,191,536
	<u>\$ 9,795,606</u>	<u>\$ 8,859,383</u>

See notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

The Foundation's financial statements are included as a component unit of the University's annual general-purpose financial statements. This is required by government accounting standards which apply to the University.

Financial Statement Presentation

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

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Revenue and Support

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

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

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

Use of Estimates

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

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

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

Accounts Receivable

The accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary at June 30, 2007 and 2006 because management believes all amounts are collectible.

Pledges Receivable

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

Inventory

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

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at the fair market value of the contribution, if donated. Certain equipment acquired through grant and contract exchange transactions is subject to restrictions on its use and disposition subsequent to the conclusion of the related grants and contracts. Equipment acquired through exchange transactions is expensed as an allowable grant expenditure. A physical inventory list is maintained by the Foundation of these assets as required by the grant funding agency. The funding source may have a reversionary interest in the property as well as the right to determine the use of any proceeds from sale of equipment purchased with their respective funds.

Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment, generally three to 10 years.

Mineral Rights

Mineral rights are being amortized using the straight-line method over a period of seven years and are included in other assets.

Income Taxes

The Foundation is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. This exemption is for all income taxes except for those assessed on unrelated business income, if any. In order to maintain that status, the 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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007 and 2006

NOTE 2. FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 3. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash in bank accounts which, at times, may exceed federal insured limits. The Foundation manages the risk by using only high quality financial institutions.

NOTE 4. INVESTMENTS

Investments consist of the following:

	<u>2007</u>	<u>2006</u>
Equity fund	\$ 8,253,873	\$ 7,990,441
Bond fund	4,540,788	4,315,773
Alternative investments	<u>1,328,040</u>	<u>-</u>
	<u>\$ 14,122,701</u>	<u>\$ 12,306,214</u>

NOTE 5. OTHER RECEIVABLES

Other receivables consist of the following:

	<u>2007</u>	<u>2006</u>
Advances to San Marcos University Corporation	\$ 20,890	\$ 1,525
Other	<u>153,997</u>	<u>180,488</u>
	<u>\$ 174,887</u>	<u>\$ 182,013</u>

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	<u>2007</u>	<u>2006</u>
Gross pledges	\$ 4,677,702	\$ 5,190,999
Less imputed discount	<u>(1,505,414)</u>	<u>(352,074)</u>
	3,172,288	4,838,925
Less allowance for uncollectible pledges	<u>(1,225,211)</u>	<u>(2,807,620)</u>
	<u>\$ 1,947,077</u>	<u>\$ 2,031,305</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
 June 30, 2007 and 2006

NOTE 6. PLEDGES RECEIVABLE (continued)

	<u>2007</u>	<u>2006</u>
Pledges receivable consist of the following		
Due in less than one year	\$ 889,003	\$ 783,896
Due after one to five years	492,793	879,998
Due after five years	<u>565,281</u>	<u>367,411</u>
	<u>\$ 1,947,077</u>	<u>\$ 2,031,305</u>

The net present value of the pledges due in more than one year is discounted at the rate of 6%.

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 1,139,433	\$ 1,139,433
Leasehold improvements	1,330,447	1,330,447
Construction in progress	<u>6,177,397</u>	<u>1,011,337</u>
	8,647,277	3,481,217
Less accumulated depreciation	<u>(1,356,461)</u>	<u>(1,073,121)</u>
	<u>\$ 7,290,816</u>	<u>\$ 2,408,096</u>

NOTE 8. NOTES RECEIVABLE – RELATED PARTIES

In 2006, the Foundation loaned \$184,335 to a member of its board of directors. Quarterly interest only payments at 4% were due for the first five years. The loan was paid in full during the year ended June 30, 2007.

The Foundation has a note receivable of \$295,300 due from the University. Annual payments of \$83,089, including interest at 6%, are due December 2007 through December 2010.

NOTE 9. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2007</u>	<u>2006</u>
Campus programs		
Capital improvements	\$ 3,049,912	\$ 3,118,294
Student scholarships	131,804	247,968
Other	<u>4,165,749</u>	<u>3,760,250</u>
	<u>\$ 7,347,465</u>	<u>\$ 7,126,512</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 9. RESTRICTIONS ON NET ASSETS (continued)

Permanently restricted net assets are restricted to:

	<u>2007</u>	<u>2006</u>
Endowments		
Campus programs	\$ 4,663,531	\$ 4,090,263
Student scholarships	6,711,396	6,682,660
Student loans	<u>1,326,034</u>	<u>1,569,310</u>
	<u>\$ 12,700,961</u>	<u>\$ 12,342,233</u>

NOTE 10. COMMITMENTS AND CONTINGENCIES

Leases

The Foundation has entered into various operating lease agreements for office facilities. The agreements require annual and monthly payments which are adjusted annually based on the consumer price index. The lease agreement for 435 E. Carmel Street may be terminated by either party upon a six-month written notice. Total rent expense relating to the above leases was approximately \$139,000 and \$152,000 for the years ended June 30, 2007 and 2006, respectively.

