




**UNIVERSITY AUXILIARY AND RESEARCH
SERVICES CORPORATION**

Financial Statements and Supplemental Information

Years Ended June 30, 2015 and 2014



UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
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Years Ended June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University Auxiliary and Research Services Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of University Auxiliary and Research Services Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of University Auxiliary and Research Services Corporation as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of University Auxiliary and Research Services Corporation as of June 30, 2014 were audited by other auditors whose report dated September 19, 2014 expressed an unmodified opinion on those statements.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information included on pages 15 - 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015, on our consideration of the University Auxiliary and Research Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University Auxiliary and Research Services Corporation's internal control over financial reporting and compliance.

AKT LLP

San Diego, California
September 15, 2015

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Statements of Financial Position**

June 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash	\$ 1,447,313	\$ 1,271,915
Accounts receivable	727,868	603,075
Other receivables	124,908	48,191
Due from related parties	343,786	466,868
Prepaid expenses	34,883	42,636
Current portion of certificates of deposit	-	4,079,145
Investments	<u>1,575,045</u>	<u>3,284,871</u>
Total Current Assets	4,253,803	9,796,701
Property and Equipment, net of accumulated depreciation	7,429,266	6,968,179
Certificates of Deposit, less current portion	982,199	3,920,000
Other Assets	<u>61,081</u>	<u>61,081</u>
Total Assets	<u>\$ 12,726,349</u>	<u>\$ 20,745,961</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 79,051	\$ 160,611
Due to related parties	408,504	8,511,440
Deferred revenue	457,494	536,579
Accrued payroll and benefits	832,649	656,070
Current portion of note payable	<u>-</u>	<u>2,994</u>
Total Current Liabilities	1,777,698	9,867,694
Deferred Revenue	1,995,786	1,326,146
Accrued Postretirement Benefit Costs	1,213,712	1,682,563
Note Payable, net of current portion	<u>250,000</u>	<u>-</u>
Total Liabilities	5,237,196	12,876,403
Net Assets		
Unrestricted:		
Board-designated:		
Operating reserves	1,275,488	739,573
Other program reserves	1,078,791	1,773,181
Equipment	<u>5,134,874</u>	<u>5,356,804</u>
Total Net Assets	<u>7,489,153</u>	<u>7,869,558</u>
Total Liabilities and Net Assets	<u>\$ 12,726,349</u>	<u>\$ 20,745,961</u>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Statements of Activities**

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Revenue, Gains and Other Support:		
Federal grants and contracts	\$ 6,362,436	\$ 6,090,738
Campus programs	2,743,423	2,215,840
Other sponsored programs	1,080,553	1,351,769
Child care center in-kind rental income	497,119	496,623
Commissions	487,459	516,766
Ground lease income	263,760	263,497
Rental income	139,092	137,445
Net realized and unrealized gain on investments	9,617	31,247
Interest and dividend income	6,860	28,610
	<u>11,590,319</u>	<u>11,132,535</u>
Total Unrestricted Revenue, Gains and Other Support	11,590,319	11,132,535
Expenses:		
Program services:		
Sponsored programs	6,404,812	6,058,317
Campus programs	2,913,139	2,314,403
Commercial operations	-	39,518
Student scholarships	20,709	8,214
	<u>9,338,660</u>	<u>8,420,452</u>
Total Program Services	9,338,660	8,420,452
General administration	2,632,064	3,213,245
	<u>11,970,724</u>	<u>11,633,697</u>
Total Expenses	11,970,724	11,633,697
Decrease in Net Assets	(380,405)	(501,162)
Net Assets, beginning	7,869,558	8,370,720
Net Assets, ending	\$ <u>7,489,153</u>	\$ <u>7,869,558</u>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Statements of Cash Flows**

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from Operating Activities:		
Decrease in net assets	\$ (380,405)	\$ (501,162)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	495,643	474,811
Net realized and unrealized gain on investments	(9,616)	(29,929)
Change in accumulated postretirement benefit obligation	(468,851)	199,127
Changes in operating assets and liabilities:		
Accounts receivable	(124,793)	382,804
Other receivables	(76,717)	14,630
Due from related parties	123,082	(215,895)
Prepaid expenses	7,753	2,022
Accounts payable	(81,560)	(161,533)
Due to related parties	(8,102,936)	431,039
Deferred revenue	(134,936)	40,091
Accrued payroll and benefits	176,579	(34,396)
Other current liabilities	<u>(2,994)</u>	<u>(6,588)</u>
Net Cash Provided (Used) by Operating Activities	(8,579,751)	595,021
Cash Flows provided by Investing Activities:		
Purchases of property and equipment	(41,905)	(257,901)
Purchases of investments	(13,883)	(517,872)
Proceeds from the sale of investments	1,733,325	500,000
Maturities of certificates of deposit	7,750,000	7,600,000
Purchases of certificates of deposit	(733,054)	(7,347,771)
Distributions on note receivable to the University	<u>-</u>	<u>250,000</u>
Net Cash Provided by Investing Activities	8,694,483	226,456
Cash Flows provided by Financing Activities:		
Proceeds from long term debt	<u>60,666</u>	<u>-</u>
Net Increase in Cash	175,399	821,477
Cash, beginning of year	<u>1,271,914</u>	<u>450,438</u>
Cash, end of year	\$ <u><u>1,447,313</u></u>	\$ <u><u>1,271,914</u></u>
Supplemental Disclosures of Noncash Activities		
Property improvements through noncash transaction		
Property and equipment contributed in lieu of commissions	\$ <u><u>836,241</u></u>	\$ <u><u>1,404,530</u></u>
Debt incurred on the purchase of property and equipment	\$ <u><u>189,334</u></u>	\$ <u><u>-</u></u>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

University Auxiliary and Research Services Corporation (Organization) is a nonprofit California corporation and an auxiliary organization of California State University San Marcos (University), organized and operated in accordance with the California Code of Regulations and the Education Code of the State of California. The Organization was organized in December 1989 to provide service and opportunity to the University. The Organization accomplishes this through its focus on administering research and educational grants and contracts; human resource and payroll services, Business Services to other Auxiliary programs, and management of various entrepreneurial commercial enterprises. Commercial enterprises include childcare services, campus dining services, bookstore and retail services, and managing other commercial partnerships.

