

California State University San Marcos Corporation

Financial Statements and Supplemental Information

Years Ended June 30, 2020 and 2019



CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Financial Statements and Supplemental Information

Years Ended June 30, 2020 and 2019

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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, (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, 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, 2020 and 2019, 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

Emphasis-of-Matter Regarding COVID-19

As described in Note 1 to the financial statements, on March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is unmodified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 25-33 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, notes to the schedule of expenditures of federal awards, schedule of findings and questioned costs and prior year audit findings included on pages 38-43, 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.

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 29, 2020, 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 29, 2020

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

June 30, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 3,195,399	\$ 3,019,933
Accounts receivable	4,029,288	3,682,262
Other receivables, net of allowance for doubtful accounts of \$20,314 (2020) and \$23,221 (2019)	392,425	608,408
Due from related parties	1,084,163	9,785,107
Prepaid expenses	5,324	809,852
Current portion of lease receivable	3,505,789	-
Current portion of investments	<u>10,948,950</u>	<u>12,631,201</u>
Total Current Assets	23,161,338	30,536,763
Noncurrent Assets:		
Property and equipment, net of accumulated depreciation	23,104,881	89,339,587
Lease receivable, less current portion	95,966,504	-
Investments, less current portion	503,564	2,694,303
Other assets	<u>102,722</u>	<u>56,581</u>
Total Noncurrent Assets	<u>119,677,671</u>	<u>92,090,471</u>
Total Assets	<u>\$ 142,839,009</u>	<u>\$ 122,627,234</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,462,050	\$ 8,450,196
Due to related parties	1,413,584	1,933,843
Current portion of unearned capital lease income	2,375,657	-
Current portion of deferred revenue	919,073	1,482,341
Accrued payroll and benefits	1,145,157	867,372
Current portion of accrued postretirement benefit costs	17,831	21,592
Current portion of bond payable	1,035,050	999,628
Current portion of note payable	<u>923,442</u>	<u>877,692</u>
Total Current Liabilities	9,291,844	14,632,664
Noncurrent Liabilities:		
Unearned capital lease income, net of current portion	37,677,730	-
Deferred revenue, net of current portion	1,185,556	12,039,642
Accrued postretirement benefit costs, net of current portion	1,553,171	1,516,359
Bond payable, net of current portion	15,910,926	16,968,257
Note payable, net of current portion	<u>63,445,264</u>	<u>62,602,072</u>
Total Noncurrent Liabilities	<u>119,772,647</u>	<u>93,126,330</u>
Total Liabilities	129,064,491	107,758,994
Net Assets Without Donor Restrictions	<u>13,774,518</u>	<u>14,868,240</u>
Total Liabilities and Net Assets	<u>\$ 142,839,009</u>	<u>\$ 122,627,234</u>

See accompanying notes to financial statements.

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

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue, Gains, and Other Support Without Donor Restriction:		
Federal grants and contracts	\$ 13,548,397	\$ 13,601,326
Housing and rental income	4,690,461	5,596,361
Campus programs	2,260,274	2,404,917
Other sponsored programs	3,769,642	2,054,097
Ground lease income	816,203	803,349
Child care center in-kind rental income	541,849	533,316
Commissions	470,316	608,889
Housing, other fees	799,620	623,056
Rental income	3,250	3,250
Total Revenue, Gains and Other Support Without Donor Restrictions	<u>26,900,012</u>	<u>26,228,561</u>
Expenses:		
Operating Expenses:		
Program Services:		
Sponsored programs	14,522,147	14,193,716
Academic and auxiliary services	2,344,019	-
Student housing	4,552,733	4,517,565
Other Programs	2,648,076	2,455,213
Total Program Services	<u>24,066,975</u>	<u>21,166,494</u>
Supporting Services:		
Management and general	3,292,378	3,221,724
Total Operating Expenses	<u>27,359,353</u>	<u>24,388,218</u>
Nonoperating revenues (expense):		
Earned capital lease income	1,689,298	-
Interest and dividend income	113,944	169,338
Interest expense	(2,645,009)	(684,262)
Net realized and unrealized gain on investments	202,847	252,200
Postretirement benefit	4,539	24,622
Total Nonoperating Revenues	<u>(634,381)</u>	<u>(238,102)</u>
Increase (decrease) in Net Assets	(1,093,722)	1,602,241
Net Assets Without Donor Restrictions, beginning	<u>14,868,240</u>	<u>13,265,999</u>
Net Assets Without Donor Restrictions, ending	<u>\$ 13,774,518</u>	<u>\$ 14,868,240</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services					Supporting Services	Total
	Sponsored Programs	Academic & Auxiliary Services	Student Housing	Other Programs	Total Programs	Management and General	
Business service fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 318,861	\$ 318,861
CCF in-kind rental	-	-	-	-	-	541,849	541,849
Contractual services	591,176	58,128	351,366	6,147	1,006,817	229,000	1,235,817
Depreciation	172,720	-	1,176,122	-	1,348,842	483,935	1,832,777
Employee Benefits	1,457,880	25,651	203,883	744,224	2,431,638	220,345	2,651,983
Ground lease in-kind	-	-	528,710	-	528,710	287,493	816,203
Hospitality and events	321,968	-	15,974	4,985	342,927	10,243	353,170
Information technology	455,486	2,125,498	15,067	46,124	2,642,175	38,901	2,681,076
Insurance	20,744	4,119	83,782	-	108,645	27,430	136,075
Other expenses	244,611	43,612	549,310	-	837,533	516,086	1,353,619
Related party transactions	528,411	-	-	116,035	644,446	1,000	645,446
Repairs and maintenance	-	-	367,274	-	367,274	-	367,274
Salaries and wages	6,153,914	36,357	715,280	1,548,000	8,453,551	550,874	9,004,425
Scholarships	989,844	-	-	27,920	1,017,764	-	1,017,764
Services	204,130	-	-	3,944	208,074	-	208,074
Stipends	1,676,613	-	-	109,029	1,785,642	-	1,785,642
Subrecipient	801,786	-	-	-	801,786	-	801,786
Supplies	593,925	32,698	37,405	9,796	673,824	27,405	701,229
Travel	286,565	-	34,852	24,334	345,751	20,944	366,695
Utilities	22,374	17,956	473,708	7,538	521,576	18,012	539,588
Total operating expenses	\$ 14,522,147	\$ 2,344,019	\$ 4,552,733	\$ 2,648,076	\$ 24,066,975	\$ 3,292,378	\$ 27,359,353