The Foundation leases equipment under various lease agreements and has a computer refresh program with the University. Rent expense associated with equipment leases was approximately \$53,000 and \$49,000 for the years ended June 30, 2007 and 2006, respectively.

The minimum future rental payments are as follows:

Year ending June 30, <u>2008</u>	\$ 63,492
Thereafter	<u>-</u>
	<u>\$ 63,492</u>

Postretirement Medical Program

The Foundation formed a postretirement program in 2006 which provides medical and dental coverage to retiring employees aged 65 with at least 10 years of service. Medical coverage will be provided through the CalPERS medical program. Dependents of eligible retirees will also receive lifetime medical coverage. The net present value of future costs was calculated using a discount rate of 6%. Future postretirement cost of \$309,920 and \$154,960 is included in accrued payroll and benefits in the statements of financial position at June 30, 2007 and 2006, respectively.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 11. TRANSACTIONS WITH AFFILIATES

Reimbursed Costs

The University incurs administrative and other reimbursed costs on behalf of the Foundation. Amounts due to the University at June 30, 2007 and 2006 were \$201,894 and \$0, respectively.

In July 2004, the Foundation entered into an agreement with San Marcos University Corporation to provide certain personnel services. These expenses are reimbursed annually on December 30. No amounts were due to the Foundation at June 30, 2007 and 2006.

Operating Advance

During the year ended June 30, 2002, the Foundation entered into an agreement to advance funds to the San Marcos University Corporation for operating expenses in an amount not to exceed \$250,000. An advance due from the San Marcos University Corporation, including accrued interest, was \$20,890 and \$1,525 at June 30, 2007 and 2006, respectively.

NOTE 12. RECLASSIFICATIONS

Certain items in the 2006 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

NOTE 13. SUBSEQUENT EVENT

In August 2007 the Foundation completed the construction of a child care facility with an approximate cost of \$6,900,000. On August 30, 2007, the Foundation's Board of Directors approved the transfer of the facility to the San Marcos University Corporation to begin operations for a child care center.

SUPPLEMENTARY AWARDS INFORMATION



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of California State University San Marcos Foundation as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 27, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered California State University San Marcos Foundation'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 California State University San Marcos Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California State San Marcos Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

(continued)

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

AKT LLP

Carlsbad, California
October 9, 2007



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

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

Compliance

We have audited the compliance of California State University San Marcos Foundation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. California State University San Marcos Foundation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of California State University San Marcos Foundation's management. Our responsibility is to express an opinion on California State University San Marcos Foundation'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 California State University San Marcos Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of California State University San Marcos Foundation's compliance with those requirements.

In our opinion, California State University San Marcos Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of California State University San Marcos Foundation 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 California State University San Marcos Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

(continued)

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

AKT LLP

Carlsbad, California
October 9, 2007

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-through Grantor Number	Expenditures
<u>National Institutes of Health</u>			
Direct Programs:			
Drug Abuse and Addiction Research	93.279	N/A	53,816
Microbiology and Infectious Diseases Research	93.856	N/A	151,179
Biomedical Research and Research Training	93.859	N/A	2,249,727
Marc u star	93.880	N/A	15,629
Bridges to Future	93.960	N/A	207,722
			<u>2,678,073</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
TRIO Cluster:			
TRIO - Student Support Services	84.042	N/A	283,685
TRIO - Talent Search	84.044	N/A	163,177
TRIO - Upward Bound	84.047	N/A	299,311
			<u>746,173</u>
Strengthening Institution	83.031	N/A	12,899
Gear Up	83.334	N/A	60,458
Undergraduate International Studies and Foreign Language Program	84.016	N/A	23,569
Fund for the Improvement of Postsecondary Education	84.116	N/A	191,109
Migrant Education - College Assistance Migrant Program	84.149	N/A	358,562
Fund for the improvement of Education	84.215	N/A	10,598
National Writing Project	84.928	N/A	48,113
			<u>705,308</u>
Total U.S. Department of Education			<u>1,451,481</u>
<u>Department of Health and Human Services</u>			
Direct Programs:			
Community Programs to Improve Minority Health	93.137	N/A	21,577
Passed Through from Various Organizations:			
Centers for Disease Control and Prevention, Investigations and Technical Assistance	93.283	WPOSJN	326,374
			<u>347,951</u>
<u>National Oceanic and Atmospheric Administration</u>			
Passed Through from San Jose State University:			
Coastal Services Center	11.473	N/A	1,295

