

# **JOINT AUDIT COMMITTEE**

Associated Students Inc.  
California State University San Marcos Foundation  
California State University San Marcos Corporation

**July 22, 2020 1:00 p.m.- 2:00 p.m.**

Via Zoom: <https://csusm.zoom.us/j/91130459064>

Call in: (669) 900-6833 Meeting ID: 911 3045 9064

## **AGENDA**

- I. **Convening of the Meeting** (*Thibodeau*)
  - A. Consideration of Minutes of April 21, 2020 Meeting (**Attachment A**)
- II. **Pre-audit Discussion - Aldrich** (**Attachment B**)
- III. **Adjournment** (*Thibodeau*)
- IV. **Closed Session** (*if requested*)

### **Committee Members:**

Chris Thibodeau (*Chair*), CSUSM Corp

Michael Walsh, CSUSM Corp

Thomas Kenaya, CSUSM Foundation

Esther Phahla, CSUSM Foundation

Kyle Casement, CSUSM Foundation

Timothy Pelayo, ASI

Caleb Standley, ASI

# **ATTACHMENT A**

Minutes of April 21, 2020 Meeting

**Associated Students Inc.  
California State University San Marcos Foundation  
California State University San Marcos Corporation**

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**JOINT AUDIT COMMITTEE MINUTES**

**April 21, 2020 1:00 – 2:00 p.m.**

Via Zoom: <https://csusm.zoom.us/j/674384235>

There was no physical location due to Executive Order N-25-20 issued March 17, 2020 relating to the convening of public meetings in response to the COVID-19 pandemic.

**Committee Members Present:**

Chris Thibodeau, *CSUSM Corp* (via Zoom); Thomas Kenaya, *CSUSMF* (via Zoom); Luanne Bas, *CSUSMF* (via Zoom); Esther Phahla, *CSUSMF* (via Zoom); Mariana Rosales, *ASI* (via Zoom); Jaelyn Freeman, *ASI* (via Zoom)

**Committee Members Absent:** John Fortune, *CSUSMF*

**Guests Present:**

Elsa Romero, *Aldrich* (via Zoom)

**Staff Present:**

Bella Newberg, *CSUSM Corp* (via Zoom); Annie Macias, *CSUSMF* (via Zoom); Diana Cumming, *CSUSM/Auxiliaries* (via Zoom); Deborah Davis, *CSUSM/Auxiliaries* (via Zoom); Karla Frazee, *CSUSM Corp* (via Zoom)

Frazee took roll call. A quorum being present, Chair Thibodeau called the meeting to order at 1:03 p.m. Chair Thibodeau confirmed that the committee had received the distributed agenda and supporting documents and that the committee was aware that the meeting was being recorded to assist in creating the minutes.

**Consideration of Minutes of Regular Meeting, January 29, 2020**

*A motion was made and seconded (Bas/Kenaya) to approve the minutes of the Regular Meeting, January 29, 2020. Motion carried.*

**Action Item**

Thibodeau turned meeting over to Elsa Romero to speak to the Associated Students, Inc. (ASI) Form 990 returns for the fiscal year ending June 30, 2019. The Form 990 report had been sent to ASI prior to the meeting. Romero explained how she would review the reports and proceeded to review them.

*A motion was made and seconded (Bas/Kenaya) to move the Associated Students, Inc. draft Form 990 Tax Return ended fiscal year 06/30/19 forward to the Associated Students, Inc. Board of Directors for adoption. Motion carried.*

**Adjournment**

There being no further business, the meeting was adjourned at 1:32 p.m.

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Jason Schreiber  
Secretary

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Date

# **ATTACHMENT B**

Pre-Audit Discussion Document

# California State University San Marcos Auxiliaries

Meeting with the Audit Committee and Management

Year Ended June 30, 2020





Aldrich CPAs + Advisors LLP  
7676 Hazard Center Drive, #1300  
San Diego, CA 92108

July 22, 2020

To the Audit Committee and Management  
California State University San Marcos Auxiliaries

Dear Committee Members and Management,

We are pleased to discuss with you our audit service plans for the California State University San Marcos Auxiliaries for the year ended June 30, 2020.

The purpose of this discussion is to provide you with the required communications regarding the auditors' responsibility, the scope of the audit, and the timing of the audit.

We would also like to discuss current year developments at California State University San Marcos Auxiliaries, as well as the risk factors, professional and regulatory changes, and other factors that will be included in our planning for the audit and that will impact the performance of our audit.

We welcome any questions or input you may have about this audit service plan. We look forward to working with you and California State University San Marcos Auxiliaries this year.

Very truly yours,

A handwritten signature in blue ink that reads "Andy Maffia".

Andy Maffia, CPA  
Aldrich CPAs + Advisors LLP

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## SCOPE OF SERVICES

We are engaged to audit the financial statements of California State University San Marcos Auxiliaries (Organization) for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

### Our Responsibilities under U.S. Generally Accepted Auditing Standards and the Uniform Guidance

As stated in our engagement letters dated June 4, 2019 and June 19, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we will consider the Organizations' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with 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 and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Organizations' consolidated financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the Organizations' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Organizations' compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the Organizations' compliance with those requirements.

### Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion.