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services			Total Programs	Supporting Services	Total
	Sponsored Programs	Student Housing	Other Programs		Management and General	
Business service fees	\$ -	\$ -	\$ -	\$ -	314,000	\$ 314,000
CCF in-kind rental	-	-	-	-	533,316	533,316
Contractual services	701,687	334,365	170,240	1,206,292	297,862	1,504,154
Depreciation	151,846	1,139,267	-	1,291,113	494,267	1,785,380
Employee Benefits	1,600,778	215,741	177,669	1,994,188	156,901	2,151,089
Ground lease in-kind	-	520,384	-	520,384	282,966	803,350
Hospitality and events	166,669	1,343	147,801	315,813	8,576	324,389
Information technology	174,427	11,587	394,714	580,728	19,827	600,555
Insurance	17,939	84,436	-	102,375	23,165	125,540
Other expenses	112,840	357,885	109,125	579,850	305,982	885,832
Related party transactions	144,222	500,000	-	644,222	200,000	844,222
Repairs and maintenance	-	244,440	2,921	247,361	-	247,361
Salaries and wages	6,297,971	613,979	1,160,478	8,072,428	519,952	8,592,380
Scholarships	859,606	-	22,197	881,803	-	881,803
Services	342,445	-	20,986	363,431	-	363,431
Stipends	1,715,780	-	111,197	1,826,977	-	1,826,977
Subrecipient	779,528	-	-	779,528	-	779,528
Supplies	695,395	25,504	72,847	793,746	13,228	806,974
Travel	409,279	28,297	58,454	496,030	25,908	521,938
Utilities	23,304	440,337	6,584	470,225	25,774	495,999
Total operating expenses	\$ <u>14,193,716</u>	\$ <u>4,517,565</u>	\$ <u>2,455,213</u>	\$ <u>21,166,494</u>	\$ <u>3,221,724</u>	\$ <u>24,388,218</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (1,093,722)	\$ 1,602,241
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,832,777	1,785,380
Amortization of debt premium	(22,281)	(23,562)
Net realized and unrealized gain on investments	(202,847)	(252,200)
Gain on disposals of property and equipment	(477,074)	-
Change in accumulated postretirement benefit obligation	33,051	6,404
Changes in operating assets and liabilities:		
Accounts receivable	(347,026)	(1,047,844)
Other receivables, net	215,983	(427,907)
Due from related parties	8,700,944	(6,102,631)
Prepaid expenses	804,528	(801,635)
Lease receivable	3,498,704	-
Other assets	(46,141)	-
Accounts payable	(6,988,146)	3,795,947
Due to related parties	(512,138)	1,244,737
Unearned capital lease income	(1,689,298)	-
Deferred revenue	3,864,898	3,534,428
Accrued payroll and benefits	277,785	26,718
Accrued interest	(8,121)	(4,591)
	<u>7,841,876</u>	<u>3,335,485</u>
Net Cash Provided by Operating Activities	7,841,876	3,335,485
Cash Flows from Investing Activities:		
Purchases of property and equipment	(11,631,561)	(685,848)
Purchases of investments	(6,721,163)	(11,986,422)
Proceeds from the sale of investments	10,797,000	5,310,000
	<u>(7,555,724)</u>	<u>(7,362,270)</u>
Net Cash Used by Investing Activities	(7,555,724)	(7,362,270)
Cash Flows from Financing Activities:		
Proceeds from note payable	888,942	761,506
Payments on bond payable	(999,628)	(958,576)
	<u>(110,686)</u>	<u>(197,070)</u>
Net Cash Used by Financing Activities	(110,686)	(197,070)
Net Increase (Decrease) in Cash and Cash Equivalents	175,466	(4,223,855)
Cash and Cash Equivalents, beginning	<u>3,019,933</u>	<u>7,243,788</u>
Cash and Cash Equivalents, ending	<u>\$ 3,195,399</u>	<u>\$ 3,019,933</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Statements of Cash Flows, continued
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	\$ <u>2,653,128</u>	\$ <u>713,174</u>
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Property and equipment purchased with debt financing	\$ <u>-</u>	\$ <u>47,619,967</u>
Noncash recognition of capital lease:		
Lease receivable	\$ 102,970,997	\$ -
Deferred revenue	15,282,252	-
Unearned capital lease income	(41,742,685)	-
Lease of assets in a capital lease transaction	<u>(76,510,564)</u>	<u>-</u>
	\$ <u>-</u>	\$ <u>-</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

California State University San Marcos Corporation (Corporation), is a nonprofit California corporation and an auxiliary organization of California State University San Marcos (University or CSUSM), 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.

Program Services

The Corporation provides program services in the following major areas:

- Sponsored Programs – represents transactions where the Corporation serves as administrator for the University on various research and educational grants and contracts awarded by both governmental and private institutions.
- Academic and Auxiliary Services – represents net transactions for the startup and operations of the new Extended Learning Building and Parking Project, in the Corporation's role of providing real property development and management.
- Student Housing – represents transactions related to the Corporation management of student housing. The Corporation holds a ground and facility lease on the University Village Apartments (UVA), which provides housing and student-life activities for approximately 681 students, and contracts with Capstone On-Campus Management (Capstone), a third-party administrator for UVA operations and management. Additionally, the Corporation manages the contractual affiliated relationship between The Quad developer (a privately-owned housing property for CSUSM students), the University and the Residential Education Team.
- Other Programs – represents primarily the operational expenses of Campus Program projects and activities.

New Accounting Pronouncements

In June 2018, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASC Topic 958)*. This standard update, along with related subsequently issued updates, clarifies and improves the scope and the accounting guidance for contributions received and contributions made under generally accepted in the United States of America (U.S. GAAP). During the year ended June 30, 2020, the Corporation adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASC Topic 958)*.

Management has analyzed the provisions of the FASB's ASC Topic 958, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and has implemented the new standard on a modified prospective basis. There were no changes or impacts to revenue transactions due to the implementation.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. This standard update was issued primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of change in net assets from operating activities, if one is presented.

Management has analyzed the provisions of the FASB's Topic 715, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, and has adjusted the presentation for the years ended June 30, 2020 and 2019 to present service cost related to the postretirement plan as a portion of the benefits expense and all other components as Postretirement benefit in nonoperating revenue as shown on the statement of activities.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

New Accounting Pronouncements, continued

The Organization has used the practical expedient provided by ASU 2017-07 of using amounts disclosed in the Postretirement Plan note in the June 30, 2019 financial statements as the estimation basis for applying the retrospective requirements of the ASU.