See independent auditors' report and note to schedule of expenditures of federal awards.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2007

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-through Grantor Number	Expenditures
<u>National Science Foundation</u>			
Direct Programs:			
Geosciences	47.050	N/A	75,074
Biological Sciences	47.074	N/A	166,149
Social, Behavioral, and Economic Sciences	47.075	N/A	18,844
Education and Human Resources	47.076	N/A	101,551
Polar Programs	47.078	N/A	99,063
			<u>460,681</u>
Passed Through from Ohio State University:			
Biological Sciences	47.074	MCB-0418891	70,549
Total National Science Foundation			<u>531,230</u>
<u>Department of Energy</u>			
Direct Program:			
Fossil Energy Research and Development	81.089	N/A	5,511
<u>National Highway Traffic Safety</u>			
Direct Program:			
State Highway Safety	20.600	N/A	1,812
<u>National Security Agency</u>			
Direct Program:			
Diffusion Limits	12.901	N/A	22,274
<u>National Institute of Justice</u>			
Direct Program:			
Juvenile Accountability Incentive Block Grant	16.501	N/A	100,253
<u>U.S. Department of the Interior</u>			
Direct Program:			
U.S. Geological Survey - Research and Data Collection	15.808	N/A	24,754
Total expenditures of federal awards			<u>\$ 5,164,634</u>

See independent auditors' report and note to schedule of expenditures of federal awards.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of California State University San Marcos Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.042	<u>TRIO Cluster:</u> Student Support Services Talent Search Upward Bound
84.044	
84.047	
84.149	Migrant Education – College Assistance Migrant Program
93.279	<u>R&D Cluster:</u> Drug Abuse and Addiction Research Centers for Disease Control and Prevention, Investigations and Technical Assistance Microbiology and Infectious Diseases Research Biomedical Research and Research Training
93.283	
93.856	
93.859	
93.859	

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? x yes ___no

See independent auditors' report.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS

None

SUPPLEMENTARY CALIFORNIA STATE UNIVERSITY SAN MARCOS
SUPPORTING SCHEDULES

CSUSM Foundation
Schedule of Net Assets
June 30, 2007
(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	\$ 8,792,749
Short-term investments	—
Accounts receivable, net	2,197,964
Leases receivable, current portion	—
Pledges receivable, net	889,003
Prepaid expenses and other assets	<u>958,580</u>
Total current assets	<u>12,838,296</u>

Noncurrent assets:

Restricted cash and cash equivalents	1,002,857
Accounts receivable, net	—
Leases receivable, net of current portion	—
Student loans receivable, net	—
Pledges receivable, net	1,058,074
Endowment investments	14,122,701
Other long-term investments	—
Capital assets, net	7,290,816
Other assets	<u>425,458</u>
Total noncurrent assets	<u>23,899,906</u>

Total assets	<u>36,738,202</u>
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Liabilities:

Current liabilities:

Accounts payable	1,408,365
Accrued salaries and benefits payable	503,614
Accrued compensated absences— current portion	145,336
Deferred revenue	685,803
Capitalized lease obligations – current portion	—
Long-term debt obligations – current portion	—
Self-insurance claims liability – current portion	—
Other liabilities	<u>118,437</u>
Total current liabilities	<u>2,861,555</u>

Noncurrent liabilities:

Accrued compensated absences, net of current portion	—
Deferred revenue	—
Grants refundable	—
Capitalized lease obligations, net of current portion	—
Long-term debt obligations, net of current portion	—
Self-insurance claims liability, net of current portion	—
Depository accounts	—
Other liabilities	<u>—</u>

Total noncurrent liabilities	<u>—</u>
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Total liabilities	<u>2,861,555</u>
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Net assets:

Invested in capital assets, net of related debt	7,290,816
Restricted for:	
Nonexpendable – endowments	12,700,961
Expendable:	
Scholarships and fellowships	131,804
Research	—
Loans	—
Capital projects	3,049,912
Debt service	—
Other	4,165,749
Unrestricted	<u>6,537,405</u>
Total net assets	<u>\$ 33,876,647</u>

See accompanying independent auditors' report.