## SERVICE TIMELINE

We will work with management to determine a detailed timeline for our audit procedures. Our general timing is as follows:

Pre-audit meeting with the Audit Committee and management to obtain further understanding of the Organization and develop a work plan, including discussion of the audit plan.	July 22, 2020
Planning and interim fieldwork	June 22, 2020
All requests items to Aldrich	August 10, 2020
Complete Fieldwork - Location TBD (Remote or at CSUSM's office)	August 21, 2020
Delivery of audit report draft to the Organization	September 7, 2020
Presentation of the audit results to the Audit Committee	September 29, 2020
File the data collection form to the federal audit clearinghouse	Within 30 days of issuance
Delivery of tax returns	TBD

## SIGNIFICANT AUDIT AREAS AND ISSUES

We will focus our audit efforts on the following significant areas:

### I. Corporation

- ▶ Adoption of ASU 2018-08
- ▶ Cash and investments
- ▶ Prepaids and other assets
- ▶ Property and equipment
- ▶ Revenue recognition cycle including: internal controls, accounts receivable, revenue recognition, etc.
- ▶ Cash disbursements cycle including: internal controls, accounts payable, transaction cut-offs, expenditures, etc.
- ▶ Payroll and related controls
- ▶ Notes payable
- ▶ Net assets and proper documentation, controls, and recording of restricted revenue
- ▶ Functional expense allocations
- ▶ Compliance with grants
- ▶ Single Audit
- ▶ Going concern

### II. Foundation

- ▶ Adoption of ASU 2018-08
- ▶ Cash and investments
- ▶ Revenue recognition cycle including: internal controls, accounts receivable, revenue recognition, etc.
- ▶ Cash disbursements cycle including: accounts payable, transaction cut-offs, expenditures, etc.
- ▶ Payroll and related controls
- ▶ Net assets and proper documentation, controls, and recording of restricted revenue
- ▶ Functional expense allocations
- ▶ Compliance with grants
- ▶ Going concern

## SIGNIFICANT AUDIT AREAS AND ISSUES, CONTINUED

### III. Associated Students, Inc.

- ▶ Adoption of ASU 2018-08
- ▶ Cash and investments
- ▶ Property and equipment
- ▶ Revenue recognition cycle including: internal controls, accounts receivable, revenue recognition, etc.
- ▶ Cash disbursements cycle including: accounts payable, transaction cut-offs, expenditures, etc.
- ▶ Payroll and related controls
- ▶ Net assets and proper documentation, controls, and recording of restricted revenue
- ▶ Functional expense allocations
- ▶ Going concern

The year ended June 30, 2020 is the year in which ASU 2018-08 Grants and Contribution is required to be implemented. The Revenue Recognition Standard (ASC 606) has been delayed due to the corona virus and therefore the required implementation date is now for years ending after December 15, 2020. Early adoption is permitted if your Organization would like to implement both standards at the same time.

These standard updates will require additional review and documentation of the revenue cycle and we will be working with management on the accounting changes and the required disclosures and will review those with you in the closing meeting.

## FRAUD CONSIDERATIONS

Our professional standards require us to consider the risk of fraud. As it relates to our audit, fraud includes the misappropriation of assets or fraudulent financial reporting. Procedures we will perform relating to fraud considerations include:

- ▶ Reviewing internal controls for susceptibility to fraud
- ▶ Considering the control environment and pressures/incentives to commit fraud
- ▶ Questioning employees at various levels within the Organization regarding fraud
- ▶ Our professional standards also require us to make inquiries of the Audit Committee, or a representative thereof, related to fraud concerns.

## PROFESSIONAL AND REGULATORY CHANGES

The following items relate to changes throughout the not-for-profit environment for the benefit of the audit committee and management:

### State of Nonprofits

#### *COVID-19*

COVID-19 has changed the landscape for many nonprofit Organizations. From where we work, to how we communicate, to the way we serve the general public, operations have been disrupted and may forever be changed. Challenges with funding have left Organization in an unenviable position to make difficult cost cutting decisions. Research and time has been necessary understanding various programs made available through the Federal stimulus packages. Overall the epidemic has pulled many Organizations' attention away from providing program services.

## SCOPE OF SERVICES, CONTINUED

We will also communicate any internal control related matters that are required to be communicated under professional standards.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the use of the Audit Committee and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Our services include:

- ▶ Financial statement audit and opinion on the Organizations' consolidated financial statements as of June 30, 2020.
- ▶ Single audit and opinion on the California State University San Marcos Corporation's compliance with requirements affecting its major federal program
- ▶ As considered necessary under professional standards, and based on our judgment, a management letter commenting upon the internal controls of the Organization, fiscal management practices, and other observations resulting from the audit.
- ▶ A letter to the Audit Committee, identifying significant accounting policies, management judgments and accounting estimates, audit adjustments and other matters discussed during the audit.
- ▶ Meetings with the Audit Committee prior to and at the conclusion of the audit, and at other times, as deemed appropriate.
- ▶ Preparation of the form 990.

This information is intended solely for the use of the Audit Committee and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

## CLIENT SERVICE TEAM

Aldrich uses a client service team to bring a broad range of competencies to our engagements. We will assign a client service team that will lead our services and the additional staff needed for your requirements. The client service team will include:

- Andy Maffia, Partner – Responsible for all professional services
- Elsa Romero, Partner – Responsible for tax services
- Edna Flores, Senior Associate – Responsible for managing day-to-day audit activities
- Rachelle Jumper, Manager – Responsible for managing day-to-day tax activities

All members will be actively involved and available for the duration of the assigned services, and additional staff members will be assigned and available as needed. All staff have significant experience with not-for-profit Organizations. Should there be any management staff changes we will discuss them with you prior to implementation.

## PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

### *Employment and Recruiting*

The persistence of low unemployment rates across the United States is significantly affecting the availability and stability of staffing for the finance functions of many NFPs. The high demand for and low supply of qualified candidates spans all levels of experience and expertise. NFPs, especially those paying below-market salaries, are often unable to fill key finance roles.

