

California State University San Marcos Corporation

Financial Statements and Supplemental Information

Years Ended June 30, 2018 and 2017



CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Financial Statements and Supplemental Information
Years Ended June 30, 2018 and 2017

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Financial Statements: | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 7 |
| Supplemental Information: | |
| Schedule of Net Position | 20 |
| Schedule of Revenues, Expenses, and Changes in Net Position | 21 |
| Other Information | 22 |
| 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 <i>Government Auditing Standards</i> | 31 |
| Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance | 33 |
| Schedule of Expenditures of Federal Awards | 35 |
| Notes to Schedule of Expenditures of Federal Awards | 38 |
| Schedule of Findings and Questioned Costs | 39 |
| Schedule of Prior Year Findings and Questioned Costs | 40 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
California State University San Marcos Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of California State University San Marcos Corporation, formerly University Auxiliary and Research Services Corporation, (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California State University San Marcos Corporation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters

Other Information

Our audits were 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information included on pages 20 - 40 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 26, 2018, on our consideration of the California State University San Marcos 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 California State University San Marcos Corporation's internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
September 26, 2018

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION**Statements of Financial Position**

June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 7,243,788 | \$ 846,492 |
| Accounts receivable | 2,634,418 | 2,500,454 |
| Other receivables | 180,501 | 186,853 |
| Due from related parties | 3,682,476 | 928,230 |
| Prepaid expenses | 8,217 | 16,167 |
| Current portion of certificates of deposits | 1,963,721 | 491,923 |
| Investments | <u>4,279,900</u> | <u>1,640,839</u> |
| Total Current Assets | 19,993,021 | 6,610,958 |
| Property and equipment, net of accumulated depreciation | 42,819,152 | 8,222,198 |
| Certificates of deposits, less current portion | 2,153,261 | 1,227,009 |
| Other assets | <u>56,581</u> | <u>61,081</u> |
| Total Assets | <u>\$ 65,022,015</u> | <u>\$ 16,121,246</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 4,654,249 | \$ 804,579 |
| Due to related parties | 571,943 | 427,321 |
| Current portion of deferred revenue | 499,959 | 512,912 |
| Accrued payroll and benefits | 840,654 | 745,569 |
| Accrued interest | 121,754 | - |
| Current portion of bond payable | 958,576 | - |
| Current portion of accrued postretirement benefit costs | 18,312 | 18,805 |
| Current portion of note payable | <u>20,306</u> | <u>-</u> |
| Total Current Liabilities | 7,685,753 | 2,509,186 |
| Bond payable, net of current portion | 17,991,447 | - |
| Deferred revenue, net of current portion | 9,487,596 | 3,480,117 |
| Accrued postretirement benefit costs, net of current portion | 1,513,235 | 1,445,544 |
| Note payable, net of current portion | <u>15,077,985</u> | <u>198,291</u> |
| Total Liabilities | 51,756,016 | 7,633,138 |
| Net Assets: | | |
| Unrestricted: | | |
| Board-designated: | | |
| Operating reserves | 2,588,199 | 1,888,719 |
| Other program reserves | 2,903,744 | 2,195,146 |
| Housing reserves | 3,453,712 | - |
| Equipment | <u>4,320,344</u> | <u>4,404,243</u> |
| Total Net Assets | <u>13,265,999</u> | <u>8,488,108</u> |
| Total Liabilities and Net Assets | <u>\$ 65,022,015</u> | <u>\$ 16,121,246</u> |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION**Statements of Activities**

Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|---------------------|
| Unrestricted Revenue, Gains, and Other Support: | | |
| Federal grants and contracts | \$ 11,638,466 | \$ 11,114,724 |
| Housing and rental income | 5,458,907 | - |
| Campus programs | 2,436,997 | 3,920,297 |
| Other sponsored programs | 1,416,767 | 764,526 |
| Ground lease income | 790,698 | 270,660 |
| Commissions | 643,035 | 527,150 |
| Child care center in-kind rental income | 524,917 | 510,124 |
| Housing, other fees | 418,084 | - |
| Net realized and unrealized gain on investments | 38,003 | 84,368 |
| Rental income | 31,380 | 139,092 |
| Interest and dividend income | 26,694 | 14,339 |
| | <u>23,423,948</u> | <u>17,345,280</u> |
| Total Unrestricted Revenue, Gains and Other Support | | |
| Expenses: | | |
| Program services: | | |
| Sponsored programs | 10,409,013 | 9,468,760 |
| Student housing | 2,387,181 | - |
| Campus programs | 1,375,078 | 2,931,974 |
| Student scholarships | 895,479 | 903,977 |
| Ground lease in-kind | 790,698 | 270,660 |
| Interest | 713,170 | - |
| Child care center in-kind rent | 524,917 | 527,150 |
| Residential education | 244,183 | - |
| | <u>17,339,719</u> | <u>14,102,521</u> |
| Total Program Services | | |
| General and administrative | <u>3,999,935</u> | <u>2,595,659</u> |
| Total Expenses | 21,339,654 | 16,698,180 |
| Transfer from UCorp (Note 1) | <u>2,693,597</u> | - |
| Increase in Net Assets | 4,777,891 | 647,100 |
| Unrestricted Net Assets, beginning | <u>8,488,108</u> | <u>7,841,008</u> |
| Unrestricted Net Assets, ending | <u>\$ 13,265,999</u> | <u>\$ 8,488,108</u> |

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION**Statements of Cash Flows**

Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Increase in net assets | \$ 4,777,891 | \$ 647,100 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Transfer from UCorp | (2,693,597) | - |
| Depreciation | 1,605,821 | 549,122 |
| Amortization of debt premium | (24,792) | - |
| Net realized and unrealized gain on investments | (38,003) | (84,368) |
| (Gain) loss on disposals of property and equipment | (6,309) | 41,038 |
| Change in accumulated postretirement benefit obligation | 67,198 | 147,313 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (133,964) | (897,082) |
| Other receivables | 271,107 | 55,420 |
| Due from related parties | (2,754,246) | (366,482) |
| Prepaid expenses | 22,040 | 3,845 |
| Other assets | 4,500 | - |
| Accounts payable | 2,502,336 | 481,099 |
| Due to related parties | 144,622 | (3,697) |
| Deferred revenue | 5,994,526 | 1,848,424 |
| Accrued payroll and benefits | 95,085 | (29,700) |
| Accrued interest | 121,754 | - |
| Net Cash Provided by Operating Activities | 9,955,969 | 2,392,032 |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (17,604,316) | (1,880,747) |
| Purchases of investments | (3,101,060) | (283,000) |
| Proceeds from the sale of investments | 500,000 | 550,000 |
| Maturities of certificates of deposits | 245,000 | 735,000 |
| Purchases of certificates of deposits | (2,643,050) | (977,141) |
| Net Cash Used by Investing Activities | (22,603,426) | (1,855,888) |
| Cash Flows Used by Financing Activities: | | |
| Proceeds from note payable | 14,900,000 | - |
| Payments on note payable | (921,918) | - |
| Net Increase in Cash and Cash Equivalents | 1,330,625 | 536,144 |
| Cash and Cash Equivalents, beginning | 846,492 | 310,348 |
| Cash transfer from UCorp (Note 1) | 5,066,671 | - |
| Cash and Cash Equivalents, ending | \$ <u>7,243,788</u> | \$ <u>846,492</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Statements of Cash Flows, Continued
Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|-------------|
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash payments for interest | \$ <u>749,831</u> | \$ <u>-</u> |
| Student housing funds transferred to Corporation (Note 1) | | |
| Cash and cash equivalents | \$ 5,066,671 | \$ - |
| Other receivables | 264,753 | - |
| Prepaid expenses | 14,090 | - |
| Property and equipment, net of accumulated depreciation | 18,592,150 | - |
| Accounts payable | (1,347,334) | - |
| Bonds payable | <u>(19,896,733)</u> | <u>-</u> |
| Net transfer | \$ <u>2,693,597</u> | \$ <u>-</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

California State University San Marcos Corporation (Corporation), formerly University Auxiliary and Research Services Corporation (UARSC), 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 Corporation was organized in December 1989 to provide service and opportunity to the University. The Corporation 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, including real estate, real property development, student housing, and summer conferences.