CSUSM Foundation

Schedule of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2007

(for inclusion in the California State University)

Revenues:

Operating revenues:

Student tuition and fees (net of scholarship allowances of \$ _____)	\$	—
Grants and contracts, noncapital:		
Federal		5,164,634
State and local		6,206,706
Nongovernmental		937,280
Sales and services of educational activities		1,934,190
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ _____)		5,958,446
Other operating revenues		—
		<hr/>
Total operating revenues		20,201,256

Expenses:

Operating expenses:

Instruction		1,487,489
Research		4,482,862
Public service		1,295,620
Academic support		345,194
Student services		5,373,436
Institutional support		1,182,423
Operation and maintenance of plant		—
Student grants and scholarships		448,100
Auxiliary enterprise expenses		2,250,799
Depreciation and amortization		303,599
		<hr/>
Total operating expenses		17,169,522
Operating income (loss)		3,031,734

Nonoperating revenues (expenses):

State appropriations, noncapital		—
Gifts, noncapital		953,637
Investment income, net		1,430,892
Endowment income		808,533
Interest on capital-related debt		—
Other nonoperating revenues (expenses)		(310,102)
		<hr/>
Net nonoperating revenues (expenses)		2,882,960

Income (loss) before other additions 5,914,694

State appropriations, capital —

Grants and gifts, capital —

Additions to permanent endowments 358,728

Increase (decrease) in net assets 6,273,422

Net assets:

Net assets at beginning of year		27,603,225
Net assets at end of year	\$	<u>33,876,647</u>

See accompanying independent auditors' report.

CSUSM Foundation
Other Information

June 30, 2007

(for inclusion in the California State University)

1 Endowment cash and cash equivalents at June 30, 2007:
Portion of restricted cash and cash equivalents related to endowments
All other restricted cash and cash equivalents
Total endowment cash and cash equivalents

\$ 1,002,857
\$ 1,002,857

2 Composition of investments at June 30, 2007:

	Current	Noncurrent	Total
State of California Surplus Money Investment Fund	—	—	—
State of California Local Agency Investment Fund	—	—	—
Met West Short Term Fund	—	—	—
Met West Medium Term Fund	—	—	—
Met West Equity Fund	—	8,253,873	8,253,873
Debt and equity securities	—	4,540,788	4,540,788
Fixed income securities	—	—	—
Real estate	—	—	—
Certificates of deposit	—	—	—
Money market funds	—	—	—
Notes receivable	—	—	—
Other investments:			
Alternatives	—	1,328,040	1,328,040
Add description	—	—	—
Add description	—	—	—
Add description	—	—	—
Other	—	—	—
Total investments	\$ —	\$ 14,122,701	\$ 14,122,701

CSUSM Foundation
Other Information
June 30, 2007
(for inclusion in the California State University)

3 Composition of capital assets at June 30, 2007:

	Balance June 30, 2006	Prior period Adjustments	Reclassifications	Balance June 30, 2006	Additions	Reductions	Transfers	Balance June 30, 2007
Nondepreciable capital assets								
Land and land improvements	—	—	—	—	—	—	—	—
Works of art and historical treasures	—	—	—	—	—	—	—	—
Construction Work in Progress	1,011,337	—	—	1,011,337	5,166,060	—	—	6,177,397
Total nondepreciable capital assets	1,011,337	—	—	1,011,337	5,166,060	—	—	6,177,397
Depreciable capital assets								
Buildings and building improvements	—	—	—	—	—	—	—	—
Improvements, other than buildings	—	—	—	—	—	—	—	—
Infrastructure	—	—	—	—	—	—	—	—
Leasehold improvements	1,330,447	—	—	1,330,447	—	—	—	1,330,447
Personal property:								
Equipment	1,139,433	—	—	1,139,433	—	—	—	1,139,433
Library books and materials	—	—	—	—	—	—	—	—
Intangible assets								
Total depreciable capital assets	2,469,880	—	—	2,469,880	—	—	—	2,469,880
Total cost	3,481,217	—	—	3,481,217	5,166,060	—	—	8,647,277
Less accumulated depreciation:								
Buildings and building improvements	—	—	—	—	—	—	—	—
Improvements, other than buildings	—	—	—	—	—	—	—	—
Infrastructure	—	—	—	—	—	—	—	—
Leasehold improvements	422,752	—	—	422,752	137,395	—	—	560,147
Personal property:								
Equipment	650,369	—	—	650,369	145,945	—	—	796,314
Library books and materials	—	—	—	—	—	—	—	—
Intangible assets								
Total accumulated depreciation	1,073,121	—	—	1,073,121	283,340	—	—	1,356,461
Net capital assets	2,408,096	—	—	2,408,096	4,882,720	—	—	7,290,816
	\$			\$				\$