Risks to the NFP include the following:

- Lack of capacity to maintain basic financial systems
- Inadequate staff competency for the complexity of the Organization
- Frequent turnover affecting finance department and Organization-wide morale
- Understaffed finance departments vulnerable to inadequate segregation of duties and other internal control concerns

Possible strategies to mitigate risk include the following:

- Increase investment in staff salaries, professional development opportunities, and building progressive Organizational cultures that attract and retain quality finance staff
- When appropriate and possible, seek outsourced accounting and finance resources to fill gaps in the finance function, avoid overburdening current in-house staff, and shore up internal controls
- Involve other nonfinance department staff in less technical processes throughout transaction cycles to provide adequate coverage and segregation of duties

### *Political Activities*

With 2020 being an election year it is crucial that NFPs understand what is allowed and not allowed for political activities. A risk for NFPs is properly distinguishing between political campaign activities, which are not allowed for exempt organizations, and legislative activities, lobbying, voter registration, and voter engagement, all of which are permissible (with some limitations) for NFPs. For those permitted activities, there are also important differences between how and the extent to which 501(c)(3) and 501(c)(4) Organizations may engage in legislative, lobbying, and voter engagement activities.

NFPs may freely engage in lobbying as long as the related expenses comprise only an “insubstantial” amount of the organization's total expenditures. Each 501(c)(3) Organizations must determine the best strategy for documenting that its level of lobbying activity is insubstantial in comparison to its overall mission-related activity. The nonprofit must know its own situation well enough to decide whether the expenditure test or the substantial part test is most fitting, which includes whether to take the 501(h) election. If an Organization engages in any of these activities they must be able to properly track and report the expenses.

### *Outsourcing*

With ever-increasing pressure to cut costs, many NFPs have turned to outsourcing or shared-service functions for assistance in areas such as fundraising, investing, and financial reporting. However, delegation of operational functions does not relieve an NFP of its fiduciary or internal control responsibilities. The NFP's internal control framework should be extended to third-party vendors through a service level agreement, which will clarify responsibilities, establish expectations for timeliness of services, outline acceptable response times for incidents of various severity, and pre-define key performance indicators the vendor agrees to meet. This will enable the NFP to regularly monitor the vendor, which may include ascertaining any policies, procedures, or system and Organization control reports available from the vendor providing the outsourced functions. Cybersecurity policies and agreements with outsourced vendors are a must, as are monitoring and reporting of any incidents. It is critical that NFPs understand that they are accountable for their outsourced vendors' mistakes, errors, and deficiencies.

## PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

### *Cybersecurity*

In 2018, reported data breaches once again made history. The Marriott/Starwoods breach in November 2018 is the second largest breach ever reported, second only to the Yahoo breach in 2014. However, an Organization does not need to be the size of Yahoo or Marriott to be targeted. From a cybersecurity perspective, two types of Organizations exist: those that have been breached and those that do not realize they have been breached. Cybersecurity adversaries (also known as “bad actors”) are after one of the most valuable commodities in the world – data. Bad actors are using many methods to identify potential data custodians, and NFPs, whether large or small, are no exception. NFPs obtain and retain all types of valuable data about their donors, customers, and clients. Personally identifiable information, protected health care information, payment card information, and information about employees and the Organization itself can be considered extremely valuable on the dark web.

Is there anything NFPs can do? Fortunately, there are many things NFPs can do that do not cost a fortune. User awareness is one of the most effective methods for preventing bad actors from getting to personal or corporate data. Developing a culture that emphasizes security can stop many attempts to steal information. The following are a few awareness principles to instill in all users:

- Bad actors are a daily threat. Every member of an Organization is responsible for maintaining good IT security habits.
- Be leery of emails. If the email is unexpected, asks for user credentials, or requests an action that does not make sense, users should ask IT staff before proceeding.
- Verify the sender. If users receive a link or document that is unexpected, they should call the sender and verify legitimacy.
- Be very careful opening emails on a smart phone. It is usually harder to spot a phishing email on a phone than on a computer's email application.
- Have a password strategy. Use complex pass-phrases that are unique to each application or website. Use a password manager to keep track of passwords. Change passwords on a regular basis.
- Develop a culture of security. Talk about security best practices with new hires and existing employees on an ongoing basis. Do not adopt a “one and done” culture.
- Have a plan for employees to notify designated personnel and react quickly when an attack is discovered or suspected. The longer a bad actor has access to a system, the costlier it will be.

### *Management Discussion and Analysis (MD&A)*

Nonprofit Organizations have a lot of flexibility in reporting because the standard setters understand the diversity within the nonprofit community. One of the items that they considered as part of the nonprofit reporting standard was requiring an MD&A section in the financial statements for all NFP Organizations. This was removed from their agenda and was not included in the standard but is available should a NFP Organization choose to include it. MD&A allows management to tell the story of the Organization and explain the programs behind the numbers giving context to the users of the financial statements. As there is no specific guidance or requirements for MD&A reporting, each nonprofit will be able to tell their story in a way that is unique to them. If this is something that you would like to discuss further for your Organizations' consolidate financial statements please contact the audit team.

## PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

### *Exchange vs. Contribution Updated Guidance*

In June 2018, FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the accounting guidance related to grants and contracts. Many individuals working with NFPs noted long-standing difficulty and diversity in practice in characterizing grants and similar contracts with resource providers as either reciprocal (exchange) transactions or nonreciprocal (contribution) transactions. The issuance of the revenue from contracts with customers ASU placed a renewed focus on this accounting difficulty because this standard adds new disclosure requirements for exchange transactions and eliminates from GAAP existing limited industry guidance about exchange transactions for NFPs.

ASU No. 2018-08 clarifies and improves the guidance in GAAP related to two accounting issues: (a) how to distinguish reciprocal (exchange) transactions from nonreciprocal (contribution) transactions and (b) how to determine whether a contribution is conditional or unconditional.