As of July 1, 2017, San Marcos University Corporation's (UCorp) student housing funds merged with the Corporation. Those funds are the University Village Apartments (UVA) and Residential Education (RE). Additionally, various contracts have been assumed by the Corporation. The remaining UCorp funds were transferred to the University and UCorp was dissolved.

The Corporation holds a ground and facility lease on the University Village Apartments (UVA), which provides housing and student-life activities for approximately 660 students, and contracts with Capstone On-Campus Management (Capstone), a third-party administrator for UVA operations and management. Additionally, the Corporation manages the contractual relationship between The Quad developer (a privately owned housing option for CSUSM students), the University and the Residential Education Team.

Related Parties

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

Basis of Presentation

The Corporation 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 Corporation 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.

There were no temporarily or permanently restricted net assets during the years ended June 30, 2018 and 2017.

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.

Cash and Cash Equivalents

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

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

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

Income Taxes

The Corporation 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 Corporation 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.

The Corporation follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Corporation recognizes accrued interest and penalties associated with uncertain tax positions as part of the statements of activities, when applicable. Management has determined that the Corporation has no uncertain tax positions as of June 30, 2018 and 2017; therefore, no amounts have been accrued.

Receivables

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 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 Corporation 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 Corporation and its beneficiaries.

Property and Equipment

The Corporation 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 30 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.

Bond Premium

Bond premium is amortized for 19 years using the straight-line method, which approximates the effective interest method over the term of the bonds. The amortization is recorded as a reduction of interest expense.

Housing

Rental income attributed to leases is recorded when earned over time on a straight-line basis. Rental payments are due on or before the first day of the month in accordance with the residence lease agreement. If rental payments are received in advance, revenue is recognized when the related rents are earned and are realized or realizable. Other property-related income includes management and service fees, and is recognized as revenue when the related fees are earned and are realized or realizable.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

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

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications. For the year ended June 30, 2017, approximately \$800,000 of general and administration expense was reclassified to ground lease in-kind and child care center in-kind rent. In addition, approximately \$900,000 of sponsored programs expense was reclassified to scholarships.

Subsequent Events

The Corporation has evaluated subsequent events through September 26, 2018, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

The Corporation maintains cash and cash equivalents in bank deposit and investment accounts. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 and investment accounts are insured by the Securities Investor Protection Corporation (SIPC) up to a limit of \$500,000. The Corporation's account balances may, at times, exceed the limits. The Corporation has not experienced any such losses in these accounts.

Note 3 – Fair Value Measurement

Fair Value Measurements

The Corporation 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 Corporation 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 Corporation 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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION**Notes to Financial Statements**

Years Ended June 30, 2018 and 2017

Note 3 – Fair Value Measurement, continued

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2018 and 2017.

Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of deposit: Reported at cost plus earned interest, which approximates market prices.

Investments and certificates of deposit at fair value according to the fair value hierarchy are as follows as of June 30, 2018:

| | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | Net Asset Value | Total |
|-------------------------|---|--|---------------------------------------|--------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | NAV | |
| Mutual funds | \$ 4,279,900 | \$ - | \$ - | \$ - | \$ 4,279,900 |
| Certificates of deposit | - | 4,116,982 | - | - | 4,116,982 |
| | <u>\$ 4,279,900</u> | <u>\$ 4,116,982</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,396,882</u> |

Investments and certificates of deposit at fair value according to the fair value hierarchy are as follows as of June 30, 2017:

| | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | Net Asset Value | Total |
|-------------------------|---|--|---------------------------------------|--------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | NAV | |
| Mutual funds | \$ 1,640,839 | \$ - | \$ - | \$ - | \$ 1,640,839 |
| Certificates of deposit | - | 1,718,932 | - | - | 1,718,932 |
| | <u>\$ 1,640,839</u> | <u>\$ 1,718,932</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,359,771</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 4 – Property and Equipment

Property and equipment consist of the following as of June 30:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|----------------------|---------------------|
| Land improvements | \$ 2,475,208 | \$ 1,535,469 |
| Building and improvements | 31,063,847 | 4,385,743 |
| Furniture and equipment | 4,738,492 | 2,223,700 |
| Leasehold improvements | <u>2,200,274</u> | <u>2,924,302</u> |
| | 40,477,821 | 11,069,214 |
| Less accumulated depreciation | <u>(16,167,117)</u> | <u>(4,655,439)</u> |
| | 24,310,704 | 6,413,775 |
| Construction in progress | <u>18,508,448</u> | <u>1,808,423</u> |
| | <u>\$ 42,819,152</u> | <u>\$ 8,222,198</u> |

The total cost of one building, UVA (Note 1), under capital lease, as of June 30, 2018 and 2017 was \$23,849,021. Accumulated depreciation associated with this asset as of June 30, 2018 and 2017 was \$8,817,950 and \$8,221,726, respectively.

Note 5 – Commitments and Contingencies

Leases

The Corporation has entered into various operating lease agreements with the University for facilities, with monthly rents totaling \$3,500 through June 30, 2018. The Corporation leased office space at 435 E. Carmel Street under a lease agreement and had monthly rent averaging \$8,675 for eight months. The lease was terminated on February 28, 2018. The Corporation moved their offices to the University in March 2018 at which time an additional \$70,000 was paid for rent. Total rent expense was approximately \$181,400 and \$170,000 for each of the years ended June 30, 2018 and 2017, respectively.

Bookstore Operating Agreement

The Corporation entered into an agreement with an unrelated third party to operate the campus bookstore. 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 Corporation terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Corporation 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, 2025.

The contract commissions are 11.5 percent on gross revenues up to \$4,000,000 and 12.5 percent on gross revenues exceeding \$4,000,000. Under this agreement, commission revenue for the years ended June 30, 2018 and 2017 was \$337,245 and \$354,723, respectively.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 5 – Commitments and Contingencies, continued

Bookstore Operating Agreement, continued

In addition, the unrelated third party placed into service \$836,241 of equipment, design and construction services for the build-out of the bookstore for the Corporation. The Corporation 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 Corporation recognized revenues of \$83,123 and \$83,351 for the years ended June 30, 2018 and 2017, respectively. In addition, the Corporation has deferred revenue of \$582,317 and \$665,440 of June 30, 2018 and 2017, respectively, related to the noncash transaction.

Child Care Center Lease Agreement

The Corporation owns and operates the Center for Children and Families and has a Child Care Center Development Agreement (Agreement) with KinderCare Education at Work LLC, a California Limited Liability Corporation, which expires on February 28, 2023. In exchange for operating, maintaining, and managing the center, the operator is not charged rent. Management estimated that the value of the Agreement was \$524,917 and \$510,124 for the years ended June 30, 2018 and 2017, respectively.

For operating the child care center, the Corporation does not pay rent under the ground lease. Management estimated that the value of the lease agreement was \$278,510 and \$270,660 for the years ended June 30, 2018 and 2017, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2018 and 2017 as property ground lease income and land leasing costs, which is included in ground lease income. As consideration for the Agreement the third party pays the Corporation an annual revenue share based on gross margin and net revenue of the center.