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 financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation's management and the board of directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Corporation did not have any donor restrictions that were temporary or perpetual in nature for the years ended June 30, 2020 and 2019.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

Receivables

The accounts receivable arises 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. Receivables are stated at unpaid balances, less an allowance for doubtful accounts. The Corporation provides for losses on receivables using the allowance method.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

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.

Unearned Capital Lease Income

Unearned capital lease income represents the deferred rent revenue for payments made from the University to the Corporation for the Extended Learning Building and Parking Project.

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.

Revenue Recognition

- Federal grants and contracts and sponsored programs - support received under grants and contracts is recorded as revenue when conditions are met in accordance with agreements. Any funds received in advance are recorded as deferred revenue until these conditions are met.
- 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.
- Campus programs – revenue received from various programs offered by the Corporation. Revenue is recognized when earned for the services performed.
- Housing, other fees – 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, 2020 and 2019

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

Future Accounting Standards

FASB has issued two substantial ASUs which will become effective in future years.

The amendments in ASU 2014-09 *Revenue from Contracts with Customers* and subsequent updates require that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is to be applied on a full retrospective basis or modified retrospective basis. The Corporation is in the process of assessing how this new ASU and subsequent updates will affect the Corporation's reporting of revenues, effective July 1, 2020. This assessment includes determining the effect of the new standard on the Corporation's financial statements, accounting systems, business processes, and internal controls. Based on its assessment to date, the Corporation does not currently expect adoption to have a material effect on its revenues. Adoption of ASU 2014-09 will also require enhanced financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In February 2016, the FASB issued ASU No. 2016-02 *Leases*. The primary change in generally accepted accounting principles (GAAP) addressed by ASU 2016-02 is the requirement for a lessee to recognize on the balance sheet a liability to make lease payments ("lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Corporation is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

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, 2020 and 2019; therefore, no amounts have been accrued.

Subsequent Events

The Corporation has evaluated subsequent events through September 29, 2020, which is the date the financial statements were available to be issued.

As of the date through which the Corporation has evaluated events occurring subsequent to June 30, 2020, the Corporation has assessed the impact and risks associated with COVID-19, the worldwide pandemic that has caused varying levels of business disruption worldwide. The related financial impact and duration cannot be reasonably estimated at this time. However, based on its assessment, the Corporation does not anticipate a significant change in operations.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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 – Financial Assets and Liquidity Resources

Board Designations

Net assets without donor restrictions consists of the following for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 7,051,615	\$ 8,810,237
Board designation:		
Reserved for working capital and current operating	3,409,605	3,082,598
Reserved for capital replacement	1,000,000	1,006,000
Reserved for venture capital/opportunity	<u>2,313,298</u>	<u>1,969,405</u>
Total board designation	<u>6,722,903</u>	<u>6,058,003</u>
	<u>\$ 13,774,518</u>	<u>\$ 14,868,240</u>

Liquidity

The following reflects the Corporation's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use because of board designated or contractual restrictions within one year of the statement of financial position date. Amounts not available include board designated amounts set aside for working and operating capital, capital replacement, and venture capital opportunities. In the event of an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash, the board can approve adjustments to move net assets from board designated net assets to undesignated net assets.

	<u>2020</u>	<u>2019</u>
Financial assets available to be used within one year:		
Cash and cash equivalents	\$ 3,195,399	\$ 3,019,933
Sponsored programs receivable	4,029,288	3,682,262
Current portion of lease receivable	3,505,789	-
Other receivables, net	392,425	608,408
Due from related parties	1,084,163	9,785,107
Investments	<u>10,948,950</u>	<u>12,631,201</u>
Total financial assets	23,156,014	29,726,911
Less amounts not available for general use within one year:		
Board designated	<u>(6,722,903)</u>	<u>(6,058,003)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 16,433,111</u>	<u>\$ 23,668,908</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 4 – Fair Value Measurement

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.

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, 2020 and 2019.

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, 2020:

	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:					
Domestic Nontraditional Bond	\$ 1,890,593	\$ -	\$ -	\$ -	\$ 1,890,593
Domestic Short-Term Bond	3,840,111	-	-	-	3,840,111
Domestic Ultra short bond	4,274,123	-	-	-	4,274,123
Certificates of deposits:					
Current	-	944,123	-	-	944,123
Noncurrent	-	503,564	-	-	503,564
	<u>\$ 10,004,827</u>	<u>\$ 1,447,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,452,514</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 4 – Fair Value Measurement, continued

Investments and certificates of deposit at fair value according to the fair value hierarchy are as follows as of June 30, 2019:

	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:					
Domestic Nontraditional Bond	\$ 1,513,234	\$ -	\$ -	\$ -	\$ 1,513,234
Domestic Short-Term Bond	1,506,264	-	-	-	1,506,264
Domestic Ultra short bond	8,141,382	-	-	-	8,141,382
Certificates of deposits:					
Current	-	1,470,321	-	-	1,470,321
Noncurrent	-	2,694,303	-	-	2,694,303
	<u>\$ 11,160,880</u>	<u>\$ 4,164,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,325,504</u>

Note 5 – Property and Equipment

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

	2020	2019
Land improvements	\$ 2,495,867	\$ 2,475,208
Building and improvements	31,914,982	31,827,325
Furniture and equipment	5,814,536	5,738,392
Leasehold improvements	2,200,274	2,200,274
	42,425,659	42,241,199
Less accumulated depreciation	(19,644,612)	(17,951,364)
	22,781,047	24,289,835
Construction in progress	323,834	65,049,752
	<u>\$ 23,104,881</u>	<u>\$ 89,339,587</u>

The total cost of one building, UVA (Note 1), under capital lease, as of June 30, 2020 and 2019 was \$23,849,021. Accumulated depreciation associated with this asset as of June 30, 2020 and 2019 was \$10,010,402 and \$9,414,176 respectively.

Note 6 – Commitments and Contingencies

Leases

The Corporation has entered into various operating lease agreements with the University for facilities, with monthly rents totaling \$3,250 through June 30, 2020. Total rent expense were approximately \$39,000 and \$40,000 for each of the years ended June 30, 2020 and 2019, respectively.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 6 – Commitments and Contingencies, continued

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, 2020 and 2019 was \$244,046 and \$312,364, respectively.

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 \$83,123 for the years ended June 30, 2020 and 2019, respectively. In addition, the Corporation has deferred revenue of \$416,071 and \$499,194 of June 30, 2020 and 2019, 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 \$541,849 and \$533,316 for the years ended June 30, 2020 and 2019, 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 \$287,493 and \$282,966 for the years ended June 30, 2020 and 2019, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2020 and 2019 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 net revenue of the center.