For recipients of contributions, the guidance in the ASU is effective on the following dates based on whether the recipient is a public entity or other entity:

- Public entities – Effective for annual periods beginning after June 15, 2018, including interim periods within those annual periods
- All other entities – Effective for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019

For resource providers of contributions, the guidance in the ASU is effective on the following dates based on whether the resource provider is a public entity or other entity:

- Public entities – Effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods
- All other entities – Effective for annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020

### *Revenue Recognition Standard*

FASB's issuance of ASU No. 2014-09 titled *Revenue from Contracts with Customers*, represent a single, global, principles-based revenue recognition model. For NFPs that are considered public entities, the amendments were effective for annual reporting periods beginning after December 15, 2017. For all other NFPs, the amendments are being applied for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. In May 2020 the FASB issued an update that allows for implementation of ASU 2014-09 to be delayed until the year ending after December 15, 2020 for those entities that had not yet adopted it.

The new revenue recognition model replaces virtually all existing guidance for revenue recognition of exchange transactions. The guidance affects all entities – public, private, and NFP – that enter into contracts with customers to transfer goods or services or nonfinancial assets, unless those contracts are within the scope of other standards (such as for contributions, leases, financial instruments, or insurance contracts). The extent of the impact on an entity will differ depending on various factors such as the transaction, the specific legal terms and conditions of the contract, its complexity, and the industry in which the entity operates. In some cases, there may be no change to the amount and timing of revenue recognition. In other cases, there will be changes, and those changes could be significant. New qualitative and quantitative disclosure requirements about revenue and contracts with customers will affect almost all entities.

## PROFESSIONAL AND REGULATORY CHANGES, CONTINUED

*Lease Accounting* - FASB issued ASU No. 2016-02 in February 2016. This standard replaces FASB ASC 840, which was more than 40 years old. With the goal of increasing comparability and transparency, the new leases standard essentially moves operating lease obligations from the footnotes to the statement of financial position. Prior to ASU No. 2016-02, lessees recognized only lease obligations (liabilities) and related assets for capital leases. This left financial statement users lacking valuable information regarding an NFP's true operating costs and often required them to conduct further analysis of footnote disclosures to ascertain the costs of operating leases.

ASU No. 2016-02 will be effective for NFPs that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. For all other NFPs, the ASU will be effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2020. Early application is permitted.

Bringing operating leases onto the entity's statement of financial position could make a significant difference in the numbers that an Organization is reporting. However, many lessees will be able to meet the new reporting and disclosure requirements using existing systems and processes, keeping additional costs of providing the required information at bay.

## PEER REVIEW

We have included our peer review report below for your records



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400 Pine Street, Ste. 600, Abilene, TX 79601  
325.672.4000 / 800.588.2525 / F: 325.672.7049  
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### Report on the Firm's System of Quality Control

September 6, 2017

To the Shareholders of Aldrich CPAs + Advisors LLP  
and the Peer Review Committee of the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP (the firm) in effect for the year ended April 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards). A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

#### Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

#### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

#### Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

#### Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Aldrich CPAs + Advisors LLP in effect for the year ended April 30, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Aldrich CPAs + Advisors LLP has received a peer review rating of *pass*.

*Davis Kinard & Co, PC*

Certified Public Accountants



Aldrich CPAs + Advisors LLP  
7676 Hazard Center Drive, #1300  
San Diego, CA 92108

June 19, 2020

California State University San Marcos Corporation  
c/o Bella Newberg, Executive Director  
Craven Hall, 5111  
333 S. Twin Oaks Valley Rd.  
San Marcos, CA 92096

We are pleased to confirm our understanding of the services we are to provide for California State University San Marcos Corporation for the years ending June 30, 2020 and 2021.

## OUR RESPONSIBILITIES, AUDIT OBJECTIVES AND PROCEDURES

We will audit the financial statements of California State University San Marcos Corporation (Organization), which are comprised of the statement of financial positions as of June 30, 2020 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (the financial statements). Also, the following supplemental information accompanying the financial statements will be subjected to the auditing procedures applied in our 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, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

- 1) Schedule of Expenditures of Federal Awards.
- 2) Schedule of Net Position
- 3) Schedule of Revenues, Expenses, and Changes in Net Position
- 4) Other Information

We will also prepare the Organization's federal and state information returns for the years ending June 30, 2020 and 2021.

## AUDIT OBJECTIVE

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplemental information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the board of directors of California State University San Marcos Corporation. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue reports, or we may withdraw from this engagement.

## AUDIT PROCEDURES - GENERAL

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from the Organization's attorneys as part of the engagement, and they may

bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

## AUDIT PROCEDURES—INTERNAL CONTROL

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

## AUDIT PROCEDURES—COMPLIANCE

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of California State University San Marcos Corporation's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Organization's major programs. The purpose of these procedures will be to express an opinion on California State University San Marcos Corporation's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

## OTHER SERVICES

We will prepare the Organization's federal and state tax returns for the year ended June 30, 2020 and 2021 based on information provided by you. We may also provide the following bookkeeping or consulting services:

- a. Preparation of proposed journal entries.
- b. Consulting on accounting and income tax matters.
- c. Preparing the financial statements, schedule of expenditures of federal awards, and related notes of the Organization in conformity with U.S. generally accepted accounting principles and the Uniform Guidance based on information provided by you.

- d. Providing information and some consulting regarding the implementation revenue recognition, and lease standards.