Beverage Distribution Rights Contract

The Corporation 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 Corporation 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 and \$1,500 in marketing funds payable annually at the end of each calendar year, 35 percent commission paid quarterly on actual cash collected by vending machines plus proceeds from credit card transactions. Commission revenue included \$65,730 and \$61,677 for the years ended June 30, 2018 and 2017, respectively, under this agreement, which includes the \$20,000 sponsorship fee for the year ended June 30, 2018.

Campus Food Service Agreement

The Corporation 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 5, 2032, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the Corporation will continue to own the 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 Corporation, all amounts due to the unrelated third party shall be payable immediately as defined in the agreement. The Corporation does not expect early termination. As consideration for the agreement, the unrelated third party pays the Corporation a 5 percent commission all retail sales with the exception of Panda Express and Starbucks as of July 1, 2017.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 5 – Commitments and Contingencies, continued

Campus Food Service Agreement, continued

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 Corporation. The Corporation 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 Corporation recognized revenues of \$73,923 and \$73,923 for the years ended June 30, 2018 and 2017, respectively. In addition, the Corporation has deferred revenue of \$1,071,878 and \$1,145,801 at June 30, 2018 and 2017, respectively, related to the noncash transaction.

Sponsored Programs

The Corporation receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and operating subsidies. Disbursements 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 Corporation. However in the opinion of management, any such disallowed claims would not have a material adverse impact on the overall financial position of the Corporation as of June 30, 2018 and 2017.

Workers' Compensation Insurance

During the years ended June 30, 2018 and 2017, the Corporation purchased workers' compensation insurance for \$50,807 and \$46,865, respectively, through an approved self-insurance program in which the Corporation is a member, 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.

Unemployment Insurance

For the years ended June 30, 2018 and 2017, CSURMA estimated an overage in reserves for unemployment insurance from the Corporation of \$51,328 and \$84,695, respectively. The Corporation recorded a receivable of \$51,328 and \$84,695 at June 30, 2018 and 2017, respectively.

University Village Apartments (Note 1)

UCorp entered into a ground and facility lease agreement for student housing with the Board on March 1, 2005. The lease term is for 28 years, with an option to extend an additional five years. In consideration of the execution of the lease agreement, UCorp would continue to operate the student housing facility on the site as part of refinancing the student housing improvements. The Corporation assumed the agreement as of July 1, 2017.

Management Agreement (Note 1)

UCorp entered into a management agreement with Capstone On-Campus Management (Manager) to manage the operations of the student housing facilities from July 1, 2015 through September 30, 2018. The Agreement was amended on July 1, 2017 because of the Corporation merger with UCorp, assigning responsibilities to the Corporation and extending the contract to September 30, 2021. The agreement requires an annual fee, payable monthly to the Manager, consisting of a fixed fee and a fixed percentage of revenue collected at 3%. For the years ended June 30, 2018 and 2017, management fees paid were \$177,704 and \$196,648, respectively. This amount is reflected in the statements of activities within student housing expenses for the years ended June 30, 2018 and 2017.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 5 – Commitments and Contingencies, continued

Legal Proceedings

The Corporation may periodically be a party in litigation cases incidental to its business activities. While any litigation or investigation has an element of uncertainty, management believes that the outcome of any of these matters will not have a materially adverse effect on its financial position, results of operations or liquidity.

Note 6 – Accrued Postretirement Benefits Costs

The Corporation 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 and having been enrolled in health benefits as of December 31, 2014 as a regular employee. 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.

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|---------------------|
| Change in Benefit Obligation: | | |
| Benefit obligation at beginning of year | \$ 1,293,713 | \$ 1,354,679 |
| Service cost | 52,442 | 102,693 |
| Interest cost | 43,277 | 50,795 |
| Amendments | - | - |
| Changes in plan provisions | (189,250) | - |
| Actuarial (gain)/loss | (268,643) | (200,524) |
| Benefits paid | <u>(14,094)</u> | <u>(13,930)</u> |
| Benefit obligation at end of year | <u>\$ 917,445</u> | <u>\$ 1,293,713</u> |
| | <u>2018</u> | <u>2017</u> |
| Funded Status: | | |
| Unamortized prior service cost (credit) | \$ (80,875) | \$ 118,438 |
| Unrecognized net actuarial gain | (533,227) | (289,074) |
| Accrued benefit cost | <u>1,531,547</u> | <u>1,464,349</u> |
| Benefit obligation at June 30 | <u>\$ 917,445</u> | <u>\$ 1,293,713</u> |
| Measurement date | 6/30/2018 | 6/30/2017 |
| Funded status at end of year | \$ (917,445) | \$ (1,293,713) |
| | <u>2018</u> | <u>2017</u> |
| Net Periodic Benefit Cost: | | |
| Service cost | \$ 52,442 | \$ 102,693 |
| Interest cost | 43,277 | 50,795 |
| Amortization of prior service cost | 10,063 | 10,063 |
| Amortization of net (gain)/loss | <u>(24,490)</u> | <u>(2,308)</u> |
| Net periodic benefit cost | <u>\$ 81,292</u> | <u>\$ 161,243</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

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:

| | 2018 | 2017 |
|--|-------|-------|
| Discount Rate | 4.00% | 4.00% |
| 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 | 5.50% | 5.50% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.00% | 4.50% |
| Year that the rate reaches the ultimate trend rate | 4 yrs | 4 yrs |

Expected retiree payments as of June 30, 2018 are as follows:

| Expected Retiree Payments Over the Next 10 Years | |
|--|-------------------|
| 2018/19 | \$ 18,312 |
| 2019/20 | 21,441 |
| 2020/21 | 23,978 |
| 2021/22 | 27,225 |
| 2022/23 | 30,131 |
| Thereafter | <u>187,083</u> |
| | <u>\$ 308,170</u> |

Note 7 – Long-Term Debt

Note Payable

The Corporation entered into a ten-year note payable with the University for \$250,000 to be used for the refurbishment and modernization of the on campus Starbucks retail store. The note was amended, during the year ended June 30, 2016, to change the payment terms and interest rate from 3.00 percent to 2.75 percent per annum and is payable in annual principal and interest installments. From this revision, the Corporation made no payments during the years ended June 30, 2018 and 2017. The note agreement matures on July 1, 2024.

Minimum future principal payments on long-term debt as of June 30, 2018 are due as follows:

| Year Ending June 30, | |
|----------------------|-------------------|
| 2019 | \$ 20,306 |
| 2020 | 27,692 |
| 2021 | 28,442 |
| 2022 | 29,235 |
| 2023 | 30,039 |
| Thereafter | <u>62,577</u> |
| | <u>\$ 198,291</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 7 – Long-Term Debt, continued

Student Housing (Note 1)

In March 2002, UCorp issued \$27,990,000 of Series 2002 Student Housing Revenue Bonds. The proceeds were used to finance the construction of the UVA. In March 2005, the Board of Trustees of the California State University (the Board) issued \$25,230,000 of Series 2005A Systemwide Revenue Bonds, whose proceeds were used to pay in full the Series 2002 bonds and to purchase the facility from UCorp. In August 2013, a portion of the outstanding Series 2005A bonds were refunded with proceeds from Series 2013A bond issue. The 2005A bond refund resulted in a modification of the capital lease between the University and UCorp resulting in a gain on modification of \$697,885 for the year ended June 30, 2014.

In August 2014, the Board of Trustees of the California State University issued \$8,340,000 of Series 2014A Systemwide Revenue Bonds at a net premium of \$1,365,474. The Series 2014A bond proceeds were used to refund \$9,205,000 of the Series 2005A Systemwide Revenue Bonds. The remaining portion of the series 2005A bond of \$705,000 was paid upon maturity in November 2014.