The Organization's financial statements are included as a component unit of the University's annual general-purpose financial statements. This is required by accounting principles generally accepted in the United States applicable to governmental entities.

Related Parties

The Organization is related to other auxiliaries of the University, including San Marcos University Corporation (UCorp), Associated Students, Inc. of California State University San Marcos (ASI) and California State University San Marcos Foundation (CSUSMF). These auxiliaries, although independent, and the University periodically provide various services to one another.

Basis of Presentation

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

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

The Organization had no temporarily or permanently restricted net assets during the years June 30, 2015 and 2014.

Use of Estimates

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

Income Taxes

The Organization is a qualified nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Organization remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to its exempt purpose.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Income Taxes, continued

The Organization follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Organization has no uncertain tax positions at June 30, 2015 and 2014 and therefore no amounts have been accrued.

Accounts Receivable

The accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. A provision for doubtful accounts has not been established as management considers all accounts to be collectible based upon a favorable history over a substantial period of time. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

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

The investments of the Organization are exposed to interest rate and market risk. Economic conditions can impact these risks and resulting fair values can be either positively or adversely affected. If the level of risk increases in the near term, it is possible that the investment balances and the amounts reported in the financial statements could be materially affected by market fluctuations. Although the fair value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Organization and its beneficiaries.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of 3 to 10 years.

Deferred Revenue

Deferred revenue represents grant revenue received in advance and the unamortized portion of property and equipment received from unrelated third parties as part of agreements for the operation of the bookstore and campus food services.

Subsequent Events

The Organization has evaluated subsequent events through September 15, 2015, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

The Organization maintains accounts at a financial institution with funds insured by the Federal Deposit Insurance Corporation. The Corporation's accounts at this institution may, at times, exceed FDIC-insured limits of up to \$250,000. The Organization has not experienced any such losses in these accounts.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 3 – Investments and Fair Value Measurement

Fair Value Measurements

The Organization defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. In addition, the Organization reports certain investments using the net asset value per share as determined by investment managers, allowing the net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. The three levels are defined as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investments at fair value according to the fair value hierarchy are as follows at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Core fixed-income institutional mutual fund	\$ <u>1,575,045</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,575,045</u>

Investments at fair value according to the fair value hierarchy are as follows at June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Core fixed-income institutional mutual fund	\$ 1,979,194	\$ -	\$ -	\$ 1,979,194
Domestic equity securities	<u>1,305,677</u>	<u>-</u>	<u>-</u>	<u>1,305,677</u>
	\$ <u>3,284,871</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,284,871</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 4 – Property and Equipment

Property and equipment consist of the following at June 30:

	2015	2014
Land improvements	\$ 1,535,469	\$ 1,535,469
Building and improvements	4,385,743	4,385,743
Furniture and equipment	2,162,107	1,996,945
Leasehold improvements	2,749,539	2,831,354
	10,832,858	10,749,511
Less accumulated depreciation	(3,592,925)	(3,907,548)
	7,239,933	6,841,963
Construction in progress	189,333	126,216
	\$ 7,429,266	\$ 6,968,179

Note 5 – Commitments and Contingencies

Leases

The Organization has entered into various operating lease agreements with the University for office facilities, with monthly rents totaling \$3,666 through June 30, 2015. The lease agreement for 435 E. Carmel Street may be terminated by either party upon a four-month written notice and has monthly rent of \$11,592 expiring on December 31, 2017. Total rent expense was approximately \$183,100 for each of the years ended June 30, 2015 and 2014.

Minimum future lease payments as of June 30, 2015 are due as follows:

<u>Year Ending June 30,</u>	
2016	\$ 132,312
2017	125,520
2018	62,760
Thereafter	-
	\$ <u>320,592</u>

Bookstore Operating Agreement

In July 2011, the Organization entered into an agreement with an unrelated third party to operate the campus bookstore. In July 2014, the Organization amended the bookstore operating agreement with the third-party operator. As part of the agreement, the unrelated third party relocated the bookstore to the former campus dining area and paid for the relocation and improvement costs related to the move. The cost will be depreciated and amortized over the contract term. All capital equipment or improvements not attached as fixtures to real estate are the property of the unrelated third-party. If the Organization terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Organization is required to purchase any existing inventory at the time of termination at fair value according to the agreement, reimburse the unrelated third party for the book value of its capital improvements, and refund the unamortized portion of the bookstore build-out. The contract term was extended to June 30, 2015.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 5 – Commitments and Contingencies, continued

Bookstore Operating Agreement, continued

The contract commissions changed from 12.5 to 11.5 percent on gross revenues up to \$4,000,000 and 13.5 to 12.5 percent on gross revenues exceeding \$4,000,000. Commission revenue for the years ended June 30, 2015 and 2014 included \$352,671 and \$376,193, respectively, under this agreement.