CSUSM Lease Agreement

In August 2019, Corporation entered into a lease (as Lessor) with University (as Lessee) for use of space for Extended Learning and University programs in the building and adjoining parking garage. The lease has a term through March 2048 and calls for semi-annual rent payments corresponding to the Extended Learning debt obligation, as well as quarterly payments for operating expenses and capital fee for the facilities.

Beverage Distribution Rights Contract

The Corporation has granted an unrelated third-party exclusive right 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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 6 – Commitments and Contingencies, continued

Beverage Distribution Rights Contract, continued

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 \$58,017 and \$64,441 for the years ended June 30, 2020 and 2019, respectively, under this agreement, which includes the \$20,000 sponsorship fee for the year ended June 30, 2020.

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.

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, 2020 and 2019, respectively. In addition, the Corporation has deferred revenue of \$924,032 and \$997,955 at June 30, 2020 and 2019 respectively, related to the noncash transaction.

In October 2019, the Corporation and the unrelated third party amended their agreement to add a Residential Meal Program, with a minimum participation and tiered commission based upon sales, to serve students in CSUSM housing. Due to COVID-19, the program was delayed to an unspecified time. The term of the agreement was amended to go through June, 2032.

In October 2019, the Corporation entered into a lease agreement with the developer of The Quad affiliate housing facility, to utilize space in the building for the planned residential dining program. Under the terms of this agreement, lease payments would commence in Fall 2020. Given the aforementioned delay of the residential meal program, this agreement is currently under review for amendment.

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, 2020 and 2019.

Workers' Compensation Insurance

During the years ended June 30, 2020 and 2019, the Corporation purchased workers' compensation insurance for \$65,875 and \$59,724, 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).

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 6 – Commitments and Contingencies, continued

Workers' Compensation Insurance, continued

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.

University Village Apartments

San Marcos University Corporation (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

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, 2020 and 2019, management fees paid were \$178,572 and \$194,640, respectively. This amount is reflected in the statements of activities within student housing expenses for the years ended June 30, 2020 and 2019.

Affiliation Agreement

The Corporation is party to an affiliation agreement with the University and the developer of the Quad affiliate housing facility, QUAD SM III, LLC and QUAD Housing, LLC. In May 2019 an amendment to the agreement was completed which established an end date of May 2040, and addressed summer use of the Quad facility and related revenue participation, as well as Right of First Offer.

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 7 – Deferred Revenue

Deferred revenue are as follows as of June 30, 2020:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Bookstore	\$ 83,123	\$ 332,948	\$ 416,071
Campus food service	73,923	850,108	924,032
Housing	45,045	-	45,045
Other	716,981	2,500	719,481
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 919,073	\$ 1,185,556	\$ 2,104,629

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

Years Ended June 30, 2020 and 2019

Note 7 – Deferred Revenue, continued

Deferred revenue are as follows as of June 30, 2019:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Extended learning building	\$ -	\$ 10,692,041	\$ 10,692,041
Bookstore	83,123	416,070	499,193
Campus food service	73,924	924,031	997,955
Housing	371,283	-	371,283
Other	954,012	7,500	961,512
Total	<u>\$ 1,482,341</u>	<u>\$ 12,039,642</u>	<u>\$ 13,521,983</u>

Note 8 – 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>2020</u>	<u>2019</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,066,917	\$ 917,445
Service cost	51,256	45,015
Interest cost	37,024	36,421
Actuarial (gain)/loss	(373,711)	82,025
Benefits paid	(13,666)	(13,989)
Benefit obligation at end of year	<u>\$ 767,820</u>	<u>\$ 1,066,917</u>

	<u>2020</u>	<u>2019</u>
Funded Status:		
Unamortized prior service cost (credit)	\$ (61,973)	\$ (71,424)
Unrecognized net actuarial gain	(741,209)	(399,610)
Accrued benefit cost	1,571,002	1,537,951
Benefit obligation at June 30	<u>\$ 767,820</u>	<u>\$ 1,066,917</u>
Measurement date	6/30/2020	6/30/2019
Funded status at end of year	\$ (767,820)	\$ (1,066,917)

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 8 – Accrued Postretirement Benefits Costs, continued

	2020	2019
Net Periodic Benefit Cost:		
Service cost	\$ 51,256	\$ 45,015
Interest cost	37,024	36,421
Amortization of prior service cost	(9,451)	(9,451)
Amortization of net (gain)/loss	(32,112)	(51,592)
Net periodic benefit cost	<u>\$ 46,717</u>	<u>\$ 20,393</u>

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item "Postretirement benefit" in the statement of activities.

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

	2020	2019
Discount Rate	2.50%	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	4.00%	5.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	5.00%
Year that the rate reaches the ultimate trend rate	4 yrs	4 yrs

Expected retiree payments as of June 30, 2020 are as follows:

<u>Expected Retiree Payments Over the Next 10 Years</u>	
2020/21	\$ 15,064
2021/22	17,831
2022/23	20,338
2023/24	24,597
2024/25	26,009
2025-29	171,147

Note 9 – Long-Term Debt

Student Housing

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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 9 – Long-Term Debt, continued

Student Housing, continued

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 Corporation 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, 2020, in the amount of \$16,945,976, is net of the remaining \$148,545 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, 2019 was \$17,967,885, which was net of \$170,826 in unamortized gain associated with the modification of the capital lease in August 2014.

Extended Learning Building and Parking Project

The Extended Learning Building/Student Services Building and Parking Project (Project) was 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 entered into a Purchase and Sale Agreement (PSA) with the Developer (North City University One, Inc.) to manager the design, construction, and final closeout of the Project.

The Corporation will own 120,400 gross square feet to be used for Extended Learning Programs, classrooms, class labs, student support centers, lab and research facilities, select CSUSM departments, CSUSM Corporation Administrative Offices, and CSUSM Corporation Innovation. The Developer will own 14,600 gross square feet to be used for retail. A condominium structure was created to divide ownership of the building and land, and will provide for shared use of the common spaces in the building. The Corporation and the Developer will commonly own the parking structure under a separate parking declaration. The Developer and CSUSM Corporation developed Covenants, Conditions and Restrictions (CCR&Rs) for the building and parking structure. The Project was completed August 2019.