These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. We will perform the tax services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and tax services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

## MANAGEMENT RESPONSIBILITIES

Management is responsible for (1) designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us, and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of

noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplemental information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplemental information in any document that contains, and indicates that we have reported on, the supplemental information. You also agree to include the audited financial statements with any presentation of the supplemental information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplemental information in accordance with GAAP; (2) you believe the supplemental information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

You agree to assume all management responsibilities relating to the tax services, financial statements, schedule of expenditures of federal awards, and related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter the tax services provided and our assistance with preparation of the financial statements, the schedule of expenditures of federal awards, and related notes and that you have evaluated the adequacy of our services and have reviewed and approved the results of the services, the financial statements, the schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

## **ENGAGEMENT PERSONNEL, FEES, AND OTHER**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Billings for these services will be invoiced in accordance with our attached Aldrich CPAs + Advisors LLP General Business Terms & Conditions. We estimate that our fees for the audit of the financial statements for the years ending June 30, 2020 and 2021 to be as follows:

	<u>2020</u>	<u>2021</u>
Audit	\$43,000	\$44,500
Single audit	\$24,000	\$24,500
Information return	\$4,000	\$4,100

Our fees are not contingent on the results of our services. In addition, our fee estimate is based on the assumptions and management responsibilities contained in this letter. Accordingly, if significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter and the attached Aldrich CPAs + Advisors LLP General Business Terms & Conditions, please sign the enclosed copy and return it to us.

Very truly yours,

*Aldrich CPAs + Advisors LLP*

ACCEPTED:

This letter correctly sets forth the understanding of California State University San Marcos Corporation:

DocuSigned by:  
  
 Management 3283F902BC7E494...

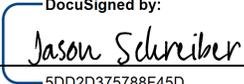
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Title

7/9/2020

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Date

DocuSigned by:  
  
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Title

7/9/2020

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Date

June 4, 2019

California State University San Marcos Foundation  
333 S. Twin Oaks Valley Road  
San Marcos, CA 92096

We are pleased to confirm our understanding of the services we are to provide for California State University San Marcos Foundation (Organization) for the years ending June 30, 2020 and 2021.

## OUR RESPONSIBILITIES, AUDIT OBJECTIVES AND PROCEDURES

We will audit the financial statements of California State University San Marcos Foundation (the Organization), which are comprised of the statements of financial position as of June 30, 2020 and 2021 the related statements of activities, functional expenses, and cash flows for the years then ending, and the related notes to the financial statements. Also, the following supplemental information accompanying the financial statements will be subjected to the auditing procedures applied in our 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, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditors' report on the financial statements:

- 1) Schedule of Net Position
- 2) Schedule of Revenues, Expenses, and Changes in Net Position
- 3) Other Information

We will also prepare the Organization's federal and state information returns for the years ending June 30, 2020 and 2021.

## AUDIT OBJECTIVE

The objective of our audit is the expression of an objective opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of your accounting records and other procedures we consider necessary for us to obtain the reasonable assurances required to express such an opinion. We will issue a written report upon completion of our audit of California State University San Marcos Foundation's financial statements. Our report will be addressed to board of directors of California State University San Marcos Foundation. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

## AUDIT PROCEDURES

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We may also request written representations from the Organization's attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from the

Organization's management about the financial statements and related matters. Such written representations are a material part of the audit that we will perform, and we are unable to finalize our engagement or report, and express our opinion without them. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during our audit, we will communicate to you and those charged with governance any internal control related matters that are required to be communicated under professional standards.

## OTHER SERVICES

We will assist in preparing the financial statements of the Organization in conformity with U.S. generally accepted accounting principles based on information provided by you.

We may also provide you with the following bookkeeping and consulting services:

- a. Preparation of proposed journal entries.
- b. Consulting on accounting and income tax matters.
- c. Providing information and some consulting regarding the implementation of AU 2016-14, revenue recognition, and lease standards.

We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

## MANAGEMENT RESPONSIBILITIES

You are responsible for designing, establishing, implementing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles

and financial reporting framework; and sound accounting policies. While we may assist you in the preparation of your financial statements, the Organization's senior management, with suitable skill, knowledge, and experience, are responsible for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the Organization from whom we determine it necessary to obtain audit evidence.

As part of our engagement we may propose corrections or adjustments to your financial statements, however, your responsibilities include reviewing and understanding such proposed corrections or adjustments and making the necessary changes to the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known, suspected or alleged fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws and regulations.

You agree to assume all management responsibilities for the financial statement preparation services, and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

You are responsible for notifying us in advance of your intent to publish, distribute or reproduce, in any form, including electronic and on the Organization's website, our report for any reason, in whole or in part; and to give us the opportunity to review any material containing our report. Notifying us of your intent to publish, distribute or reproduce our report does not constitute our acknowledgement of any third party's reliance on the financial statements.

## ENGAGEMENT PERSONNEL, FEES, AND OTHER

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our approach will be to perform our audit planning and other procedures based on our judgment prior to year-end, at a time that is convenient to both our staffs. These procedures may include examination of internal control and accounting procedures; assessment of risk, and preliminary audit planning. We will then schedule our year-end audit procedures at a time that is convenient for both of our staff, while meeting your deadlines.

Billings for these services will be invoiced in accordance with our attached Aldrich CPAs + Advisors LLP General Business Terms & Conditions. We estimate that our fees for the audit of the financial statements for the years ending June 30, 2020 and 2021 to be as follows:

	<u>2020</u>	<u>2021</u>
Audit	\$36,000	\$37,000
Information return	\$2,700	\$2,800

Our fees are not contingent on the results of our services. In addition, our fee estimate is based on the assumptions and management responsibilities contained in this letter. Accordingly, if significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter and the attached Aldrich CPAs + Advisors LLP General Business Terms & Conditions, please sign the enclosed copy and return it to us.