Detail of depreciation and amortization expense for the year ended June 30, 2007:

Depreciation and amortization expense related to capital assets	\$ 283,340
Amortization expense related to other assets	20,258
Total depreciation and amortization	<u>\$ 303,598</u>

CSUSM Foundation
Other Information
June 30, 2007
(for inclusion in the California State University)

4 Long-term liabilities activity schedule:

	Balance June 30, 2006 226,692	Prior period adjustments	Reclassifications	Balance June 30, 2006 (restated) 226,692	Additions 145,336	Reductions (226,692)	Balance June 30, 2007 145,336	Long-term portion	Current portion 145,336
Accrued compensated absences									
Capitalized lease obligations:									
Gross balance									
Unamortized premium on capitalized lease obligations									
Total capitalized lease obligations									
Long-term debt obligations:									
Revenue Bonds									
Other bonds (non-Revenue Bonds)									
Commercial Paper									
Other:									
Description									
Description									
Description									
Description									
Description									
Description									
Total long-term debt obligations									
Total long-term liabilities	\$ 226,692			226,692	145,336	(226,692)	145,336		145,336

5 Interest rates

Range of interest rates on outstanding debt

Low High

CSUSM Foundation
Other Information
June 30, 2007

(for inclusion in the California State University)

6 Future minimum lease payments:

Year ending June 30:	<u>Capital leases</u>
2008	\$
2009	—
2010	—
2011	—
2012	—
2013 - 2017	—
2018 - 2022	—
2023 - 2027	—
2028 - 2032	—
2033 - 2037	—
2038 - 2042	—
2043 - 2047	—
2048 - 2052	—
2053 - 2057	—
Total minimum lease payments	<u>—</u>
Less amounts representing interest	<u>—</u>
Present value of future minimum lease payments	\$ —
Less: current portion	<u>—</u>
Capitalized lease obligation, net of current portion	<u><u>—</u></u>

7 Long-term debt obligation schedule

Year ending June 30:	<u>Revenue Bonds</u>		<u>All other long-term debt obligations</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$	—	—	—	—	—
2009	—	—	—	—	—	—
2010	—	—	—	—	—	—
2011	—	—	—	—	—	—
2012	—	—	—	—	—	—
2013 - 2017	—	—	—	—	—	—
2018 - 2022	—	—	—	—	—	—
2023 - 2027	—	—	—	—	—	—
2028 - 2032	—	—	—	—	—	—
2033 - 2037	—	—	—	—	—	—
2038 - 2042	—	—	—	—	—	—
2043 - 2047	—	—	—	—	—	—
2048 - 2052	—	—	—	—	—	—
2053 - 2057	—	—	—	—	—	—
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

CSUSM Foundation
Other Information

June 30, 2007

(for inclusion in the California State University)

8 The nature and amount of the prior period adjustment(s) recorded to beginning net assets - GASE Auxiliary Organizations:

	Net Asset Class	Amount Dr. (Cr.)
Net assets as of June 30, 2006, as previously reported		\$ —
Prior period adjustments:		
1 (list description of each adjustment)		—
2 (list description of each adjustment)		—
3 (list description of each adjustment)		—
4 (list description of each adjustment)		—
5 (list description of each adjustment)		—
Net assets as of June 30, 2006, as restated		\$ —

Provide a detailed breakdown of the journal entries booked to record each prior period adjustments:

	Debit	Credit
Net asset class:		
1 (breakdown of adjusting journal entry)	\$ —	—
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)	\$ —	—

CSUSM Foundation
Other Information
June 30, 2007

(for inclusion in the California State University)

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

	<u>Auxiliary Organizations</u>	
	<u>GASB</u>	<u>FASB</u>
Capital assets, net of accumulated depreciation	\$ —	7,290,816
Capital lease obligations, current portion	—	—
Capital lease obligations, net of current portion	—	—
Long-term debt obligations, current portion	—	—
Long-term debt obligations, net of current portion	—	—
Unspent bond proceeds	—	—
Other:		
(description)	—	—
(description)	—	—
(description)	—	—
(description)	—	—
(description)	—	—
Net assets - invested in capital assets, net of related debt	<u>\$ —</u>	<u>7,290,816</u>