The Corporation owns and operates the Project and act as landlord to the University. In August 2019, Corporation entered into a lease with CSUSM for use of space for Extended Learning and University programs. The University authorized advanced lease payments of \$10,692,041 as of June 30, 2019 that were classified as deferred revenue. When the asset was placed in service during the year ended June 30, 2020, it was determined that the lease was a capital lease (Note 10). All advanced lease payments were incorporated into the capital lease.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 9 – Long-Term Debt, continued

Extended Learning Building and Parking Project, continued

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 \$63,590,905 with a maturity date of November 1, 2048. The amended loan has deescalating principal payments of approximately \$3,000,000 to \$3,500,000.

Paycheck Protection Program Loan

On May 5, 2020, The Corporation was granted a loan (Loan) from US Bank in the aggregate amount of \$2,082,042, pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loans and accrued interest are forgivable after as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, specific benefits, rent and utilities over a twenty-four-week period. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period.

The Loan, which was in the form of a Note dated May 5, 2020 matures on May 1, 2022 and bears interest at a rate of 1% per annum, with payments on the unforgiven portion payable monthly commencing no later than ten months following the end of the twenty-four-week period. The Loan may be prepaid by the Corporation at any time prior to maturity with no prepayment penalty.

Starbucks

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 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. The note agreement matures on July 1, 2024.

Summary of Long-Term debt as of June 30, 2020, are as follows:

June 30,	Bond Payable		Note Payable		
	Student Housing	Extended Learning Building	Paycheck Protection Program	Starbucks	Total Note Payable
2021	\$ 1,035,050	\$ 895,000	\$ -	\$ 28,442	\$ 923,442
2022	1,079,790	935,000	2,082,042	29,235	3,046,277
2023	1,123,765	975,000	-	30,039	1,005,039
2024	1,166,947	1,030,000	-	30,865	1,060,865
2025	1,214,274	1,075,000	-	31,712	1,106,712
Thereafter	11,177,605	48,425,000	-	-	48,425,000
	16,797,431	53,335,000	2,082,042	150,294	55,567,336
Unamortized Premium Balance	-	8,801,370	-	-	8,801,370
Remaining Gain on Modification	148,545	-	-	-	-
	16,945,976	62,136,370	2,082,042	150,294	64,368,706
Less current portion	(1,035,050)	(895,000)	-	(28,442)	(923,442)
Noncurrent portion	\$ 15,910,926	\$ 61,241,370	\$ 2,082,042	\$ 121,852	\$ 63,445,264

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

Note 10 – Direct Financing Lease

In August 2019, Corporation entered into a lease (as Lessor) with University (as Lessee) for use of space for Extended Learning and University programs in the building and adjoining parking garage. The lease agreement bears interest at a rate of 3.65 percent per annum. Lease payments will be due to Corporation and payable on or before May 1 and November 1 in each year, through November 1, 2048.

Future minimum lease payments to be received and unearned capital lease income from direct financing lease as of June 30, 2020, are as follows:

<u>June 30,</u>	<u>Lease Receivable</u>	<u>Unearned Capital Lease Income</u>	<u>Net Investment in Direct Financing Lease</u>
2021	\$ 3,505,790	\$ (2,375,657)	\$ 1,130,133
2022	3,501,727	(2,325,581)	1,176,146
2023	3,495,563	(2,273,841)	1,221,722
2024	3,501,979	(2,220,163)	1,281,816
2025	3,495,852	(2,164,478)	1,331,374
Thereafter	<u>81,971,382</u>	<u>(28,693,667)</u>	<u>53,277,715</u>
Total	<u>\$ 99,472,293</u>	<u>\$ (40,053,387)</u>	<u>\$ 59,418,906</u>

Note 11 – 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 entered into payroll processing agreements with Foundation and ASI.

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, 2020 and 2019

Note 11 – Related Party Transactions, continued

Related party transactions are as follows:

<u>Related Parties</u>	<u>Description</u>	<u>Reported in</u>	<u>2020</u>	<u>2019</u>
Expenses to:				
University	Salaries and reimbursed costs	Various expenses	\$ 6,335,239	\$ 5,412,990
University	Bond Interest	Interest expense	644,595	683,389
ASI	Services, programs and other	Various expenses	5,525	5,800
Foundation	Services, programs and other	Various expenses	10,050	3,300
			<u>\$ 6,995,409</u>	<u>\$ 6,105,479</u>
Revenue from:				
University	Services and programs	Revenue	\$ 6,484,057	\$ 971,116
ASI	Payroll processing, administrative expenses and other expenses	Revenue	1,053,939	1,070,169
Foundation	Payroll processing, administrative expenses and other expenses	Revenue	1,500	-
			<u>\$ 7,539,496</u>	<u>\$ 2,041,285</u>
Assets:				
University	Salaries, benefits, and other expenses	Due from related parties	\$ 444,375	\$ 8,945,144
University	Lease receivable (Note 10)	Lease receivable	99,472,293	-
CSU Chancellor's Office	Other expenses	Due from related parties	404,813	537,430
ASI	Salaries, benefits, and other expenses	Due from related parties	125,398	164,223
Foundation	Other expenses	Due from related parties	109,577	138,310
			<u>\$ 100,556,456</u>	<u>\$ 9,785,107</u>
Liabilities:				
University	Cost reimbursement	Various liabilities	\$ 865,828	\$ 1,370,068
CSU Chancellor's Office	Other expenses	Due to related parties	438,714	444,187
University	Bond Interest	Accrued interest	109,042	117,163
University	Starbucks loan (Note 9)	Notes payable	150,294	177,985
University	EL Building (Note 9)	Deferred revenue	-	10,692,041
ASI	Cost reimbursement	Various liabilities	-	2,425
			<u>\$ 1,563,878</u>	<u>\$ 12,803,869</u>

Note 12 – 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. The expenses that are allocated include depreciation, which is allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates and time and effort.

SUPPLEMENTAL INFORMATION

California State University San Marcos Corporation
Schedule of Net Position
June 30, 2020
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 3,195,399
Short-term investments	10,948,950
Accounts receivable, net	5,505,876
Capital lease receivable, current portion	3,505,789
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	5,324
Total current assets	<u>23,161,338</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Capital lease receivable, net of current portion	95,966,504
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	503,564
Capital assets, net	23,104,881
Other assets	102,722
Total noncurrent assets	<u>119,677,671</u>
Total assets	<u>142,839,009</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	2,766,592
Accrued salaries and benefits	485,378
Accrued compensated absences, current portion	659,779
Unearned revenue, current portion	3,294,730
Capital lease obligations, current portion	1,035,050
Long-term debt obligations, current portion	923,442
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	109,042
Total current liabilities	<u>9,274,013</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue, net of current portion	38,863,286
Grants refundable	-
Capital lease obligations, net of current portion	15,762,381
Long-term debt obligations, net of current portion	63,445,264
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Net other postemployment benefits obligations	1,571,002
Net pension liability	-
Other liabilities	-
Total noncurrent liabilities	<u>119,641,933</u>
Total liabilities	<u>128,915,946</u>
Deferred inflows of resources:	
Service concession arrangements	-
Net pension liability	-
Net OPEB liability	-
Unamortized gain on debt refunding	148,545
Nonexchange transactions	-
Others	-
Total deferred inflows of resources	<u>148,545</u>
Net Position:	
Net investment in capital assets	1,663,659
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	-
Unrestricted	12,110,859
Total net position	<u>\$ 13,774,518</u>