In March 2005, a ground and facility lease was signed between the Board and UCorp for a term of 28 years beginning on May 1, 2005, with an option to extend an additional 10 years. The Ground and Facility Lease agreement was amended in July 2017 due to the Ucorp and Corporation merger. The Corporation is responsible for paying a base rent equal to the relating bond obligation and additional rental payments to cover all administrative costs and other expenses in connection with the refinancing or leasing of the facility. The bonds comprise Series 2013A and Series 2014A bonds bearing annual interest of 5.0 percent (paid semiannually). Rental payments are secured by a pledge of all UCorp revenues. The lease obligation due to the Board is treated as a financing arrangement. Accounting principles generally accepted in the United States of America preclude recognition of a real estate sale where there is continuing involvement with the property on the part of the seller. If the seller-lessee has any continuing involvement other than the leaseback, sale leaseback accounting is prohibited. Additionally, if the seller is required to support operations or continue to operate the property at its own risk for an extended period of time, the transactions should be accounted for as a financing, leasing or profit-sharing arrangement. The financing method is used when the situations are generally significant enough that, in substance, the arrangement is a loan by the buyer-lessor to the seller-lessee.

Since the present value of the future lease payments on May 1, 2005 exceeded 90 percent of the fair value of the leased building, the building and the related liability under the capital leases were recorded in 2005 at the present value of the future payments due under the leases.

The balance of the liability under capital lease at June 30, 2018, in the amount of \$18,950,023, is net of the remaining \$194,388 of unamortized gain associated with the modification of the capital lease in August 2014, and represents the present value of the balance due in future years for lease rentals, discounted at 3.89 percent. The balance outstanding at June 30, 2017 was \$19,896,734, which was net of \$219,180 in unamortized gain associated with the modification of the capital lease in August 2014.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 7 – Long-Term Debt, continued

Minimum future principal payments on bond payable debt as of June 30, 2018 are due as follows:

| <u>Year Ending June 30,</u> | |
|---|----------------------|
| 2019 | \$ 1,671,750 |
| 2020 | 1,674,625 |
| 2021 | 1,670,375 |
| 2022 | 1,673,875 |
| 2023 | 1,674,874 |
| Thereafter | <u>16,344,125</u> |
| Total minimum lease payments | 24,709,624 |
| Less amount representing interest (3.89% average effective interest rate) | <u>(5,953,989)</u> |
| Present value of minimum lease payments | 18,755,635 |
| Less current portion | <u>(958,576)</u> |
| Noncurrent portion | 17,797,059 |
| Remaining gain on modification | <u>194,388</u> |
| | <u>\$ 17,991,447</u> |

Extended Learning Building and Parking Project

See Note 10

Note 8 – Related Party Transactions

The Corporation reimburses the University for salaries and other program-related costs for personnel working on contracts, fiscal services, and providing other business and operation services.

The Corporation, as a lessor, had entered into an operating lease agreement to rent storage space to the University. The monthly rental income is approximately \$5,796 per month through December 31, 2017 at which time the lease was terminated with the University. The rental receipts for the year ending June 30, 2018 and 2017 was approximately \$34,773 and \$139,092, respectively.

The Corporation entered into payroll processing agreements with Foundation, ASI, and UCorp.

The University remits bond interest payments for the debt related to the Corporation's capital lease of student housing. The Corporation then reimburses the University for the payments.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION**Notes to Financial Statements**

Years Ended June 30, 2018 and 2017

Note 8 – Related Party Transactions, continued

Related party transactions are as follows:

| <u>Related Parties</u> | <u>Description</u> | <u>Reported in</u> | <u>2018</u> | <u>2017</u> |
|------------------------|--|--------------------------|---------------------|---------------------|
| Expenses to: | | | | |
| University | Salaries and reimbursed costs | Various expenses | \$ 4,327,673 | \$ 3,305,999 |
| University | Bond Interest | Interest expense | 713,170 | - |
| UCorp | Services, programs and other | Various expenses | - | 32,233 |
| ASI | Services, programs and other | Various expenses | 6,925 | 8,016 |
| Foundation | Services, programs and other | Various expenses | 600 | - |
| | | | <u>\$ 5,048,368</u> | <u>\$ 3,346,248</u> |
| Revenue from: | | | | |
| University | Services and programs | Various revenue | \$ 1,387,762 | \$ 3,471,015 |
| UCorp | Payroll processing, administrative expenses and other expenses | Various revenue | - | 1,610,597 |
| ASI | Payroll processing, administrative expenses and other expenses | Various revenue | 995,195 | 760,596 |
| Foundation | Payroll processing, administrative expenses and other expenses | Various revenue | 11,681 | 30,243 |
| | | | <u>\$ 2,394,638</u> | <u>\$ 5,872,451</u> |
| Due from: | | | | |
| University | Salaries, benefits, and other expenses | Due from related parties | \$ 3,397,971 | \$ 363,804 |
| UCorp | Salaries, benefits, and other expenses | Due from related parties | - | 293,529 |
| ASI | Salaries, benefits, and other expenses | Due from related parties | 141,331 | 139,404 |
| Foundation | Other expenses | Due from related parties | 143,174 | 131,493 |
| | | | <u>\$ 3,682,476</u> | <u>\$ 928,230</u> |
| Due to: | | | | |
| University | Cost reimbursement | Due to related parties | \$ 571,943 | \$ 426,501 |
| University | Bond Interest | Accrued interest | 121,754 | - |
| UCorp | Cost reimbursement | Due to related parties | - | 820 |
| | | | <u>\$ 693,697</u> | <u>\$ 427,321</u> |

Note 9 – 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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 10 – Extended Learning Building and Parking Project

The Extended Learning Building/Student Services Building and Parking Project (Project) is being developed through a Public/Private Partnership with North City University One (Developer). The Project includes a 135,000 gross square foot, six-story building, and a 709-parking garage on 2-acres directly across the street from campus.

The Corporation will own 120,400 gross square feet to be used for Extended Learning Programs, classrooms, class labs and support spaces, and the Developer will own 14,600 gross square feet to be used for retail. A condominium structure will be created to divide ownership of the building and land, and will provide for shared use of the common spaces. The Corporation and the Developer will commonly own the parking structure under a separate parking declaration. The Project is expected to be completed in time for the fall 2019 semester.

The Developer will fund the design and construction of a pedestrian bridge connecting the Extended Learning building to the University. The estimated cost for the bridge is \$4,500,000 and will be completed fall 2019.

The Corporation will construct, own, equip and operate the Project and act as landlord to the University. The University authorized advanced lease payments up to \$12,000,000 to fund the design, and construction of the Project. Advanced lease payments are classified as deferred revenue.

In March 2018, the Corporation received a loan from the Trustees of the California State University in the amount of \$14,900,000. Interest rates range from 1.32% to 2.9%. On August 2, 2018, the loan agreement between the Trustees of the California State University and the Corporation was amended to increase the loan amount to \$54,185,000 with a maturity date of November 1, 2048. The amended loan has deescalating principal payments of approximately \$3,000,000 to \$3,500,000.