Very truly yours,

*Aldrich CPAs + Advisors LLP*

ACCEPTED:

This letter correctly sets forth the understanding of California State University San Marcos Foundation:

<p><i>Cathy Bauer</i>  <hr/>           Management</p> <p><i>Vice President, University Advancement</i>  <hr/>           Title</p> <p><i>7/5/19</i>  <hr/>           Date</p>	<p><i>Norman Jones</i>  <hr/>           Governance</p> <p><i>Vice President / CFO</i>  <hr/>           Title</p> <p><i>07/09/2019</i>  <hr/>           Date</p>
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June 4, 2019

Associated Students, Inc. of California State University San Marcos  
c/o Annie Macias, Executive Director  
333 S. Twin Oaks Valley Road, USU 3700  
San Marcos, CA 92096

We are pleased to confirm our understanding of the services we are to provide for Associated Students, Inc. of California State University San Marcos (Organization) for the years ending June 30, 2020 and 2021.

## **OUR RESPONSIBILITIES, AUDIT OBJECTIVES AND PROCEDURES**

We will audit the financial statements of Associated Students, Inc. of California State University San Marcos (the Organization), which are comprised of the statements of financial position as of June 30, 2020 and 2021 the related statements of activities, functional expenses, and cash flows for the years then ending, and the related notes to the financial statements. Also, the following supplemental information accompanying the financial statements will be subjected to the auditing procedures applied in our 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, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditors' report on the financial statements:

- 1) Schedule of Net Position
- 2) Schedule of Revenues, Expenses, and Changes in Net Position
- 3) Other Information

We will also prepare the Organization's federal and state information returns for the years ending June 30, 2020 and 2021.

## **AUDIT OBJECTIVE**

The objective of our audit is the expression of an objective opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of your accounting records and other procedures we consider necessary for us to obtain the reasonable assurances required to express such an opinion. We will issue a written report upon completion of our audit of Associated Students, Inc. of California State University San Marcos's financial statements. Our report will be addressed to board of directors of Associated Students, Inc. of California State University San Marcos. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

## **AUDIT PROCEDURES**

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We may also request written representations from the Organization's attorneys as part of the engagement, and they may bill you for

responding to this inquiry. At the conclusion of our audit, we will require certain written representations from the Organization's management about the financial statements and related matters. Such written representations are a material part of the audit that we will perform, and we are unable to finalize our engagement or report, and express our opinion without them. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during our audit, we will communicate to you and those charged with governance any internal control related matters that are required to be communicated under professional standards.

## OTHER SERVICES

We will assist in preparing the financial statements of the Organization in conformity with U.S. generally accepted accounting principles based on information provided by you.

We may also provide you with the following bookkeeping and consulting services:

- a. Preparation of proposed journal entries.
- b. Consulting on accounting and income tax matters.
- c. Providing information and some consulting regarding the implementation of AU 2016-14, revenue recognition, and lease standards.

We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

## MANAGEMENT RESPONSIBILITIES

You are responsible for designing, establishing, implementing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation

and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles and financial reporting framework; and sound accounting policies. While we may assist you in the preparation of your financial statements, the Organization's senior management, with suitable skill, knowledge, and experience, are responsible for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the Organization from whom we determine it necessary to obtain audit evidence.

As part of our engagement we may propose corrections or adjustments to your financial statements, however, your responsibilities include reviewing and understanding such proposed corrections or adjustments and making the necessary changes to the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known, suspected or alleged fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws and regulations.

You agree to assume all management responsibilities for the financial statement preparation services, and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

You are responsible for notifying us in advance of your intent to publish, distribute or reproduce, in any form, including electronic and on the Organization's website, our report for any reason, in whole or in part; and to give us the opportunity to review any material containing our report. Notifying us of your intent to publish, distribute or reproduce our report does not constitute our acknowledgement of any third party's reliance on the financial statements.

## ENGAGEMENT PERSONNEL, FEES, AND OTHER

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

Andy Maffia is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our approach will be to perform our audit planning and other procedures based on our judgment prior to year-end, at a time that is convenient to both our staffs. These procedures may include examination of internal control and accounting procedures; assessment of risk, and preliminary audit planning. We will then schedule our year-end audit procedures at a time that is convenient for both of our staff, while meeting your deadlines.

Billings for these services will be invoiced in accordance with our attached Aldrich CPAs + Advisors LLP General Business Terms & Conditions. We estimate that our fees for the audit of the financial statements for the years ending June 30, 2020 and 2021 to be as follows:

	<u>2020</u>	<u>2021</u>
Audit	\$19,500	\$20,000
Information return	\$2,500	\$2,600

Our fees are not contingent on the results of our services. In addition, our fee estimate is based on the assumptions and management responsibilities contained in this letter. Accordingly, if significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter and the attached Aldrich CPAs + Advisors LLP General Business Terms & Conditions, please sign the enclosed copy and return it to us.

Very truly yours,

*Aldrich CPAs + Advisors LLP*

ACCEPTED:

This letter correctly sets forth the understanding of Associated Students, Inc. of California State University San Marcos:

*Annie Macias*  
\_\_\_\_\_  
Management  
*Executive Director*  
\_\_\_\_\_  
Title  
*7/9/19*  
\_\_\_\_\_  
Date

*[Signature]*  
\_\_\_\_\_  
Governance  
*ASI President*  
\_\_\_\_\_  
Title  
*7/10/19*  
\_\_\_\_\_  
Date



## ALDRICH CPAs + ADVISORS LLP GENERAL BUSINESS TERMS & CONDITIONS ASSURANCE & FINANCIAL STATEMENT PREPARATION SERVICES

This document describes certain customary practices and general terms, conditions, and limitations ("Terms") relating to the delivery of audit, review, compilation, agreed upon procedures, and financial statement preparation services ("Services" or "Engagement") by Aldrich CPAs + Advisors LLP ("we" "our" or "us"). All Services Aldrich CPAs + Advisors provides to its clients or a third party ("you" or "your") are subject to these Terms and the terms and conditions contained in the accompanying Engagement Letter.