California State University San Marcos Corporation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2020
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees, gross	\$ -
Scholarship allowances	-
Grants and contracts, noncapital:	
Federal	13,548,397
State	1,747,876
Local	22,463
Nongovernmental	1,999,303
Sales and services of educational activities	2,260,274
Sales and services of auxiliary enterprises, gross	7,321,699
Scholarship allowances	-
Other operating revenues	-
Total operating revenues	<u>26,900,012</u>
Expenses:	
Operating expenses:	
Instruction	4,903,376
Research	6,701,353
Public service	178,001
Academic support	770,512
Student services	3,361,500
Institutional support	1,286,752
Operation and maintenance of plant	-
Student grants and scholarships	1,017,764
Auxiliary enterprise expenses	7,307,318
Depreciation and amortization	1,832,777
Total operating expenses	<u>27,359,353</u>
Operating income (loss)	<u>(459,341)</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	2,006,089
Endowment income (loss), net	-
Interest expense	(2,645,009)
Other nonoperating revenues (expenses) - excl. interagency transfers	4,539
Net nonoperating revenues (expenses)	<u>(634,381)</u>
Income (loss) before other revenues (expenses)	<u>(1,093,722)</u>
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase (decrease) in net position	<u>(1,093,722)</u>
Net position:	
Net position at beginning of year, as previously reported	14,868,240
Restatements	-
Net position at beginning of year, as restated	<u>14,868,240</u>
Net position at end of year	<u>\$ 13,774,518</u>

California State University San Marcos Corporation
Other Information
June 30, 2020
(for inclusion in the California State University)

1 Cash and cash equivalents:

Portion of restricted cash and cash equivalents related to endowments	-
All other restricted cash and cash equivalents	-
Noncurrent restricted cash and cash equivalents	-
Current cash and cash equivalents	3,195,399
Total	\$ 3,195,399

2.1 Composition of investments:

	Current	Noncurrent	Total
Money Market funds	\$ -	\$ -	\$ -
Repurchase agreements	-	-	-
Certificates of deposit	944,123	503,564	1,447,687
U.S. agency securities	-	-	-
U.S. treasury securities	-	-	-
Municipal bonds	-	-	-
Corporate bonds	-	-	-
Asset backed securities	-	-	-
Mortgage backed securities	-	-	-
Commercial paper	-	-	-
Mutual funds	10,004,827	-	10,004,827
Exchange traded funds (ETFs)	-	-	-
Equity securities	-	-	-
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)	-	-	-
CSU Consolidated Investment Pool (formerly SWIFT)	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-
State of California Surplus Money Investment Fund (SMIF)	-	-	-
Other investments:			
Total Other investments	-	-	-
Total investments	10,948,950	503,564	11,452,514
Less endowment investments	-	-	-
Total investments, net of endowments	\$ 10,948,950	\$ 503,564	\$ 11,452,514

See independent auditors' report.

California State University San Marcos Corporation
Other Information
June 30, 2020
(for inclusion in the California State University)

2.2 Fair value hierarchy in investments:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Money market funds	\$ -	\$ -	\$ -	\$ -	\$ -
Repurchase agreements	-	-	-	-	-
Certificates of deposit	1,447,687	-	1,447,687	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Commercial paper	-	-	-	-	-
Mutual funds	10,004,827	10,004,827	-	-	-
Exchange traded funds	-	-	-	-	-
Equity securities	-	-	-	-	-
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)	-	-	-	-	-
CSU Consolidated Investment Pool (formerly SWIFT)	-	-	-	-	-
State of California Surplus Money Investment Fund (SMIF)	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
Other Investments	-	-	-	-	-
Total investments	\$ 11,452,514	\$ 10,004,827	\$ 1,447,687	\$ -	\$ -

Investments held by the University under contractual

2.3 agreements:

	Current	Noncurrent	Total
Investments held by the University under contractual agreements (e.g CSU Consolidated SWIFT Inv pool):	\$ -	\$ -	\$ -

California State University San Marcos Corporation
Other Information
June 30, 2020
(for inclusion in the California State University)

3.1 Composition of capital assets:

	Balance June 30, 2019	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2019 (Restated)	Additions	Retirements	Transfer of completed CWIP	Balance June 30, 2020
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Works of art and historical treasures	-	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	65,049,752	-	-	-	65,049,752	296,320	(65,002,926)	(19,312)	323,834
Intangible assets:									
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Intangible assets in progress (PWIP)	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Total Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	65,049,752	-	-	-	65,049,752	296,320	(65,002,926)	(19,312)	323,834
Depreciable/Amortizable capital assets:									
Buildings and building improvements	31,827,325	-	-	-	31,827,325	68,345	-	19,312	31,914,982
Improvements, other than buildings	2,475,208	-	-	-	2,475,208	20,659	-	-	2,495,867
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	2,200,274	-	-	-	2,200,274	-	-	-	2,200,274
Personal property:									
Equipment	5,738,392	-	-	-	5,738,392	692,747	(616,603)	-	5,814,536
Library books and materials	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	-	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Total Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total depreciable/amortizable capital assets	42,241,199	-	-	-	42,241,199	781,751	(616,603)	19,312	42,425,659
Total capital assets	107,290,951	-	-	-	107,290,951	1,078,071	(65,619,529)	-	42,749,493
Less accumulated depreciation/amortization:									
Buildings and building improvements	(11,274,713)	-	-	-	(11,274,713)	(115,658)	-	-	(11,390,371)
Improvements, other than buildings	(1,847,734)	-	-	-	(1,847,734)	(1,081,215)	-	-	(2,928,949)
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	(1,179,447)	-	-	-	(1,179,447)	(158,170)	-	-	(1,337,617)
Personal property:									
Equipment	(3,649,470)	-	-	-	(3,649,470)	(477,734)	139,529	-	(3,987,675)
Library books and materials	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	-	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Total Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	(17,951,364)	-	-	-	(17,951,364)	(1,832,777)	139,529	-	(19,644,612)
Total capital assets, net	\$ 89,339,587	\$ -	\$ -	\$ -	\$ 89,339,587	\$ (754,706)	\$ (65,480,000)	\$ -	\$ 23,104,881