Minimum future principal payments on long-term debt as of June 30, 2018 are due as follows:

| <u>Year Ending June 30,</u> | |
|-----------------------------|-----------------------------|
| 2019 | \$ - |
| 2020 | 850,000 |
| 2021 | 895,000 |
| 2022 | 935,000 |
| 2023 | 975,000 |
| Thereafter | <u>11,245,000</u> |
| | \$ <u><u>14,900,000</u></u> |

SUPPLEMENTAL INFORMATION

California State University San Marcos Corporation
Schedule of Net Position
June 30, 2018
(for inclusion in the California State University)

| | |
|--|----------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 7,243,788 |
| Short-term investments | 6,243,621 |
| Accounts receivable, net | 6,497,395 |
| Capital lease receivable, current portion | - |
| Notes receivable, current portion | - |
| Pledges receivable, net | - |
| Prepaid expenses and other current assets | 8,217 |
| Total current assets | <u>19,993,021</u> |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | - |
| Accounts receivable, net | - |
| Capital lease receivable, net of current portion | - |
| Notes receivable, net of current portion | - |
| Student loans receivable, net | - |
| Pledges receivable, net | - |
| Endowment investments | - |
| Other long-term investments | 2,153,261 |
| Capital assets, net | 42,819,152 |
| Other assets | 56,581 |
| Total noncurrent assets | <u>45,028,994</u> |
| Total assets | <u>65,022,015</u> |
| Deferred outflows of resources: | |
| Unamortized loss on debt refunding | - |
| Net pension liability | - |
| Net OPEB liability | - |
| Others | - |
| Total deferred outflows of resources | <u>-</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 5,226,192 |
| Accrued salaries and benefits | 354,735 |
| Accrued compensated absences, current portion | 485,919 |
| Unearned revenue | 499,959 |
| Capital lease obligations, current portion | 958,576 |
| Long-term debt obligations, current portion | 20,306 |
| Claims liability for losses and loss adjustment expenses, current portion | - |
| Depository accounts | - |
| Other liabilities | 121,754 |
| Total current liabilities | <u>7,667,441</u> |
| Noncurrent liabilities: | |
| Accrued compensated absences, net of current portion | - |
| Unearned revenue | 9,487,596 |
| Grants refundable | - |
| Capital lease obligations, net of current portion | 17,797,059 |
| Long-term debt obligations, net of current portion | 15,077,985 |
| Claims liability for losses and loss adjustment expenses, net of current portion | - |
| Depository accounts | - |
| Net other postemployment benefits obligations | 1,531,547 |
| Net pension liability | - |
| Other liabilities | - |
| Total noncurrent liabilities | <u>43,894,187</u> |
| Total liabilities | <u>51,561,628</u> |
| Deferred inflows of resources: | |
| Service concession arrangements | - |
| Net pension liability | - |
| Net OPEB liability | - |
| Unamortized gain on debt refunding | 194,388 |
| Nonexchange transactions | - |
| Others | - |
| Total deferred inflows of resources | <u>194,388</u> |
| Net Position: | |
| Net investment in capital assets | 4,320,344 |
| Restricted for: | |
| Nonexpendable – endowments | - |
| Expendable: | |
| Scholarships and fellowships | - |
| Research | - |
| Loans | - |
| Capital projects | - |
| Debt service | - |
| Others | - |
| Unrestricted | 8,945,655 |
| Total net position | <u>\$ 13,265,999</u> |

California State University San Marcos Corporation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2018
(for inclusion in the California State University)

| | |
|--|----------------------|
| Revenues: | |
| Operating revenues: | |
| Student tuition and fees, gross | \$ - |
| Scholarship allowances | - |
| Grants and contracts, noncapital: | |
| Federal | 11,638,466 |
| State | 1,179,775 |
| Local | 75,717 |
| Nongovernmental | 161,275 |
| Sales and services of educational activities | 2,436,997 |
| Sales and services of auxiliary enterprises, gross | 7,867,021 |
| Scholarship allowances | - |
| Other operating revenues | - |
| Total operating revenues | <u>23,359,251</u> |
| Expenses: | |
| Operating expenses: | |
| Instruction | 2,551,788 |
| Research | 7,621,897 |
| Public service | 3,454 |
| Academic support | 453,375 |
| Student services | 3,469,743 |
| Institutional support | 1,013,765 |
| Operation and maintenance of plant | - |
| Student grants and scholarships | 895,479 |
| Auxiliary enterprise expenses | 3,011,162 |
| Depreciation and amortization | 1,605,821 |
| Total operating expenses | <u>20,626,484</u> |
| Operating income (loss) | <u>2,732,767</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 | 64,697 |
| Endowment income (loss), net | - |
| Interest expense | (713,170) |
| Other nonoperating revenues (expenses) - excl. interagency transfers | 2,693,597 |
| Other nonoperating revenues (expenses) - interagency transfers | - |
| Net nonoperating revenues (expenses) | <u>2,045,124</u> |
| Income (loss) before other revenues (expenses) | 4,777,891 |
| State appropriations, capital | - |
| Grants and gifts, capital | - |
| Additions (reductions) to permanent endowments | - |
| Increase (decrease) in net position | <u>4,777,891</u> |
| Net position: | |
| Net position at beginning of year, as previously reported | 8,488,108 |
| Restatements | - |
| Net position at beginning of year, as restated | <u>8,488,108</u> |
| Net position at end of year | <u>\$ 13,265,999</u> |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

1 Restricted cash and cash equivalents at June 30, 2018:

| | | |
|---|----|----------|
| Portion of restricted cash and cash equivalents related to endowments | \$ | - |
| All other restricted cash and cash equivalents | | - |
| Total restricted cash and cash equivalents | \$ | <u>-</u> |

2.1 Composition of investments at June 30, 2018:

| | Current Unrestricted | Current Restricted | Total Current | Noncurrent Unrestricted | Noncurrent 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 | 1,963,721 | - | 1,963,721 | 2,153,261 | - | 2,153,261 | 4,116,982 |
| Mutual funds | 4,279,900 | - | 4,279,900 | - | - | - | 4,279,900 |
| 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 | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | | | |

California State University San Marcos Corporation
 Other Information
 June 30, 2018
 (for inclusion in the California State University)

| 2.3 Restricted current investments at June 30, 2018 related to: | Amount |
|---|---------------|
| Add description | \$ - |
| Add description | - |
| Add description | - |
| Add description | - |
| Add description | - |
| Add description | - |
| Add description | - |
| Add description | - |
| Total restricted current investments at June 30, 2018 | \$ - |
| 2.4 Restricted noncurrent investments at June 30, 2018 related to: | Amount |
| Endowment investment | \$ - |
| Scholarships | - |
| Inflation reserves | - |
| University projects | - |
| Add description | - |
| Add description | - |
| Add description | - |
| Add description | - |
| Total restricted noncurrent investments at June 30, 2018 | \$ - |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

2.5 Fair value hierarchy in investments at June 30, 2018:

| | Total | Fair Value Measurements Using | | | Net Asset Value (NAV) |
|--|------------------|--|---|---|-----------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| State of California Surplus Money Investment Fund (SMIF) | - | - | - | - | - |
| State of California Local Agency Investment Fund (LAIF) | - | - | - | - | - |
| Corporate bonds | - | - | - | - | - |
| Certificates of deposit | 4,116,982 | - | 4,116,982 | - | - |
| Mutual funds | 4,279,900 | 4,279,900 | - | - | - |
| 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 | - | - | - | - | - |
| Total investments | 8,396,882 | 4,279,900 | 4,116,982 | - | - |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2018:

| | Balance June 30, 2017 | Prior period Adjustments | Reclassifications | Balance June 30, 2017 (restated) | Additions | Reductions | Transfers of Completed CWIP | Balance June 30, 2018 |
|--|--------------------------|-----------------------------|-------------------|--|-------------|------------|-----------------------------------|--------------------------|
| Nondepreciable/nonamortizable capital assets: | | | | | | | | |
| Land and land improvements | \$ - | - | - | - | - | - | - | - |
| Works of art and historical treasures | - | - | - | - | - | - | - | - |
| Construction work in progress (CWIP) | 1,808,423 | - | - | 1,808,423 | 17,624,009 | - | (923,984) | 18,508,448 |
| Intangible assets: | | | | | | | | |
| Rights and easements | - | - | - | - | - | - | - | - |
| Patents, copyrights and trademarks | - | - | - | - | - | - | - | - |
| Internally generated intangible assets in progress | - | - | - | - | - | - | - | - |
| Licenses and permits | - | - | - | - | - | - | - | - |
| Other intangible assets: | | | | | | | | |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Total intangible assets | - | - | - | - | - | - | - | - |
| Total nondepreciable/nonamortizable capital assets | 1,808,423 | - | - | 1,808,423 | 17,624,009 | - | (923,984) | 18,508,448 |
| Depreciable/amortizable capital assets: | | | | | | | | |
| Buildings and building improvements | 4,385,743 | 8,642,056 | - | 13,027,799 | 17,562,140 | - | 473,908 | 31,063,847 |
| Improvements, other than buildings | 1,535,469 | 533,896 | - | 2,069,365 | 407,308 | (1,465) | - | 2,475,208 |
| Infrastructure | - | - | - | - | - | - | - | - |
| Leasehold improvements | 2,924,302 | - | - | 2,924,302 | - | (724,028) | - | 2,200,274 |
| Personal property: | | | | | | | | |
| Equipment | 2,223,700 | 1,509,072 | - | 3,732,772 | 603,009 | (47,365) | 450,076 | 4,738,492 |
| 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 depreciable/amortizable capital assets | 11,069,214 | 10,685,024 | - | 21,754,238 | 18,572,457 | (772,858) | 923,984 | 40,477,821 |
| Total capital assets | 12,877,637 | 10,685,024 | - | 23,562,661 | 36,196,466 | (772,858) | - | 58,986,269 |
| Less accumulated depreciation/amortization: | | | | | | | | |
| Buildings and building improvements | (941,400) | (8,642,056) | - | (9,583,456) | (951,337) | 2,497 | - | (10,532,296) |
| Improvements, other than buildings | (719,490) | (533,896) | - | (1,253,386) | (168,836) | - | - | (1,422,222) |
| Infrastructure | - | - | - | - | - | - | - | - |
| Leasehold improvements | (1,244,328) | - | - | (1,244,328) | (333,725) | 776,670 | - | (801,383) |
| Personal property: | | | | | | | | |
| Equipment | (1,750,221) | (1,509,072) | - | (3,259,293) | (151,923) | - | - | (3,411,216) |
| 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 | (4,655,439) | (10,685,024) | - | (15,340,463) | (1,605,821) | 779,167 | - | (16,167,117) |
| Total capital assets, net | \$ 8,222,198 | - | - | 8,222,198 | 34,590,645 | 6,309 | - | 42,819,152 |

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2018:

| | |
|---|--------------|
| Depreciation and amortization expense related to capital assets | \$ 1,605,821 |
| Amortization expense related to other assets | - |
| Total depreciation and amortization | \$ 1,605,821 |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

4 Long-term liabilities activity schedule:

| | Balance June 30, 2017 | Prior period adjustments | Reclassifications | Balance June 30, 2017 (restated) | Additions | Reductions | Balance June 30, 2018 | Current portion | Long-term portion |
|---|--------------------------|-----------------------------|-------------------|--|------------|------------|--------------------------|--------------------|----------------------|
| Accrued compensated absences | \$ 376,576 | - | - | 376,576 | 126,390 | (17,047) | 485,919 | 485,919 | - |
| Claims liability for losses and loss adjustment expenses | - | - | - | - | - | - | - | - | - |
| Capitalized lease obligations: | | | | | | | | | |
| Gross balance | - | - | - | - | 19,677,553 | (921,918) | 18,755,635 | 958,576 | 17,797,059 |
| Unamortized premium / (discount) on capitalized lease obligations | - | - | - | - | - | - | - | - | - |
| Total capitalized lease obligations | - | - | - | - | 19,677,553 | (921,918) | 18,755,635 | 958,576 | 17,797,059 |
| Long-term debt obligations: | | | | | | | | | |
| Auxiliary revenue bonds | - | - | - | - | - | - | - | - | - |
| Commercial paper | - | - | - | - | - | - | - | - | - |
| Notes payable related to SRB | - | - | - | - | 14,900,000 | - | 14,900,000 | - | 14,900,000 |
| Others: (list by type) | | | | | | | | | |
| Note Payable | 198,291 | - | - | 198,291 | - | - | 198,291 | 20,306 | 177,985 |
| Add description | - | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - | - |
| Total long-term debt obligations | 198,291 | - | - | 198,291 | 14,900,000 | - | 15,098,291 | 20,306 | 15,077,985 |
| Unamortized bond premium / (discount) | - | - | - | - | - | - | - | - | - |
| Total long-term debt obligations, net | 198,291 | - | - | 198,291 | 14,900,000 | - | 15,098,291 | 20,306 | 15,077,985 |
| Total long-term liabilities | \$ 574,867 | - | - | 574,867 | 34,703,943 | (938,965) | 34,339,845 | 1,464,801 | 32,875,044 |

5 Future minimum lease payments - capitalized lease obligations:

| | Capitalized lease obligations related to SRB | | | All other capitalized lease obligations | | | Total capitalized lease obligations | | |
|---|--|---------------|------------------------|---|---------------|------------------------|-------------------------------------|---------------|------------------------|
| | Principal Only | Interest Only | Principal and Interest | Principal Only | Interest Only | Principal and Interest | Principal Only | Interest Only | Principal and Interest |
| Year ending June 30: | | | | | | | | | |
| 2019 | 958,576 | 713,174 | 1,671,750 | - | - | - | 958,576 | 713,174 | 1,671,750 |
| 2020 | 999,628 | 674,997 | 1,674,625 | - | - | - | 999,628 | 674,997 | 1,674,625 |
| 2021 | 1,035,050 | 635,325 | 1,670,375 | - | - | - | 1,035,050 | 635,325 | 1,670,375 |
| 2022 | 1,079,790 | 594,085 | 1,673,875 | - | - | - | 1,079,790 | 594,085 | 1,673,875 |
| 2023 | 1,123,765 | 551,109 | 1,674,874 | - | - | - | 1,123,765 | 551,109 | 1,674,874 |
| 2024 - 2028 | 6,248,887 | 2,050,238 | 8,299,125 | - | - | - | 6,248,887 | 2,050,238 | 8,299,125 |
| 2029 - 2033 | 7,309,939 | 735,061 | 8,045,000 | - | - | - | 7,309,939 | 735,061 | 8,045,000 |
| 2034 - 2038 | - | - | - | - | - | - | - | - | - |
| 2039 - 2043 | - | - | - | - | - | - | - | - | - |
| 2044 - 2048 | - | - | - | - | - | - | - | - | - |
| 2049 - 2053 | - | - | - | - | - | - | - | - | - |
| 2054 - 2058 | - | - | - | - | - | - | - | - | - |
| 2059 - 2063 | - | - | - | - | - | - | - | - | - |
| 2064 - thereafter | - | - | - | - | - | - | - | - | - |
| Total minimum lease payments | 18,755,635 | 5,953,989 | 24,709,624 | - | - | - | 18,755,635 | 5,953,989 | 24,709,624 |
| Less amounts representing interest | | | | | | | | | (5,953,989) |
| Present value of future minimum lease payments | | | | | | | | | 18,755,635 |
| Unamortized net premium (discount) | | | | | | | | | - |
| Total capitalized lease obligations | | | | | | | | | 18,755,635 |
| Less: current portion | | | | | | | | | (958,576) |
| Capitalized lease obligation, net of current portion | | | | | | | | | \$ 17,797,059 |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