1. **Scope of Services.** Our services will be limited to the Services specifically described in our Engagement Letter. Services do not include presentation to or representation before any third party, regulator, or other authorities. If services beyond those specifically described in our Engagement Letter are requested by you or required, these additional services will be provided either under a separate engagement or a modification of an existing engagement at an additional cost. We presume requests for additional services by your personnel or agents are authorized by you. Our agreement to provide Services under the current Engagement does not obligate us to accept any other engagements.
2. **Invoices.** Our fees and expenses are billed on a regular basis. Unless otherwise indicated, fees and expenses quoted in our Engagement Letter are estimates and are not contingent on the results of the Services, and each invoice is payable in full on receipt. If you believe any invoice is incorrect or unacceptable, you will notify us in writing within 30 days of receipt. Aldrich CPAs + Advisors may suspend or terminate Services and charge interest on amounts due if an invoice remains unpaid for more than 30 days after date of invoice.
3. **Confidentiality.** Aldrich CPAs + Advisors and its employees will maintain the confidentiality of your Confidential Information, as defined below. We may disclose Confidential Information if compelled by a court or governmental agency, but we will use reasonable efforts to inform you prior to such disclosure.

Aldrich CPAs + Advisors will use reasonable precautions to protect your Confidential Information, but we have no obligation to use any measures not regularly employed by us in protecting our own Confidential Information. Except as provided below, "Confidential Information" means (i) information contained in your internal financial and business records, (ii) information reported on your tax returns, and (iii) other information concerning you or your business that is marked "confidential" or otherwise identified as "confidential" in writing at the time of disclosure. Confidential Information does not include information that (i) is or becomes publicly or generally known or available without breach of our obligations under this section, (ii) is disclosed by you to another party without confidentiality restrictions, (iii) is received by us on a non-confidential basis from another party reasonably presumed to be authorized to make such disclosure, or (iv) is previously known or subsequently independently developed by us.

**4. *Data Security.*** Aldrich CPAs + Advisors regularly communicates via email and stores and processes your information, including Confidential Information, on private networks and secure provider networks, computer servers, and applications (the "Cloud"). Emails and other electronically stored and transmitted information may be diverted, intercepted, altered, read, disclosed, or otherwise used or communicated by unauthorized third parties. While we will use resources and select suppliers of computer services that we determine provide highly secure environments, the security and protection of email and other electronically stored or transmitted data cannot be guaranteed or warranted. Accordingly, we will not be responsible for and specifically disclaim any liability for any information security breaches whatsoever, unless such breach is the result of our gross negligence or intentional misconduct, subject to the limitations set forth in Section 12.

**5. *Deliverables, Documents & Files.*** We will deliver to you the opinions, reports, financial statements, or other documents or information expressly identified in the Engagement Letter ("Deliverables"). Unless otherwise provided by applicable laws or regulations and except for the Deliverables, our work product, work papers, and files will remain our property and we retain all related intellectual property rights. We, in our sole discretion, may provide you with access to or copies of our work product, work papers, and files, but you agree to pay all costs associated with such access or copies. At the conclusion of our Engagement, we will promptly return to you your original records and documents. We will retain Engagement documentation for a period of 7 years. Thereafter, we will destroy our Engagement files in accordance with our document retention policy.

**6. *Document Production & Testimony.*** If, during the Engagement or thereafter, we are requested or authorized by you, or if we are required by law or regulation, subpoena, or other authorities or legal process to produce any documents or files, or to make our personnel available in connection with our Engagement, you will reimburse us for our professional time and expenses, as well as the fees and expenses of our legal counsel or other advisors incurred in responding to such requests.

In certain circumstances, information, particularly Confidential Information, may be protected by an accountant/client privilege, which you are responsible for recognizing, asserting, and maintaining. You must notify us if you wish to claim any privilege, and we will cooperate with your reasonable instructions relating to the privilege. Any questions concerning the availability, maintenance, waiver, and process for asserting a privilege should be directed to your legal counsel. In some jurisdictions the accountant/client privilege may belong to the accountant and not the client.

**7. *Third Parties, Independent Contractors.*** In performing the Services, we may use the services of domestic and foreign (as permitted by applicable law and regulation) independent contractors, other third party personnel, and part-time or seasonal employees. By engaging us, you authorize us to allow employees of such third parties to access your files, financial information, and other Confidential Information as necessary to provide the Services. We require third parties to protect the confidentiality of Confidential Information disclosed to them and may also require you to execute documents authorizing such disclosure. Our use of third parties does not affect our obligations to you under our Engagement Letter.

**8. *Reliance.*** Our Services, including our opinions, reports, compilations or financial statements, are provided for your benefit, and not for the benefit of any third party. You agree to indemnify and hold Aldrich harmless, in accordance with Section 13, from claims based on a third party's use of or reliance on our Services.

**9. *Changes in Laws, Regulations & Standards.*** Changes to applicable law, regulations, and accounting, auditing, or professional standards could materially affect the performance of the Services, including our opinions, reports, and presentation of financial statements. Such changes may also impact the time required to complete the Services and our professional fees.