In June 2015, as part of the agreement, the unrelated third party placed into service \$836,241 of equipment, design and construction services for the build-out of the bookstore for the Organization. The Organization has ownership of the assets and has recorded a corresponding liability to deferred revenue which is amortized to revenue over the 10 remaining years of the contract. The Organization recognized revenues of \$4,327 for the year ended June 30, 2015. In addition, the Organization has deferred revenue of \$831,914 at June 30, 2015, related to the noncash transaction.

Child Care Center Lease Agreement

In July 2011, UCorp transferred the assets and functions of the campus child care center, Center for Children and Families, to the Organization. The child care assets consisted of a building, land improvements, and related furniture and equipment, with a net book value of \$6,285,611. As part of the transfer, the Organization assumed the Child Care Center Development Agreement (Agreement) with Children's Creative Learning Center (CCLC), a California Corporation, which terminated on August 30, 2012. In exchange for operating, maintaining, and managing the center, CCLC is not charged rent. Management estimated that the value of the Agreement was \$497,119 and \$496,623 for the years ended June 30, 2015 and 2014, respectively. These amounts are included in the statements of activities for the years ended June 30, 2015 and 2014 as child care center in-kind rental income and campus programs expense.

Along with the assets for the child care center, the ground lease was also transferred to the Organization. Management estimated that the value of the lease agreement was \$263,760 and \$263,497 for the years ended June 30, 2015 and 2014, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2015 and 2014 as property ground lease income and land leasing costs, which is included in campus programs expense.

Beverage Distribution Rights Contract

The Organization has granted an unrelated third party exclusive rights to campus beverage sales and distribution. The term of the agreement is a 10-year period expiring on December 31, 2021, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the unrelated third party will have exclusive rights for beverage sale and distribution, including the right to provide all beverages at athletic events, club activities, special events, concessions and vending locations.

As consideration for the agreement, the unrelated third party paid the Organization an initial support fund in the amount of \$50,000 earned over the term of the agreement and payable upon signing the agreement. Additional consideration includes an Annual Sponsorship Fee of \$20,000 payable annually at the end of each calendar year and 35 percent commission paid quarterly on actual cash collected by vending machines plus proceeds from credit card transactions. Commission revenue included \$62,587 and \$59,258 for the years ended June 30, 2015 and 2014, respectively, under this agreement, which includes the \$20,000 sponsorship fee for the year ended June 30, 2015.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 5 – Commitments and Contingencies, continued

Campus Food Service Agreement

The Organization has an agreement with an unrelated third party to operate the campus food services, including retail sales, catering and concessions. The term of the agreement is 20 years through August 2032, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the Organization will continue to own the premises and equipment used to operate the food services and the unrelated third party shall purchase and own the inventories of food, beverage and supplies used in operations. In the event of a termination by the Organization, all amounts due to the unrelated third party shall be payable immediately as defined in the agreement. The Organization does not expect early termination. As consideration for the agreement, the unrelated third party will pay the Organization a commission of 5 percent on retail and catering sales commencing in July 2019.

In January 2014, as part of the agreement, the unrelated third party purchased approximately \$1.4 million of equipment, design and construction services for the build-out of retail concepts for the Organization. The Organization has ownership of the assets and has recorded a corresponding liability to deferred revenue which is amortized to revenue over the 18 remaining years of the contract. The Organization recognized revenues of \$73,923 and \$36,961 for the years ended June 30, 2015 and 2014. In addition, the Organization has deferred revenue of \$1,293,646 at June 30, 2015, related to the noncash transaction.

Sponsored Programs

The Organization receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and operating subsidies. Disbursement of funds received under these programs generally require compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability to the Organization. However in the opinion of management, any such disallowed claims would not have a material adverse impact on the overall financial position of the Organization at June 30, 2015.

Workers' Compensation Insurance

During the fiscal years June 30, 2015 and 2014, the Organization purchased workers' compensation insurance for \$43,106 and \$35,353, respectively, through an approved self-insurance program in which the Organization is a member (as are ASI, CSUSMF, and UCorp), and which is administered by the California State University Risk Management Authority (CSURMA).

Involvement in alternative insurance programs such as the CSURMA's self funded workers' compensation program is an attempt to control the increases in insurance costs, but also carry financial commitments to the liabilities of the program.

Legal Proceedings

The Organization is involved in legal proceedings arising in the normal course of business. Management believes the final outcome of these proceedings will not have a material adverse effect on the Organization's results of activities or financial position.

Note 6 – Accrued Postretirement Benefits Costs

The Organization has a postretirement program that provides lifetime medical, dental, and vision coverage to retiring employees age 65 or older with at least 10 years of service. Medical coverage will be provided through the AOA pooled medical program. Dependent spouses of eligible retirees will also receive lifetime medical, dental, and vision coverage. Expenses under the program for the years ended June 30, 2015 and 2014 were \$468,851 and \$199,127, respectively.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 6 – Accrued Postretirement Benefits Costs, continued

The Organization made a plan change during the fiscal year to terminate post-retirement benefits (for both prior and future services performed) for any non-UARSC Central employee with less than 5 years' service as of December 31, 2014 or any employee hired after December 31, 2014. This change resulted in a plan curtailment and a plan settlement. This resulted in a curtailment/settlement gain of \$584,541 for the year ended June 30, 2015.