6 Long-term debt obligation schedule

| | Auxiliary revenue bonds | | | All other long-term debt obligations | | | Total long-term debt obligations | | |
|---|-------------------------|---------------|------------------------|--------------------------------------|---------------|------------------------|----------------------------------|---------------|------------------------|
| | Principal Only | Interest Only | Principal and Interest | Principal Only | Interest Only | Principal and Interest | Principal Only | Interest Only | Principal and Interest |
| Year ending June 30: | | | | | | | | | |
| 2019 | \$ - | - | - | 20,306 | 12,280 | 32,586 | 20,306 | 12,280 | 32,586 |
| 2020 | - | - | - | 877,692 | 4,895 | 882,587 | 877,692 | 4,895 | 882,587 |
| 2021 | - | - | - | 923,442 | 4,144 | 927,586 | 923,442 | 4,144 | 927,586 |
| 2022 | - | - | - | 964,235 | 3,351 | 967,586 | 964,235 | 3,351 | 967,586 |
| 2023 | - | - | - | 1,005,039 | 2,547 | 1,007,586 | 1,005,039 | 2,547 | 1,007,586 |
| 2024 - 2028 | - | - | - | 5,477,577 | 2,595 | 5,480,172 | 5,477,577 | 2,595 | 5,480,172 |
| 2029 - 2033 | - | - | - | 4,005,000 | - | 4,005,000 | 4,005,000 | - | 4,005,000 |
| 2034 - 2038 | - | - | - | 665,000 | - | 665,000 | 665,000 | - | 665,000 |
| 2039 - 2043 | - | - | - | 810,000 | - | 810,000 | 810,000 | - | 810,000 |
| 2044 - 2048 | - | - | - | 325,000 | - | 325,000 | 325,000 | - | 325,000 |
| 2049 - 2053 | - | - | - | 25,000 | - | 25,000 | 25,000 | - | 25,000 |
| 2054 - 2058 | - | - | - | - | - | - | - | - | - |
| 2059 - 2063 | - | - | - | - | - | - | - | - | - |
| 2064 - thereafter | - | - | - | - | - | - | - | - | - |
| Total minimum payments | - | - | - | 15,098,291 | 29,812 | 15,128,103 | 15,098,291 | 29,812 | 15,128,103 |
| Less amounts representing interest | | | | | | | | | (29,812) |
| Present value of future minimum payments | | | | | | | | | 15,098,291 |
| Unamortized net premium (discount) | | | | | | | | | - |
| Total long-term debt obligations | | | | | | | | | 15,098,291 |
| Less: current portion | | | | | | | | | (20,306) |
| Long-term debt obligations, net of current portion | | | | | | | | | \$ 15,077,985 |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

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

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

| | Net Position Class | Amount |
|--|-----------------------|--------------|
| | | Dr. (Cr.) |
| Net position as of June 30, 2017, as previously reported | | \$ 8,488,108 |
| 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, 2017, as restated | | \$ 8,488,108 |

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) | - | - |

California State University San Marcos Corporation
Other Information
June 30, 2018
(for inclusion in the California State University)

12 Natural Classifications of Operating Expenses:

| | <u>Salaries</u> | <u>Benefits</u> | <u>Scholarships and fellowships</u> | <u>Supplies and other services</u> | <u>Depreciation and amortization</u> | <u>Total operating expenses</u> |
|------------------------------------|---------------------|---------------------|---|--|--|---|
| Instruction | \$ 1,237,200 | \$ 342,459 | \$ - | \$ 972,129 | \$ - | \$ 2,551,788 |
| Research | 3,668,000 | 994,192 | - | 2,959,705 | - | 7,621,897 |
| Public service | 2,303 | 92 | - | 1,059 | - | 3,454 |
| Academic support | 111,587 | 30,583 | - | 311,205 | - | 453,375 |
| Student services | 2,176,200 | 672,191 | - | 621,352 | - | 3,469,743 |
| Institutional support | 22,239 | 4,594 | - | 986,932 | - | 1,013,765 |
| Operation and maintenance of plant | - | - | - | - | - | - |
| Student grants and scholarships | - | - | 895,479 | - | - | 895,479 |
| Auxiliary enterprise expenses | 503,673 | 181,125 | - | 2,326,364 | - | 3,011,162 |
| Depreciation and amortization | - | - | - | - | 1,605,821 | 1,605,821 |
| Total | \$ <u>7,721,202</u> | \$ <u>2,225,236</u> | \$ <u>895,479</u> | \$ <u>8,178,746</u> | \$ <u>1,605,821</u> | \$ <u>20,626,484</u> |

**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
California State University San Marcos 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 California State University San Marcos Corporation, formerly University Auxiliary and Research Services Corporation, (nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered California State University San Marcos 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 California State University San Marcos Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the California State University San Marcos 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 and 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 California State University San Marcos 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*.

**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, CONTINUED***

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.

Aldrich CPAs + Advisors LLP

San Diego, California
September 26, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
California State University San Marcos Corporation

Report on Compliance for Each Major Federal Program

We have audited California State University San Marcos Corporation's, formerly University Auxiliary and Research Services Corporation, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of California State University San Marcos Corporation's major federal programs for the year ended June 30, 2018. California State University San Marcos 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of California State University San Marcos 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about California State University San Marcos 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 California State University San Marcos Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, California State University San Marcos 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, 2018.

Report on Internal Control over Compliance

Management of California State University San Marcos 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 California State University San Marcos 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 the Uniform Guidance, 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 California State University San Marcos Corporation's internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED**