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital assets	\$ 1,832,777
Amortization expense related to other assets	-
Total depreciation and amortization	<u>\$ 1,832,777</u>

California State University San Marcos Corporation
Other Information
June 30, 2020
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4 Long-term liabilities:

	Balance June 30, 2019	Prior Period Adjustments/ Reclassifications	Balance June 30, 2019 (Restated)	Additions	Reductions	Balance June 30, 2020	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 491,384	\$ -	\$ 491,384	\$ 228,487	\$ (60,092)	\$ 659,779	\$ 659,779	\$ -
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations:								
Gross balance	17,797,059	-	17,797,059	-	(999,628)	16,797,431	1,035,050	15,762,381
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations	17,797,059	-	17,797,059	-	(999,628)	16,797,431	1,035,050	15,762,381
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	-	-	-	-	-	-	-	-
4.2 Commercial paper	-	-	-	-	-	-	-	-
4.3 Notes payable (SRB related)	54,185,000	-	54,185,000	-	(850,000)	53,335,000	895,000	52,440,000
4.4 Others:								
Note Payable	177,985	-	177,985	-	(27,691)	150,294	28,442	121,852
Note Payable	-	-	-	2,082,042	-	2,082,042	-	2,082,042
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
Total others	177,985	-	177,985	2,082,042	(27,691)	2,232,336	28,442	2,203,894
Sub-total long-term debt	54,362,985	-	54,362,985	2,082,042	(877,691)	55,567,336	923,442	54,643,894
4.5 Unamortized net bond premium/(discount)	9,116,779	-	9,116,779	-	(315,409)	8,801,370	-	8,801,370
Total long-term debt obligations	63,479,764	-	63,479,764	2,082,042	(1,193,100)	64,368,706	923,442	63,445,264
Total long-term liabilities	\$ 81,768,207	\$ -	\$ 81,768,207	\$ 2,310,529	\$ (2,252,820)	\$ 81,825,916	\$ 2,618,271	\$ 79,207,645

5 Capital lease obligations schedule:

	Capital lease obligations related to SRB			All other capital lease obligations			Total capital 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:									
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	1,166,947	506,428	1,673,375	-	-	-	1,166,947	506,428	1,673,375
2025	1,214,274	459,976	1,674,250	-	-	-	1,214,274	459,976	1,674,250
2026 - 2030	6,625,244	1,548,006	8,173,250	-	-	-	6,625,244	1,548,006	8,173,250
2031 - 2035	4,552,361	270,889	4,823,250	-	-	-	4,552,361	270,889	4,823,250
2036 - 2040	-	-	-	-	-	-	-	-	-
2041 - 2045	-	-	-	-	-	-	-	-	-
2046 - 2050	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum lease payments	\$ 16,797,431	\$ 4,565,818	\$ 21,363,249	\$ -	\$ -	\$ -	\$ 16,797,431	\$ 4,565,818	\$ 21,363,249
Less: amounts representing interest									(4,565,818)
Present value of future minimum lease payments									16,797,431
Unamortized net premium/(discount)									-
Total capital lease obligations									16,797,431
Less: current portion									(1,035,050)
Capital lease obligations, net of current portion									\$ 15,762,381

California State University San Marcos Corporation
Other Information
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6 Long-term debt obligations schedule:

	Auxiliary revenue bonds (non-SRB related)			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:									
2021	\$ -	\$ -	\$ -	\$ 923,442	\$ 2,614,934	\$ 3,538,376	\$ 923,442	\$ 2,614,934	\$ 3,538,376
2022	-	-	-	3,046,278	2,570,078	5,616,356	3,046,278	2,570,078	5,616,356
2023	-	-	-	1,005,039	2,523,110	3,528,149	1,005,039	2,523,110	3,528,149
2024	-	-	-	1,060,865	2,473,700	3,534,565	1,060,865	2,473,700	3,534,565
2025	-	-	-	1,106,712	2,421,726	3,528,438	1,106,712	2,421,726	3,528,438
2026 - 2030	-	-	-	6,260,000	11,239,258	17,499,258	6,260,000	11,239,258	17,499,258
2031 - 2035	-	-	-	8,005,000	9,497,238	17,502,238	8,005,000	9,497,238	17,502,238
2036 - 2040	-	-	-	10,245,000	7,259,232	17,504,232	10,245,000	7,259,232	17,504,232
2041 - 2045	-	-	-	12,700,000	4,396,860	17,096,860	12,700,000	4,396,860	17,096,860
2046 - 2050	-	-	-	11,215,000	1,153,794	12,368,794	11,215,000	1,153,794	12,368,794
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	\$ -	\$ -	\$ 55,567,336	\$ 46,149,930	\$ 101,717,266	\$ 55,567,336	\$ 46,149,930	\$ 101,717,266
Less: amounts representing interest									(46,149,930)
Present value of future minimum payments									55,567,336
Unamortized net premium/(discount)									8,801,370
Total long-term debt obligations									64,368,706
Less: current portion									(923,442)
Long-term debt obligations, net of current portion									\$ 63,445,264

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 811,104
Payments to University for other than salaries of University personnel	4,033,400
Payments received from University for services, space, and Gifts-in-kind to the University from discretely presented	-
Gifts (cash or assets) to the University from discretely presented component units	2,135,330
Accounts (payable to) University	(865,828)
Other amounts (payable to) University	(259,336)
Accounts receivable from University	444,375
Other amounts receivable from University	99,472,293

California State University San Marcos Corporation
Other Information
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10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources

Deferred outflows - unamortized loss on refunding(s)	-
Deferred outflows - net pension liability	-
Deferred outflows - net OPEB liability	-
Deferred outflows - others:	
Sales/intra-entity transfers of future revenues	-
Gain/loss on sale leaseback	-
Loan origination fees and costs	-
Change in fair value of hedging derivative instrument	-
Irrevocable split-interest agreements	-
Total deferred outflows - others	-
Total deferred outflows of resources	\$ -

2. Deferred Inflows of Resources

Deferred inflows - service concession arrangements	-
Deferred inflows - net pension liability	-
Deferred inflows - net OPEB liability	-
Deferred inflows - unamortized gain on debt refunding(s)	148,545
Deferred inflows - nonexchange transactions	-
Deferred inflows - others:	
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Total deferred inflows - others	-
Total deferred inflows of resources	\$ 148,545

**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, (nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2020.

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 29, 2020

**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 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, 2020. 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, 2020.