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

	<u>2015</u>	<u>2014</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 1,385,824	\$ 1,342,921
Service cost	90,399	158,776
Interest cost	42,708	51,143
Amendments	(419,297)	N/A
Actuarial gain	(10,781)	(162,675)
Acquisition	N/A	N/A
Benefits paid	<u>(13,503)</u>	<u>(4,341)</u>
Benefit obligation at end of year	\$ <u>1,075,350</u>	\$ <u>1,385,824</u>
Curtailment/Settlement Gain	\$ 584,541	\$ -
	<u>2015</u>	<u>2014</u>
Funded Status		
Unamortized prior service cost	\$ 138,564	\$ 360,134
Unrecognized net actuarial (gain)/loss	(276,926)	(656,873)
Accrued benefit cost	<u>1,213,712</u>	<u>1,682,563</u>
Benefit Obligation at June 30	\$ <u>1,075,350</u>	\$ <u>1,385,824</u>
Measurement date	6/30/2015	6/30/2014
Funded status at end of year	\$ (1,075,350)	\$ (1,385,824)
	<u>2015</u>	<u>2014</u>
Net Periodic Benefit Cost		
Service Cost	\$ 90,399	\$ 158,776
Interest Cost	42,708	51,143
Expected return on plan assets	-	-
Amortization of prior service cost	10,063	26,327
Amortization of net (gain) loss	<u>(9,826)</u>	<u>(36,929)</u>
Net periodic benefit cost	\$ <u>133,344</u>	\$ <u>199,317</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 6 – Accrued Postretirement Benefits Costs, continued

The weighted-average assumptions used to determine benefit obligations are as follows for the years ended June 30:

Assumptions

Weighted-average assumptions used to determine benefit obligations at June 30:

	2015	2014
Discount Rate	4.50%	4.50%
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate assumed for next year	6.10%	6.40%
Rate to which the cost trend rate is assumed to decline		

Note 7 – Long-Term Debt

In July 2014, the Organization entered into a ten-year note payable with the University for \$250,000 to be used for the refurbishment and modernization of various facilities. The note bears interest at 3 percent per annum and is payable in annual principal and interest installments.

Minimum future principal payments on long-term debt as of June 30, 2015 are due as follows:

Years Ending June 30,	
2016	\$ -
2017	24,608
2018	25,347
2019	26,107
2020	26,890
Thereafter	<u>147,048</u>
	<u>\$ 250,000</u>

Note 8 – Related Party Transactions

The Organization reimburses the University for salaries and other program-related costs for personnel working on contracts, other programs and campus programs.

In June, 2013, the Organization loaned the University \$250,000 at 3 percent interest payable over seven years through June 30, 2020, in order to help with the budget reductions faced by the University. Interest-only payments of \$7,500 were due the first two years, and then principal and interest payments of \$54,589 per year were due over the remaining five years. In May 2014, the University paid off the remaining balance of the loan.

The Organization, as a lessor, has entered into an operating lease agreement to rent storage space to the University at 435 E. Carmel Street. The monthly rental income is \$11,591 per month through December 31, 2015. The future minimum rental receipts for the year ending June 30, 2015 are \$132,312.

The Organization entered into payroll processing agreements with UCorp and ASI. In addition, the Organization incurred expenses for events and conference services provided by UCorp.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

Note 8 – Related Party Transactions, continued

Related party transactions are as follows:

<u>Affiliate</u>	<u>Description</u>	<u>Reported in</u>	<u>2015</u>	<u>2014</u>
Payments to:				
ASI	Student program costs	Various expenses	\$ 5,568	\$ -
UCorp	Services, programs and other expenses	Various expenses	56,201	48,344
University	Salaries and reimbursed costs	Various expenses	3,534,473	4,876,592
			<u>\$ 3,596,242</u>	<u>\$ 4,924,936</u>
Payments from:				
ASI	Payroll processing, administrative expenses and other expenses	Revenue	\$ 647,889	\$ 634,454
UCorp	Payroll processing, administrative expenses and other expenses	Revenue	1,185,822	777,538.00
University	Services and programs	Revenue	998,971	669,741
			<u>\$ 2,832,682</u>	<u>\$ 2,081,733</u>
Due from:				
ASI	Salaries, benefits, and other expenses	Due from related parties	\$ 63,583	\$ 40,694
Foundation	Other expenses	Due from related parties	22,325	-
UCorp	Salaries, benefits, and other expenses	Due from related parties	159,875	111,357
University	Salaries, benefits, and other expenses	Due from related parties	98,003	314,817
			<u>\$ 343,786</u>	<u>\$ 466,868</u>
Due to:				
Foundation	Investments	Due to related parties	\$ -	\$ 8,076,094
UCorp	Cost reimbursement	Due to related parties	2,077	5,104
University	Cost reimbursement	Due to related parties	406,427	430,242
			<u>\$ 408,504</u>	<u>\$ 8,511,440</u>

Note 9 – Reclassifications

Certain items in the 2014 financial statement have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