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Aldrich CPAs + Advisors LLP

San Diego, California
September 26, 2018

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| 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> | | | |
| Hazard Mitigation Grant | 97.039 | N/A | \$ <u>231,487</u> |
| Total Department of Homeland Security | | | <u>231,487</u> |
| United States Environmental Protection Agency | | | |
| <i>Pass-through from State Water Resources Control Board</i> | | | |
| Water Pollution Control State, Interstate, and Tribal Program Support | 66.419 | 98910012 | <u>169,558</u> |
| Total United States Environmental Protection Agency | | | <u>169,558</u> |
| Department of Defense | | | |
| <i>Direct Programs</i> | | | |
| Basic and Applied Scientific Research | 12.300 | N/A | 796,518 |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | N/A | <u>330,287</u> |
| Total Department of Defense | | | <u>1,126,805</u> |
| Department of the Interior | | | |
| <i>Direct Programs</i> | | | |
| Endangered Species Conservation – Recovery Implementation Funds | 15.657 | N/A | <u>19,508</u> |
| Total Department of the Interior | | | <u>19,508</u> |
| Department of Health and Human Services | | | |
| <i>Direct Programs</i> | | | |
| Family and Community Violence Prevention Program | 93.910 | N/A | 304,321 |
| Biomedical Research and Research Training | 93.859 | N/A | 1,522,824 |
| Mental Health Research Grants | 93.242 | N/A | 217,032 |
| Advanced Nursing Education Grant Program | 93.247 | N/A | 123,803 |
| Health Professions Recruitment Program for Indians | 93.970 | N/A | 252,751 |
| <i>Pass-through from Vista Community Clinic</i> | | | |
| Healthy Marriage Promotion and Responsible Fatherhood Grants | 93.086 | 90FK0105-01-00 | 45,887 |
| <i>Pass-through from University of San Diego</i> | | | |
| Family Smoking Prevention and Tobacco Control Act | 93.077 | 5R01CA130347-03 | 47,454 |
| <i>Pass-through from Vista Community Clinic</i> | | | |
| Nurse Education, Practice and Retention Grants | 93.359 | UD7HP26899 | <u>5,506</u> |
| Total Department of Health and Human Services | | | <u>2,519,578</u> |
| Department of Agriculture | | | |
| <i>Direct Programs</i> | | | |
| Forestry Research | 10.652 | N/A | 131,617 |
| <i>Direct Programs</i> | | | |
| Cooperative Forestry Assistance | 10.664 | N/A | 145,682 |
| <i>Pass-through from California State University Chico Research Foundation</i> | | | |
| Unknown | 99.999 | 14-CS-11052009-027 | <u>38,812</u> |
| Total Department of Agriculture | | | <u>316,111</u> |
| National Aeronautical and Space Administration | | | |
| <i>Direct Programs</i> | | | |
| Science | 43.001 | N/A | <u>12,868</u> |
| Total National Aeronautical and Space Administration | | | <u>12,868</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal/Pass-Through Grantor and Program Title | Federal CFDA Number | Agency or Pass-Through Grantor No. | Expenditures |
|---|---------------------------|--|-------------------|
| Research and Development Cluster, continued: | | | |
| Corporation for National and Community Service | | | |
| <i>Direct Programs</i> | | | |
| National Service and Civic Engagement Research Competition | 94.026 | N/A | \$ <u>323,571</u> |
| Total Corporation for National and Community Service | | | <u>323,571</u> |
| National Archives and Records Administration | | | |
| <i>Direct Programs</i> | | | |
| National Historical Publications and Records Grants | 89.003 | N/A | <u>7,400</u> |
| Total National Archives and Records Administration | | | <u>7,400</u> |
| National Endowment for the Humanities | | | |
| <i>Direct Programs</i> | | | |
| Teaching and Learning Resources and Curriculum Development | 45.162 | N/A | <u>69</u> |
| Total National Archives and Records Administration | | | <u>69</u> |
| National Science Foundation | | | |
| <i>Direct Programs</i> | | | |
| Biological Sciences | 47.074 | N/A | 473,639 |
| Social, Behavioral, and Economic Sciences | 47.075 | N/A | 124,426 |
| Education and Human Resources | 47.076 | N/A | 1,936,255 |
| Mathematical and Physical Sciences | 47.049 | N/A | 244,479 |
| <i>Pass-through from American Society for Biochemistry and Molecular Biology</i> | | | |
| Education and Human Resources | 47.074 | 1513415 | <u>15,047</u> |
| Total National Science Foundation | | | <u>2,793,846</u> |
| Total Research and Development Cluster | | | <u>7,520,801</u> |
| TRIO Cluster: | | | |
| Department of Education | | | |
| <i>Direct Programs</i> | | | |
| Student Support Services | 84.042 | N/A | 299,528 |
| Talent Search | 84.044 | N/A | 195,946 |
| Upward Bound | 84.047 | N/A | 294,663 |
| McNair Postbaccalaureate Achievement Program | 84.217 | N/A | <u>165,689</u> |
| Total Department of Education | | | <u>955,826</u> |
| Total TRIO Cluster | | | <u>955,826</u> |
| Other Programs: | | | |
| Department of Education | | | |
| <i>Direct Programs</i> | | | |
| English Language Acquisition State Grants | 84.365 | N/A | 471,339 |
| Migrant Education College Assistance Migrant Program | 84.149 | N/A | 397,163 |
| Special Education - Personnel Development to Improve Services and Results for Children with Disabilities | 84.325 | N/A | 285,747 |
| Higher Education Institutional Aid | 84.031 | N/A | 1,179,848 |
| <i>Pass-through from National Writing Project</i> | | | |
| Improving Teacher Quality State Grants | 84.367 | U367D150004 | 721 |
| <i>Pass-through from University of California Irvine</i> | | | |
| Investing in Innovation (i3) Fund | 84.411 | U411B1300029 | 147,282 |
| <i>Pass-Through from Valley Center Pauma Unified School District</i> | | | |
| Mathematics and Science Partnerships | 84.366 | S366B150005 | 1,017 |
| <i>Pass-through from University of California Office of the President</i> | | | |
| Improving Teacher Quality State Grants | 84.367 | CN170224 | 27,505 |
| Improving Teacher Quality State Grants | 84.367 | S367A160005 | <u>285</u> |
| Total Department of Education | | | <u>2,510,907</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal/Pass-Through Grantor and Program Title | Federal CFDA Number | Agency or Pass-Through Grantor No. | Expenditures |
|---|---------------------------|--|-----------------------------|
| Other Programs, continued: | | | |
| Department of Defense | | | |
| <i>Direct Programs</i> | | | |
| Basic and Applied Scientific Research | 97.039 | N/A | \$ <u>15,436</u> |
| Total Department of Defense | | | <u>15,436</u> |
| | | | |
| Department of Agriculture | | | |
| <i>Direct Programs</i> | | | |
| Agriculture and Food Research Initiative | 97.039 | N/A | <u>1,980</u> |
| Total Department of Defense | | | <u>1,980</u> |
| | | | |
| Department of Health and Human Services | | | |
| <i>Pass-through from University of California Berkeley:</i> | | | |
| Foster Care - Title IV-E | 93.658 | 15-IA-00850 | <u>579,726</u> |
| Total Department of Health and Human Services | | | <u>579,726</u> |
| | | | |
| Total Other Programs | | | <u>3,108,049</u> |
| | | | |
| Total Expenditures of Federal Awards | | | <u>\$ <u>11,584,674</u></u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Notes to Schedule of Expenditure of Federal Awards
Year Ended June 30, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of California State University San Marcos Corporation, formerly 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

Note 2 – Summary of Significant Accounting Policies

California State University San Marcos Corporation did not elect to use the 10% de minimus cost rate as covered in the Uniform Guidance 2.CFR.200.414 Indirect costs.

Note 3 – Amounts Provided to Subrecipients

The following amounts were paid to subrecipients from the following grants:

| | |
|---|-------------------|
| Biomedical Research and Research Training | |
| Palomar College | \$ 6,151 |
| Mira Costa College | 5,676 |
| Total Biomedical Research and Research Training | <u>11,827</u> |
| Education and Human Resources | |
| San Diego State University | 154,666 |
| Tennessee Technological University | 72,855 |
| SRI International | 72,733 |
| Horizon Research, Inc. | 66,758 |
| AZ Board of Regents for ASU | 33,846 |
| University of Maryland College | 23,162 |
| Kansas State University | 14,714 |
| Total Education and Human Resources | <u>438,734</u> |
| Advanced Nursing Education Grant Program | |
| University of California San Diego | 9,009 |
| Total Advanced Nursing Education Grant Program | <u>9,009</u> |
| Family and Community Violence Prevention Program | |
| North County Health Services | 19,716 |
| Total Family and Community Violence Prevention Program | <u>19,716</u> |
| Biological Sciences | |
| Temple University | 164,164 |
| Total Biological Sciences | <u>164,164</u> |
| Total amounts provided to subrecipients | <u>\$ 643,450</u> |

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

| | |
|---|---------------|
| Internal control over major program: | |
| Significant deficiency(ies) identified? | None reported |
| Material weakness(es) identified? | 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 the Uniform Guidance, 2 CFR Section 200.516(a)? | No |
|--|----|

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| Various 84.149 | Research and Development Cluster Migrant Education – College Assistance Migrant Program |

| | |
|--|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
|--|-----------|

| | |
|--|-----|
| Auditee qualified as a low-risk auditee under the Uniform Grant Guidance, 2 CFR Section 200.520? | Yes |
|--|-----|

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Prior Year Audit Findings
Year Ended June 30, 2018

Section IV – Schedule of Prior Year Findings

2017-001 Schedule of Expenditures of Federal Awards:

Condition:

During the preparation of the annual SEFA report Auxiliary Accounting identified three federal grants which were not on the 2016 schedule. During the course of the year, the Office of Sponsored Programs made the coding correction which resulted in that identification. The three grants totaled \$138,000.

Status:

There were no similar findings noted for the year ended June 30, 2018. The Organization has implemented controls to ensure proper reporting