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 29, 2020

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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	\$ 220,447
Total Department of Homeland Security			<u>220,447</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	98910016	162,551
Total United States Environmental Protection Agency			<u>162,551</u>
Department of Defense			
<i>Direct Programs</i>			
Basic and Applied Scientific Research	12.300	N/A	1,430,993
Total Department of Defense			<u>1,430,993</u>
Department of the Interior			
<i>Direct Programs</i>			
Endangered Species Conservation – Recovery Implementation Funds	15.657	N/A	2,631
Total Department of the Interior			<u>2,631</u>
Department of Education			
<i>Direct Programs</i>			
Higher Education Institutional Aid	84.031	N/A	2,934,651
Minority Science and Engineering Improvement	84.120	N/A	53,477
<i>Pass-through from Palomar College</i>			
Higher Education Institutional Aid	84.031	PO31S160113	113,037
Total Department of Education			<u>3,101,165</u>
Department of Health and Human Services			
<i>Direct Programs</i>			
Family and Community Violence Prevention Program	93.910	N/A	496,313
Biomedical Research and Research Training	93.859	N/A	910,215
Mental Health Research Grants	93.242	N/A	361,216
Health Professions Recruitment Program for Indians	93.970	N/A	186,676
<i>Pass-through from Vista Community Clinic</i>			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0105-01-00	22,350
<i>Pass-through from University of California San Diego</i>			
Family Smoking Prevention and Tobacco Control Act	93.077	5R01CA130347-03	41,212
<i>Pass-through from Indian Health Council Inc.</i>			
Biomedical Research and Research Training	93.859	1S06GM128073	61,436
Total Department of Health and Human Services			<u>2,079,418</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster, continued:			
Department of Agriculture			
<i>Direct Programs</i>			
Agriculture and Food Research Initiative	10.310	N/A	47,323
Forestry Research	10.652	N/A	(599)
Cooperative Forestry Assistance	10.664	N/A	9,606
Partnership Agreements	10.699	N/A	147,677
Total Department of Agriculture			204,007
National Aeronautical and Space Administration			
<i>Direct Programs</i>			
Science	43.001	N/A	204,748
Office of Inspector General	43.011	N/A	757,341
Total National Aeronautical and Space Administration			962,089
Corporation for National and Community Service			
<i>Direct Programs</i>			
National Service and Civic Engagement Research Competition	94.026	N/A	78,951
Total Corporation for National and Community Service			78,951
National Science Foundation			
<i>Direct Programs</i>			
Engineering	47.041	N/A	1,000
Computer and Information Science and Engineering	47.070	N/A	126,111
Biological Sciences	47.074	N/A	181,505
Education and Human Resources	47.076	N/A	2,066,842
Social, Behavioral, and Economic Sciences	47.075	N/A	59,639
Mathematical and Physical Sciences	47.049	N/A	15,245
<i>Pass-through from University of California Office of the President</i>			
Education and Human Resources	47.076	1626624	(964)
<i>Pass-through from University Enterprises, Inc.</i>			
Education and Human Resources	47.076	1826490	16,488
Total National Science Foundation			2,465,866
Total Research and Development Cluster			10,708,118
SNAP Cluster:			
Department of Agriculture			
<i>Direct Programs</i>			
Supplemental Nutrition Assistance Program	10.561	N/A	5,762
Total Department of Education			5,762
Total SNAP Cluster			5,762
TRIO Cluster:			
Department of Education			
<i>Direct Programs</i>			
Student Support Services	84.042	N/A	380,133
Talent Search	84.044	N/A	278,872
Upward Bound	84.047	N/A	268,739
McNair Postbaccalaureate Achievement Program	84.217	N/A	251,651
Total Department of Education			1,179,395
Total TRIO Cluster			1,179,395

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Other Programs:			
Department of Commerce			
<i>Pass-through from University of San Diego</i>			
Cluster Grants	11.020	ED19HDQ0200025	12,075
Total Department of Commerce			<u>12,075</u>
Department of State			
<i>Pass-through from World Learning, Inc.</i>			
Investing in People int The Middle East and North Africa	19.021	SIZ-100-16-CA-008	59,570
Total Department of Commerce			<u>59,570</u>
Department of Education			
<i>Direct Programs</i>			
English Language Acquisition State Grants	84.365	N/A	313,443
Migrant Education College Assistance Migrant Program	84.149	N/A	409,585
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	N/A	238,063
<i>Pass-through from University of California Office of the President</i>			
Improving Teacher Quality State Grants	84.367	S367A170005	45,820
<i>Pass-through from University of California Irvine</i>			
Investing in Innovation (i3) Fund	84.411	U411B1300029	(15,965)
Total Department of Education			<u>990,946</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	592,531
Total Department of Health and Human Services			<u>592,531</u>
Total Other Programs			<u>1,655,122</u>
Total Expenditures of Federal Awards			<u>\$ 13,548,397</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

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 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.

Negative amounts reflected in the schedule represent adjustments or credits resulting from the normal course of business to amounts reported as expenditures in prior years.

Note 3 – Amounts Provided to Subrecipients

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

Education and Human Resources CFDA 47.076

Tennessee Technologic University	\$ 86,652
University of Maryland	47,133
University of Central Florida	11,398
Horizon Research Inc	54,872
San Diego State University	139,624
San Diego State University	53,197
West Virginia University	25,672
Total Education and Human Resources CFDA 47.076	<u>418,548</u>

Biomedical Research and Research Training CFDA 93.859

University of Kansas Medical Center	15,125
Palomar College	16,177
MiraCosta College	14,904
Total Biomedical Research and Research Training CFDA 93.859	<u>46,206</u>

Department of Homeland Security CFDA 47.074

Temple University	155,565
Total Department of Homeland Security CFDA 47.074	<u>155,565</u>

Family and Community Violence Prevention Program CFDA 93.910

North County Health Services	44,963
Total Family and Community Violence Prevention Program CFDA 93.910	<u>44,963</u>

National Aeronautics and Space Administration CFDA 43.001

University of Pennsylvania	82,812
Total National Aeronautics and Space Administration CFDA 43.001	<u>82,812</u>

Total amounts provided to subrecipients \$ 748,094

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

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
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Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR Section 200.516(a)?	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various 84.365	Research and Development Cluster English Language Acquisition State Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as a low-risk auditee under the Uniform Grant Guidance, 2 CFR Section 200.520?	Yes
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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, 2020

Section IV – Schedule of Prior Year Findings

None reported.