Note 10 – Functional Allocation of Expenses

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

SUPPLEMENTAL INFORMATION

University Auxiliary and Research Services Corporation
Schedule of Net Position
June 30, 2015
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,447,313
Short-term investments	1,575,045
Accounts receivable, net	1,196,562
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other assets	34,883
Total current assets	<u>4,253,803</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Leases receivable, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	982,199
Capital assets, net	7,429,266
Other assets	61,081
Total noncurrent assets	<u>8,472,546</u>
Total assets	<u>12,726,349</u>
Deferred outflows of resources:	
Unamortized loss on debt refunding	-
Net pension obligation	-
Others	-
Total deferred outflows of resources	<u>-</u>
Liabilities:	
Current liabilities:	
Accounts payable	487,555
Accrued salaries and benefits payable	543,205
Accrued compensated absences— current portion	289,444
Unearned revenue	457,494
Capitalized lease obligations – current portion	-
Long-term debt obligations – current portion	-
Claims Liability for losses and LAE - current portion	-
Depository accounts	-
Other liabilities	-
Total current liabilities	<u>1,777,698</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue	1,995,786
Grants refundable	-
Capitalized lease obligations, net of current portion	-
Long-term debt obligations, net of current portion	250,000
Claims Liability for losses and LAE, net of current portion	-
Depository accounts	-
Other postemployment benefits obligation	1,213,712
Pension obligation	-
Other liabilities	-
Total noncurrent liabilities	<u>3,459,498</u>
Total liabilities	<u>5,237,196</u>
Deferred inflows of resources:	
Unamortized gain on debt refunding	-
Non-exchange transactions	-
Service concession arrangements	-
Net pension obligation	-
Others	-
Total deferred inflows of resources	<u>-</u>
Net Position:	
Net investment in capital assets	5,134,875
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Other	-
Unrestricted	2,354,278
Total net position	<u>\$ 7,489,153</u>

See independent auditors' report.

University Auxiliary and Research Services Corporation
Schedule of Revenues, Expenses, and Changes in Net Position
June 30, 2015
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$_____)	\$ -
Grants and contracts, noncapital:	
Federal	6,362,436
State	689,969
Local	-
Nongovernmental	390,584
Sales and services of educational activities	2,743,423
Sales and services of auxiliary enterprises (net of scholarship allowances of \$_____)	1,387,430
Other operating revenues	-
Total operating revenues	<u>11,573,842</u>
Expenses:	
Operating expenses:	
Instruction	2,259,300
Research	3,985,836
Public service	65,249
Academic support	340,064
Student services	3,801,755
Institutional support	907,771
Operation and maintenance of plant	-
Student grants and scholarships	-
Auxiliary enterprise expenses	115,106
Depreciation and amortization	495,643
Total operating expenses	<u>11,970,724</u>
Operating income (loss)	<u>(396,882)</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Federal financial aid grants, noncapital	-
State financial aid grants, noncapital	-
Local financial aid grants, noncapital	-
Nongovernmental and other financial aid grants, noncapital	-
Other federal nonoperating grants, noncapital	-
Gifts, noncapital	-
Investment income (loss), net	16,477
Endowment income (loss), net	-
Interest Expenses	-
Other nonoperating revenues (expenses)	-
Net nonoperating revenues (expenses)	<u>16,477</u>
Income (loss) before other additions	<u>(380,405)</u>
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase (decrease) in net position	<u>(380,405)</u>
Net position:	
Net position at beginning of year, as previously reported	7,869,558
Restatements	-
Net position at beginning of year, as restated	<u>7,869,558</u>
Net position at end of year	<u>\$ 7,489,153</u>

University Auxiliary and Research Services Corporation
 Other Information
 June 30, 2015
 (for inclusion in the California State University)

1 Restricted cash and cash equivalents at June 30, 2015:

Portion of restricted cash and cash equivalents related to endowments	\$ -
All other restricted cash and cash equivalents	-
Total restricted cash and cash equivalents	\$ -

2 Composition of investments at June 30, 2015:

	Unrestricted	Current Restricted	Total Current	Unrestricted	Restricted	Total Noncurrent	Total
State of California Surplus Money Investment Fund (SMIF)	\$ -	-	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-	-
Certificates of deposit	-	-	-	982,199	-	982,199	982,199
Mutual funds	1,575,045	-	1,575,045	-	-	-	1,575,045
Money Market funds	-	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-
Asset backed securities	-	-	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-	-	-
Municipal bonds	-	-	-	-	-	-	-
U.S. agency securities	-	-	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-
Exchange traded funds (ETFs)	-	-	-	-	-	-	-
Alternative investments:							
Private equity (including limited partnerships)	-	-	-	-	-	-	-
Hedge funds	-	-	-	-	-	-	-
Managed futures	-	-	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Other alternative investment types	-	-	-	-	-	-	-
Other external investment pools (excluding SWIFT)							
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Other major investments:							
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-
Total investments	1,575,045	-	1,575,045	982,199	-	982,199	2,557,244
Less endowment investments (enter as negative number)	-	-	-	-	-	-	-
Total investments	1,575,045	-	1,575,045	982,199	-	982,199	2,557,244

2.2 Investments held by the University under contractual agreements at June 30, 2015:

Portion of investments in note 2.1 held by the University under contractual agreements at June 30, 2015 :	-	-	-	-	-	-	-
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See independent auditors' report.

University Auxiliary and Research Services Corporation

Other Information

June 30, 2015

(for inclusion in the California State University)

	<u>Amount</u>
2.3 Restricted current investments at June 30, 2015 related to:	
Add description	\$ -
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total restricted current investments at June 30, 2015	<u><u>\$ -</u></u>
2.4 Restricted noncurrent investments at June 30, 2015 related to:	
Endowment investment	\$ -
Add description	
Add description	
Add description	
Add description	
Add description	
Add description	-
Add description	-
Total restricted noncurrent investments at June 30, 2015	<u><u>\$ -</u></u>

University Auxiliary and Research Services Corporation
Other Information
June 30, 2015
 (for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2015:

	Balance June 30, 2014	Prior period Adjustments	Reclassifications	Balance June 30, 2014 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2015
Nondepreciable/nonamortizable capital assets:								
Land and land improvements	\$ -	-	-	-	-	-	-	-
Works of art and historical treasures	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	126,216	-	-	126,216	200,682	(137,565)	-	189,333
Intangible assets:								
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-
Internally generated intangible assets in progress	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total nondepreciable/nonamortizable capital assets	<u>126,216</u>	<u>-</u>	<u>-</u>	<u>126,216</u>	<u>200,682</u>	<u>(137,565)</u>	<u>-</u>	<u>189,333</u>
Depreciable/amortizable capital assets:								
Buildings and building improvements	4,385,743	-	-	4,385,743	-	-	-	4,385,743
Improvements, other than buildings	1,535,469	-	-	1,535,469	-	-	-	1,535,469
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	2,831,354	-	-	2,831,354	836,241	(918,056)	-	2,749,539
Personal property:								
Equipment	1,996,945	-	-	1,996,945	165,162	-	-	2,162,107
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets:								
Software and websites	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total depreciable/amortizable capital assets	<u>10,749,511</u>	<u>-</u>	<u>-</u>	<u>10,749,511</u>	<u>1,001,403</u>	<u>(918,056)</u>	<u>-</u>	<u>10,832,858</u>
Total capital assets	<u>10,875,727</u>	<u>-</u>	<u>-</u>	<u>10,875,727</u>	<u>1,202,085</u>	<u>(1,055,621)</u>	<u>-</u>	<u>11,022,191</u>
Less accumulated depreciation/amortization:								
Buildings and building improvements	(502,826)	-	-	(502,826)	(146,192)	-	-	(649,018)
Improvements, other than buildings	(412,393)	-	-	(412,393)	(102,366)	-	-	(514,759)
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	(1,618,669)	-	-	(1,618,669)	(109,309)	810,266	-	(917,712)
Personal property:								
Equipment	(1,373,660)	-	-	(1,373,660)	(137,776)	-	-	(1,511,436)
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets:								
Software and websites	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	<u>(3,907,548)</u>	<u>-</u>	<u>-</u>	<u>(3,907,548)</u>	<u>(495,643)</u>	<u>810,266</u>	<u>-</u>	<u>(3,592,925)</u>
Total capital assets, net	<u>\$ 6,968,179</u>	<u>-</u>	<u>-</u>	<u>\$ 6,968,179</u>	<u>706,442</u>	<u>(245,355)</u>	<u>-</u>	<u>7,429,266</u>

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2015:

Depreciation and amortization expense related to capital assets	\$ 495,643
Amortization expense related to other assets	-
Total depreciation and amortization	<u>\$ 495,643</u>

See independent auditors' report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2015
(for inclusion in the California State University)

4 Long-term liabilities activity schedule:

	Balance	Prior period adjustments	Reclassifications	Balance	Additions	Reductions	Balance	Current portion	Long-term portion
	June 30, 2014			June 30, 2014 (restated)			June 30, 2015		
Accrued compensated absences	\$ 247,247	-	-	247,247	42,197	-	289,444	289,444	-
Capitalized lease obligations:									
Gross balance	-	-	-	-	-	-	-	-	-
Unamortized premium / (discount) on capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations:									
Revenue Bonds	-	-	-	-	-	-	-	-	-
Other bonds (non-Revenue Bonds)	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Note Payable related to SRB	-	-	-	-	-	-	-	-	-
Other:									
Note Payable	-	-	-	-	250,000	-	250,000	-	250,000
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
- Total long-term debt obligations	-	-	-	-	250,000	-	250,000	-	250,000
Unamortized bond premium / (discount)	-	-	-	-	-	-	-	-	-
Unamortized loss on refunding	-	-	-	-	-	-	-	-	-
Total long-term debt obligations, net	-	-	-	-	250,000	-	250,000	-	250,000
- Total long-term liabilities	\$ 247,247	-	-	247,247	292,197	-	539,444	289,444	250,000

University Auxiliary and Research Services Corporation
 Other Information
 June 30, 2015
 (for inclusion in the California State University)

5 Future minimum lease payments - capital lease obligations:

	Principal	Interest	Principal and Interest
Year ending June 30:			
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021 - 2025	-	-	-
2026 - 2030	-	-	-
2031 - 2035	-	-	-
2036 - 2040	-	-	-
2041 - 2045	-	-	-
2046 - 2050	-	-	-
2051 - 2055	-	-	-
2056 - 2060	-	-	-
2061 - 2065	-	-	-
	-	-	-
Total minimum lease payments			-
Less amounts representing interest			-
Present value of future minimum lease payments			-
Less: current portion			-
Capitalized lease obligation, net of current portion			\$ -

University Auxiliary and Research Services Corporation
Other Information
June 30, 2015
(for inclusion in the California State University)

6 Long-term debt obligation schedule

	Revenue Bonds			All other long-term debt obligations			Total		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2016	\$ -	-	-	-	7,500	7,500	-	7,500	7,500
2017	-	-	-	24,608	7,500	32,108	24,608	7,500	32,108
2018	-	-	-	25,347	6,762	32,109	25,347	6,762	32,109
2019	-	-	-	26,107	6,001	32,108	26,107	6,001	32,108
2020	-	-	-	26,890	5,218	32,108	26,890	5,218	32,108
2021 - 2025	-	-	-	147,048	13,495	160,543	147,048	13,495	160,543
2026 - 2030	-	-	-	-	-	-	-	-	-
2031 - 2035	-	-	-	-	-	-	-	-	-
2036 - 2040	-	-	-	-	-	-	-	-	-
2041 - 2045	-	-	-	-	-	-	-	-	-
2046 - 2050	-	-	-	-	-	-	-	-	-
2051 - 2055	-	-	-	-	-	-	-	-	-
2056 - 2060	-	-	-	-	-	-	-	-	-
2061 - 2065	-	-	-	-	-	-	-	-	-
Total	\$ -	-	-	250,000	46,476	296,476	250,000	46,476	296,476

University Auxiliary and Research Services Corporation
Other Information
June 30, 2015
(for inclusion in the California State University)

7 Calculation of net position

	Auxiliary Organizations		Total
	GASB	FASB	Auxiliaries
7.1 Calculation of net position - Net investment in capital assets			
Capital assets, net of accumulated depreciation	\$ -	7,429,266	7,429,266
Capitalized lease obligations - current portion	-	-	-
Capitalized lease obligations, net of current portion	-	-	-
Long-term debt obligations - current portion	-	-	-
Long-term debt obligations, net of current portion	-	(250,000)	(250,000)
Portion of outstanding debt that is unspent at year-end	-	-	-
Other adjustments: (please list)			
Deferred revenue	-	(2,105,058)	(2,105,058)
Deposit for future construction in progress	-	60,666	60,666
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Net position - net investment in capital asset	\$ -	5,134,875	5,134,875
7.2 Calculation of net position - Restricted for nonexpendable - endowments			
Portion of restricted cash and cash equivalents related to endowments	\$ -		-
Endowment investments	-		-
Other adjustments: (please list)			
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Add description	-		-
Net position - Restricted for nonexpendable - endowments per SNP	\$ -	-	-

8 Transactions with Related Entities

	Amount
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 827,368
Payments to University for other than salaries of University personnel	2,707,105
Payments received from University for services, space, and programs	998,971
Gifts-in-kind to the University from discretely presented component units	-
Gifts (cash or assets) to the University from discretely presented component units	-
Accounts (payable to) University (enter as negative number)	(406,427)
Other amounts (payable to) University (enter as negative number)	(250,000)
Accounts receivable from University	98,003
Other amounts receivable from University	-

9 Other Postemployment Benefits Obligation (OPEB)

Annual required contribution (ARC)	\$ (468,851)
Contributions during the year	-
Increase (decrease) in net OPEB obligation (NOO)	(468,851)
NOO - beginning of year	1,682,563
NOO - end of year	\$ 1,213,712

University Auxiliary and Research Services Corporation
Other Information
June 30, 2015
(for inclusion in the California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

<u>Description</u>	<u>Amount</u>
Add description	\$ -
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total pollution remediation liabilities	\$ -
Less: current portion	-
Pollution remediation liabilities, net of current portion	<u>-</u>

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

	<u>Net Position</u>	<u>Amount</u>
	<u>Class</u>	<u>Dr. (Cr.)</u>
Net position as of June 30, 2014, as previously reported		\$ 7,869,558
Prior period adjustments:		
1 (list description of each adjustment)		-
2 (list description of each adjustment)		-
3 (list description of each adjustment)		-
4 (list description of each adjustment)		-
5 (list description of each adjustment)		-
6 (list description of each adjustment)		-
7 (list description of each adjustment)		-
8 (list description of each adjustment)		-
9 (list description of each adjustment)		-
10 (list description of each adjustment)		-
Net position as of June 30, 2014, as restated		<u>\$ 7,869,558</u>

University Auxiliary and Research Services Corporation
 Other Information
 June 30, 2015
 (for inclusion in the California State University)

Provide a detailed breakdown of the journal entries (at the financial statement line item level) booked to record each prior period adjustment:

	Debit	Credit
Net position class: _____ 1 (breakdown of adjusting journal entry)	\$ -	-
Net position class: _____ 2 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 3 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 4 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 5 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 6 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 7 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 8 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 9 (breakdown of adjusting journal entry)	-	-
Net position class: _____ 10 (breakdown of adjusting journal entry)	-	-



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

To the Board of Directors
University Auxiliary and Research Services Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Auxiliary and Research Services Corporation (nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered University Auxiliary and Research Services Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University Auxiliary and Research Services Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the University Auxiliary and Research Services Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AKT LLP

San Diego, California
September 15, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
University Auxiliary and Research Services Corporation

Report on Compliance for Each Major Federal Program

We have audited University Auxiliary and Research Services Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of University Auxiliary and Research Services Corporation's major federal programs for the year ended June 30, 2015. University Auxiliary and Research Services Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of University Auxiliary and Research Services Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about University Auxiliary and Research Services Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of University Auxiliary and Research Services Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, University Auxiliary and Research Services Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of University Auxiliary and Research Services Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered University Auxiliary and Research Services Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of University Auxiliary and Research Services Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

AKT LLP

San Diego, California
September 15, 2015

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster:			
Department of Homeland Security			
<i>Direct Programs</i>			
Assistance to Firefighters Grant	97.044	N/A	\$ <u>144,117</u>
Total Department of Homeland Security			<u>144,117</u>
United States Environmental Protection Agency			
<i>Pass-through from San Jose State University Research Foundation</i>			
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		<u>183,259</u>
Total United States Environmental Protection Agency			<u>183,259</u>
Department of Health and Human Services			
<i>Direct Programs</i>			
Allergy, Immunology and Transplantation Research	93.855	N/A	162,459
Biomedical Research and Research Training	93.859	N/A	1,705,247
Cancer Cause and Prevention Research	93.393	N/A	11,816
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	N/A	76,604
Mental Health Research Grants	93.242	N/A	155,150
<i>Pass-through from Endocrine Society</i>			
Biomedical Research and Research Training	93.859	IT36GM09349	<u>31,548</u>
Total Department of Health and Human Services			<u>2,142,824</u>
National Aeronautical and Space Administration			
<i>Direct Programs</i>			
Science	43.001	N/A	51,659
<i>Pass-through from University of California San Diego</i>			
Science	43.001	NNX11AF24G	<u>77,228</u>
Total National Aeronautical and Space Administration			<u>128,887</u>
National Science Foundation			
<i>Direct Programs</i>			
Computer and Information Science and Engineering	47.070	N/A	265,994
Education and Human Resources	47.076	N/A	901,696
Office of Cyberinfrastructure	47.080	N/A	218,945
<i>Pass-through from University Enterprises:</i>			
Education and Human Resources	47.076	HRD-1302873	14,541
<i>Pass-through from University of San Diego</i>			
Education and Human Resources	47.076	DUE 1239797	<u>41,550</u>
Total National Science Foundation			<u>1,442,726</u>
Total Research and Development Cluster			<u>4,041,813</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
TRIO Cluster:			
Department of Education			
<i>Direct Programs</i>			
Student Support Services	84.042	N/A	279,308
Talent Search	84.044	N/A	205,205
Upward Bound	84.047	N/A	285,772
Total Department of Education			<u>770,285</u>
Total TRIO Cluster			<u>770,285</u>
Other Programs:			
Department of Education			
<i>Direct Programs</i>			
Child Care Access Means Parents in School	84.335	N/A	1,560
English Language Acquisition State Grants	84.365	N/A	310,287
Migrant Education College Assistance Migrant Program	84.149	N/A	422,386
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	N/A	8,100
<i>Pass-through from National Writing Project</i>			
Improving Teacher Quality State Grants	84.367	U367D130003	25,180
<i>Pass-through from Palomar College</i>			
Higher Education Institutional Aid	84.031	P031S100109	125,765
<i>Pass-t</i>			
Investing in Innovation (i3) Fund	84.411	U411B130029	304,492
<i>Pass-through from California Department of Education</i>			
Improving Teacher Quality State Grants	84.367	CN130242 CN140132	34,747
Total Department of Education			<u>1,232,517</u>
Department of Health and Human Services			
<i>Direct Programs</i>			
Advanced Nursing Education Grant Program	93.247	N/A	205,362
<i>Pass-through from Vista Community Clinic:</i>			
Nurse Education, Practice Quality and Retention Grants	93.359	UD7HP26899	98,942
Total Department of Health and Human Services			<u>304,304</u>
National Endowment for the Humanities			
<i>Pass-through from California Humanities:</i>			
Promotion of the Humanities Federal/State Partnership	45.129	SO-50405-11	6,946
Total National Endowment for the Humanities			<u>6,946</u>
National Science Foundation			
<i>Pass-through from American Physical Society:</i>			
Mathematical and Physical Sciences	47.049	PHY-0808790	6,571
Total National Science Foundation			<u>6,571</u>
Total Other Programs			<u>1,550,338</u>
Total Expenditures of Federal Awards			<u>\$ 6,362,436</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Schedule of Expenditure of Federal Awards
Year Ended June 30, 2015

Note 1 – Basis of Presentation

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

Note 2 – Amounts Provided to Subrecipients

The following amount was paid to a subrecipient from the Computer and Information Science and Engineering grant:

Northeast University	\$ <u>38,840</u>
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The following amount was paid to a subrecipient from the Biomedical Research and Research Training grant:

University of California San Francisco	\$ <u>63,814</u>
--	------------------

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
Significant deficiency(ies) identified? ___ Yes X None reported
Material weakness(es) identified? ___ Yes X No
Noncompliance material to the financial statements noted? ___ Yes X No

Federal Awards

Internal control over major program:
Significant deficiency(ies) identified? ___ Yes X None reported
Material weakness(es) identified? ___ Yes X No
Type of auditors' report issued on compliance for major programs Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? ___ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various 84.411	Research and Development Cluster Investing in Innovation (i3) Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? X Yes ___ None identified

Section II – Financial Statement Findings

None

Section III – Federal Award Finding and Questioned Costs

None

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Schedule of Prior Year Audit Findings

Year Ended June 30, 2015

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

2014-01: Timely Submission of Grant Programs

Criteria: According to OMB Circular A-110 Section .51 (b) (Monitoring and reporting program performance), the Federal awarding agency shall prescribe the frequency with which the performance reports shall be submitted.

Condition: The Organization failed to comply with performance reporting criteria for certain federal grants.

Context: During testing over reporting compliance, the audit team selected and tested 18 required reports to test the Organization's compliance with the reporting requirements. The audit team reviewed the submitted reports for 18 grants and noted that three were submitted late (two reports were submitted approximately two weeks late and the other report was submitted approximately six weeks late).

Effect: Failure to submit required reports in a timely manner could potentially cause delay or elimination of federal funding.

Cause: Lack of proper controls over reporting criteria.

Recommendation: We recommend the Organization increase its efforts to educate its principal investigators and project directors about compliance with reporting deadlines.

Views of responsible officials and planned corrective actions: For each new award received by the Organization, meetings are held with the principal investigators and project directors to review the various awarding agency administrative requirements of the award. Included in the reviews are the due dates for various financial reports (obligation of the Organization) and the performance reports (obligation of the principal investigator). Processes had been put in place by the Organization to send e-mail reminders to the principal investigators of upcoming due dates for performance reports.

For the three reports identified in the findings, the principal investigators had received e-mail reminders, but it has become apparent that the Organization will need to initiate additional processes to assure the performance reports are actually completed by the deadline. Such processes may include a requirement for the principal investigator to submit a draft of the performance report to the Organization prior to the due date. The enhanced processes and additional communications with the principal investigators on agency compliance issues in relation to their awards should strengthen controls for timely submission of performance reports.

Status: No similar findings during the 2015 audit.