**10. *Independence & Conflicting Engagements.*** If at any time, we determine in our sole discretion that our independence or objectivity is potentially impaired or a conflict of interest exists which prevents us from providing the Services in accordance with the applicable professional and ethical standards, we will notify you of the potential impairment or conflict, and we may withdraw from the engagement, unless the impairment or conflict can be removed to the extent permitted by applicable professional and ethical standards. You agree to advise us of other actual or potential engagements involving Aldrich CPAs + Advisors.

**11. *Termination.*** You may terminate the Engagement at any time by written notice to us. Subject to any restrictions imposed by applicable professions and ethical standards, we may terminate the Engagement Letter at any time upon written notice to you. Termination for any reason will not affect your obligation to pay us for fees and expenses incurred prior to termination, or our obligation to transfer files to and otherwise cooperate with successor auditors or accountants. If you terminate any Engagement Letter after we have commenced performing services under a fixed fee arrangement, you are obligated to pay us the entire fixed fee upon termination. All provisions of these Terms and the Engagement Letter will survive the termination of the Engagement Letter except our obligation to perform Services and your obligation to pay invoices for Services not performed.

**12. *Warranties & Limitations.*** The Services performed under the Engagement Letter and Terms are professional in nature. Aldrich CPAs + Advisors warrants that it will perform the Services in good faith, with due care, and in accordance with any applicable professional standards. Aldrich CPAs + Advisors specifically disclaims all other warranties, either express or implied, and makes no guarantee regarding the results of the Services and/or the use or implementation by you or any permitted third party. As your exclusive remedy for any breach of this warranty, Aldrich CPAs + Advisors will, on receipt of written notice within a reasonable time following the discovery of the breach, use diligent efforts to cure the breach.

If Aldrich CPAs + Advisors fails to provide an acceptable cure in a reasonable period of time, Aldrich CPAs + Advisors will return the professional fees paid to Aldrich CPAs + Advisors with respect to the Services giving rise to the breach, not to exceed the amount of actual and direct damages resulting from our failure to meet our obligations. This will be your sole and exclusive remedy. In no event will our liability for any claim arising out of or relating to our failure to meet our obligations under the Engagement Letter or these Terms exceed the amount of the fees actually paid to us under the Engagement Letter or extend to any indirect consequential, special, exemplary, or punitive damages.

Any claim or action by either party, regardless of its nature, arising out of or relating to any matter under the Engagement Letter or these Terms must be brought within 24 months after the party first knows or has reason to know that the claim or cause of action exists, unless otherwise provided by applicable law.

**13. *Indemnification.*** You will indemnify and hold harmless Aldrich, its personnel and its subcontractors from any and all costs, expenses, settlements, or penalties ("Liability") related to any proceeding initiated by a third party, if and to the extent that such Liability results directly or indirectly from your knowing, intentional or negligent misrepresentations, the provision of inaccurate or incomplete information by you, material errors, irregularities, fraud, embezzlements or other defalcation not detected by us, or the disclosure of our Deliverables to a third party, provided that the Liability is not the result of our failure to comply with professional standards, these Terms or the Engagement Letter.

**14. *Dispute Resolution.*** Aldrich CPAs + Advisors and you agree that any dispute regarding the Services will be finally resolved first through mediation, and, if unsuccessful, through arbitration. Following a good faith attempt by the parties' representatives to resolve the dispute, non-binding mediation may be initiated by either party, and the parties will select a mediator acceptable to both and will share the cost of mediation equally. Failing resolution through mediation, the parties will submit the dispute to binding arbitration before a single arbitrator with accounting industry experience reasonably acceptable to the parties. The arbitration will be subject to the rules established by the parties or the arbitrator, if the parties cannot agree. Arbitration will take place in Clackamas County, Oregon, or such other place as the parties may agree. The findings of the arbitrator will be final and binding and enforceable in any court with appropriate jurisdiction. Each party shall bear its own costs related to the arbitration, provided, however, that the parties shall share the fees and expenses of the arbitrator equally.

You acknowledge and agree that no affiliated or related entity of Aldrich CPAs + Advisors will have any liability to you or any other person and you will not bring any action against any such affiliated or related entity of Aldrich CPAs + Advisors in connection with the Engagement.

**15. *General.*** These Terms and the Engagement Letter represent our entire agreement and understanding concerning the Services described in the Engagement Letter, and supersede all prior negotiations, commitments, or agreements. These Terms and the Engagement Letter may only be amended by our written agreement. In the event of a conflict between these Terms and the Engagement Letter, these Terms will prevail.

If either party is delayed in performance or has the inability to perform due to any breach of this agreement by the other party, act of God, labor dispute or strike, war or civil disturbance, significant cyber security incident perpetrated by an external third party, or any other cause beyond that party's control and not due to that party's fault or negligence, then the failure to perform is excused. The other party shall have the right to terminate this agreement if such failure continues for an unreasonable period of time, and neither party shall be liable to the other party on such termination.

No waiver of any breach of these Terms or the Engagement Letter will be effective unless the waiver is in writing and signed by the applicable party. No waiver of one breach will be a waiver of any other or subsequent breach.

You may not assign the Engagement Letter to any other party without our prior written consent, except that you may assign the Engagement Letter to any party that acquires substantially all of your assets and goodwill. These Terms and the Engagement Letter are binding on Aldrich CPAs + Advisors and your successors and assigns. Except as expressly provided in the Engagement Letter, there are no third party beneficiaries to the Engagement Letter.

The Engagement Letter, including these Terms, and all matters relating to the Services will be governed by the laws of the State of Oregon. Any legal action related to the Services not subject to arbitration as described in Section 14 will be brought exclusively in the appropriate court located in Clackamas County, Oregon.

If any provision of these Terms or the Engagement Letter is found to be unenforceable, such finding will not affect the enforceability of other provisions, and such unenforceable provision will be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties.