

California State University San Marcos Corporation

Financial Statements and Supplemental Information

Years Ended June 30, 2021 and 2020



CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Financial Statements and Supplemental Information

Years Ended June 30, 2021 and 2020

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	9
Supplemental Information:	
Schedule of Net Position	25
Schedule of Revenues, Expenses, and Changes in Net Position	26
Other Information	27
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	36
Schedule of Expenditures of Federal Awards	38
Notes to Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs	42
Schedule of Prior Year Audit Findings	43

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, 2021 and 2020, 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, 2021 and 2020, 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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2021, California State University San Marcos Corporation adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were 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, 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 28, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness California State University San Marcos Corporation's 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 28, 2021

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

June 30, 2021 and 2020

ASSETS	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and cash equivalents	\$ 3,115,684	\$ 3,195,399
Accounts receivable	2,169,466	4,029,288
Other receivables, net of price concession of \$17,318 (2021) and \$20,314 (2020)	255,068	392,425
Due from related parties	1,631,604	1,084,163
Prepaid expenses	28,926	5,324
Current portion of lease receivable - related party	3,501,727	3,505,789
Current portion of investments	13,800,346	10,948,950
Total Current Assets	<u>24,502,821</u>	<u>23,161,338</u>
Noncurrent Assets:		
Property and equipment, net of accumulated depreciation	21,932,730	23,104,881
Lease receivable - related party, less current portion	92,464,776	95,966,504
Investments, less current portion	-	503,564
Other assets	102,722	102,722
Total Noncurrent Assets	<u>114,500,228</u>	<u>119,677,671</u>
Total Assets	<u>\$ 139,003,049</u>	<u>\$ 142,839,009</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,347,534	\$ 1,462,050
Due to related parties	1,048,639	1,413,584
Current portion of unearned capital lease income	2,325,582	2,375,657
Current portion of contract liabilities - deferred revenue	1,409,890	919,073
Accrued payroll and benefits	1,044,531	1,145,157
Current portion of accrued postretirement benefit costs	20,338	17,831
Current portion of bond payable	1,079,790	1,035,050
Current portion of notes payable	976,309	923,442
Total Current Liabilities	<u>9,252,613</u>	<u>9,291,844</u>
Noncurrent Liabilities:		
Unearned capital lease income, net of current portion	35,352,149	37,677,730
Contract liabilities - deferred revenue, net of current portion	1,026,010	1,185,556
Accrued postretirement benefit costs, net of current portion	1,490,426	1,553,171
Bond payable, net of current portion	14,810,184	15,910,926
Notes payable, net of current portion	62,153,546	63,445,264
Total Noncurrent Liabilities	<u>114,832,315</u>	<u>119,772,647</u>
Total Liabilities	<u>124,084,928</u>	<u>129,064,491</u>
Net Assets Without Donor Restrictions	<u>14,918,121</u>	<u>13,774,518</u>
Total Liabilities and Net Assets	<u>\$ 139,003,049</u>	<u>\$ 142,839,009</u>

See accompanying notes to financial statements.

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

Years Ended June 30, 2021 and 2020

	2021	2020
Revenue, Gains, and Other Support Without Donor Restriction:		
Federal grants and contracts	\$ 11,196,343	\$ 13,548,397
Housing program	5,830,178	5,490,081
Campus programs	2,062,223	2,260,274
Other sponsored programs	2,332,849	3,769,642
Ground lease income	860,278	816,203
Child care center in-kind rental income	571,109	541,849
Commissions	229,195	470,316
Rental income	24,610	3,250
Total Revenue, Gains and Other Support Without Donor Restrictions	23,106,785	26,900,012
Expenses:		
Operating Expenses:		
Program Services:		
Sponsored programs	12,825,349	14,522,147
Academic and auxiliary services	184,857	2,344,019
Housing programs	4,068,074	4,552,733
Other programs	1,475,056	2,659,331
Total Program Services	18,553,336	24,078,230
Supporting Services:		
Management and general	3,213,125	3,281,123
Total Operating Expenses	21,766,461	27,359,353
Nonoperating revenues (expenses):		
Earned capital lease income	2,375,657	1,689,298
Interest and dividend income	5,185	113,944
Interest expense	(2,900,186)	(2,645,009)
Net realized and unrealized gain on investments	244,919	202,847
Postretirement benefit	77,704	4,539
Total Nonoperating Revenues (Expenses)	(196,721)	(634,381)
Increase (Decrease) in Net Assets	1,143,603	(1,093,722)
Net Assets Without Donor Restrictions, beginning	13,774,518	14,868,240
Net Assets Without Donor Restrictions, ending	\$ 14,918,121	\$ 13,774,518

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				Total Programs	Supporting Services	Total
	Sponsored Programs	Academic and Auxiliary Services	Housing Programs	Other Programs		Management and General	
Benefits	\$ 1,545,829	\$ 22,047	\$ 358,147	\$ 247,312	\$ 2,173,335	\$ 222,375	\$ 2,395,710
Business service fees	-	-	-	-	-	318,861	318,861
CCF in-kind rental	-	-	-	-	-	571,109	571,109
Contractual services	419,803	5,766	239,473	21,143	686,185	324,931	1,011,116
Depreciation	195,244	-	1,041,765	11,597	1,248,606	438,656	1,687,262
Ground lease in-kind	-	-	557,260	-	557,260	303,018	860,278
Hospitality and events	12,035	-	-	3,037	15,072	104	15,176
Information technology	197,029	300	8,378	6,469	212,176	7,402	219,578
Insurance	43,176	23,491	80,519	972	148,158	32,273	180,431
Other expenses	199,223	86,385	160,010	-	445,618	416,103	861,721
Repairs and maintenance	-	-	357,361	-	357,361	-	357,361
Salaries and wages	5,951,356	38,378	769,473	1,098,266	7,857,473	564,742	8,422,215
Scholarships	975,605	-	-	-	975,605	-	975,605
Services	63,282	-	124,758	7,670	195,710	-	195,710
Stipends	1,921,534	-	-	42,250	1,963,784	-	1,963,784
Subrecipient	906,131	-	-	-	906,131	-	906,131
Supplies	356,363	2,181	15,891	8,453	382,888	5,028	387,916
Travel	14,610	-	2,082	560	17,252	-	17,252
Utilities	24,129	6,309	352,957	27,327	410,722	8,523	419,245
Total operating expenses	\$ <u>12,825,349</u>	\$ <u>184,857</u>	\$ <u>4,068,074</u>	\$ <u>1,475,056</u>	\$ <u>18,553,336</u>	\$ <u>3,213,125</u>	\$ <u>21,766,461</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services				Total Programs	Supporting Services	Total
	Sponsored Programs	Academic and Auxiliary Services	Housing Programs	Other Programs		Management and General	
Benefits	\$ 1,457,880	\$ 25,651	\$ 203,883	\$ 744,224	\$ 2,431,638	\$ 220,345	\$ 2,651,983
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	11,255	1,360,097	472,680	1,832,777
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	\$ <u>14,522,147</u>	\$ <u>2,344,019</u>	\$ <u>4,552,733</u>	\$ <u>2,659,331</u>	\$ <u>24,078,230</u>	\$ <u>3,281,123</u>	\$ <u>27,359,353</u>

See accompanying notes to financial statements.

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

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 1,143,603	\$ (1,093,722)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,687,262	1,832,777
Amortization of debt premium	(20,952)	(22,281)
Net realized and unrealized gain on investments	(244,919)	(202,847)
Gain on disposals of property and equipment	-	(477,074)
Change in accumulated postretirement benefit obligation	(60,238)	33,051
Changes in operating assets and liabilities:		
Accounts receivable	1,859,822	(347,026)
Other receivables, net	137,357	215,983
Due from related parties	(547,441)	8,700,944
Prepaid expenses	(23,602)	804,528
Lease receivable	3,505,790	3,498,704
Other assets	-	(46,141)
Accounts payable	(114,516)	(6,988,146)
Due to related parties	(364,945)	(512,138)
Unearned capital lease income	(2,375,656)	(1,689,298)
Contract liabilities - deferred revenue	331,271	3,864,898
Accrued payroll and benefits	(100,626)	277,785
Accrued interest	-	(8,121)
Net Cash Provided by Operating Activities	<u>4,812,210</u>	<u>7,841,876</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(515,111)	(11,631,561)
Proceeds from the sale of investments	1,425,000	10,797,000
Purchases of investments	<u>(3,527,913)</u>	<u>(6,721,163)</u>
Net Cash Used by Investing Activities	<u>(2,618,024)</u>	<u>(7,555,724)</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	-	888,942
Payments on notes payable	(1,238,851)	-
Payments on bond payable	<u>(1,035,050)</u>	<u>(999,628)</u>
Net Cash Used by Financing Activities	<u>(2,273,901)</u>	<u>(110,686)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(79,715)	175,466
Cash and Cash Equivalents, beginning	<u>3,195,399</u>	<u>3,019,933</u>
Cash and Cash Equivalents, ending	<u>\$ 3,115,684</u>	<u>\$ 3,195,399</u>

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Statements of Cash Flows, continued
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	\$ <u>2,906,905</u>	\$ <u>2,653,128</u>
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Noncash recognition of capital lease:		
Lease receivable	\$ -	\$ 102,970,997
Deferred revenue	-	15,282,252
Unearned capital lease income	(2,375,657)	(41,742,685)
Lease of assets in a capital lease transaction	<u>-</u>	<u>(76,510,564)</u>
	\$ <u>(2,375,657)</u>	\$ <u>-</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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.
- Housing Programs – 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This standard update, along with related subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard under accounting principles generally accepted in the United States of America (US GAAP). The Corporation adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) effective July 1, 2020.

The new guidance was applied retrospectively to all contracts that were not completed as of the adoption date. Management has analyzed the provisions of the FASB's ASC Topic 606, and has concluded that no changes are necessary to conform with the new standard.

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:

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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

Basis of Presentation, continued

- *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, 2021 and 2020.

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 implicit price concession. Receivables are stated at unpaid balances, less price concession. The Corporation provides for losses on receivables using the allowance method.

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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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

Contract Liabilities - Deferred Revenue

Contract liabilities - 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 other 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 contract liabilities - deferred revenue until these conditions are met.
- Housing programs – revenue received from housing program consist of management and service fees. Management and service fees are recognized as revenue over time as the related fees 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.
- Lease and rental income – revenue is recognized on a straight-line basis over the life of the lease agreement.
- Commissions – revenue is recognized as commission are earned under the various agreements with the customers.

Future Accounting Standards

FASB has issued a substantial ASU, which will become effective in future years.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position 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, 2021. 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, 2021 and 2020; therefore, no amounts have been accrued.

Subsequent Events

The Corporation has evaluated subsequent events through September 28, 2021, which is the date the financial statements were available to be issued.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Undesignated	\$ 7,172,983	\$ 7,051,615
Board designation:		
Reserved for working capital and current operations	4,109,289	3,409,605
Reserved for capital replacement	2,050,000	1,000,000
Reserved for venture capital/opportunity	<u>1,585,849</u>	<u>2,313,298</u>
Total board designation	<u>7,745,138</u>	<u>6,722,903</u>
	<u>\$ 14,918,121</u>	<u>\$ 13,774,518</u>

Liquidity

The following reflects the Corporation's financial assets as of June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Financial assets available to be used within one year:		
Cash and cash equivalents	\$ 3,115,684	\$ 3,195,399
Accounts receivable	2,169,466	4,029,288
Other receivables, net	255,068	392,375
Due from related parties	1,631,604	1,084,213
Current portion of lease receivable	3,501,727	3,505,789
Investments	<u>13,800,346</u>	<u>10,948,950</u>
Total financial assets	24,473,895	23,156,014
Less amounts not available for general use within one year:		
Board designated - Reserved for capital replacement	(2,050,000)	(1,000,000)
Board designated - Reserved for venture capital/opportunity	<u>(1,585,849)</u>	<u>(2,313,298)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 20,838,046</u>	<u>\$ 19,842,716</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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, 2021 and 2020.

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, 2021:

	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	\$ 2,637,881	\$ -	\$ -	\$ -	\$ 2,637,881
Domestic Short-Term Bond	10,037,422	-	-	-	10,037,422
Domestic Ultra short bond	1,125,043	-	-	-	1,125,043
	<u>\$ 13,800,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,800,346</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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, 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>

Note 5 – Property and Equipment

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

	2021	2020
Land improvements	\$ 2,634,601	\$ 2,495,867
Building and improvements	31,923,948	31,914,982
Furniture and equipment	6,146,085	5,814,536
Leasehold improvements	2,200,274	2,200,274
	<u>42,904,908</u>	<u>42,425,659</u>
Less accumulated depreciation	<u>(21,306,770)</u>	<u>(19,644,612)</u>
	21,598,138	22,781,047
Construction in progress	334,592	323,834
	<u>\$ 21,932,730</u>	<u>\$ 23,104,881</u>

The total cost of one building, UVA (Note 10), under capital lease, as of June 30, 2021 and 2020 was \$23,849,021. Accumulated depreciation associated with this asset as of June 30, 2021 and 2020 was \$10,606,627 and \$10,010,402, respectively.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 6 – Contracts With Customers

Accounts receivable from contracts with customers and contract liabilities from contracts with customers were as follows:

	Accounts Receivable, net		Contract Liabilities - Deferred Revenue	
	2021	2020	2021	2020
Beginning of year	\$ 471,175	\$ 658,252	\$ 1,388,547	\$ 1,875,932
End of year	\$ 434,478	\$ 471,175	\$ 1,228,353	\$ 1,388,547

Significant Judgments

The Corporation analyzes revenue recognition on a portfolio approach under ASC Topic 606. Significant judgment is utilized in determining the appropriate portfolios to assess for meeting the criteria to recognize revenue under ASC Topic 606. The Corporation has determined that, for each distinct revenue stream identified, all contracts can be grouped into one portfolio. Based on past experience, customers within each distinct stream all behave similarly, contracts contain similar terms, and policies are the same across all contracts. The Corporation does not expect that revenue earned for the portfolio is significantly different as compared to revenue that would be earned if they were to assess each contract separately.

Note 7 – Commitments and Contingencies

Leases

The Corporation has entered into various operating lease agreements with the University for facilities, with monthly rents totaling \$3,125 through June 30, 2021. Total rent expense were approximately \$37,500 and \$39,000 for each of the years ended June 30, 2021 and 2020, respectively.

Bookstore Operating Agreement

The Corporation entered into an agreement with an unrelated third party to operate the campus bookstore. As part of the agreement, the unrelated third party relocated the bookstore to the former campus dining area and paid for the relocation and improvement costs related to the move. The cost will be depreciated and amortized over the contract term. All capital equipment or improvements not attached as fixtures to real estate are the property of the unrelated third-party. If the Corporation terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Corporation is required to purchase any existing inventory at the time of termination at fair value according to the agreement, reimburse the unrelated third party for the book value of its capital improvements, and refund the unamortized portion of the bookstore build-out. The contract term was extended to June 30, 2025.

The contract commissions are 11.5 percent on gross revenues up to \$4,000,000 and 12.5 percent on gross revenues exceeding \$4,000,000. Under this agreement, commission revenue for the years ended June 30, 2021 and 2020 was \$201,074 and \$244,046, 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 contract liabilities - deferred revenues 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, 2021 and 2020, respectively. In addition, the Corporation has contract liabilities - deferred revenues of \$332,948 and \$416,071 of June 30, 2021 and 2020, respectively, related to the noncash transaction.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 7 – Commitments and Contingencies, continued

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 \$571,109 and \$541,849 for the years ended June 30, 2021 and 2020, 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 \$303,018 and \$287,493 for the years ended June 30, 2021 and 2020, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2021 and 2020 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.

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 under this agreement included \$4,408 and \$58,017 for the years ended June 30, 2021 and 2020, respectively.

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 contract liabilities - deferred revenues 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, 2021 and 2020, respectively. In addition, the Corporation has contract liabilities - deferred revenues of \$850,108 and \$924,032 at June 30, 2021 and 2020 respectively, related to the noncash transaction.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 7 – Commitments and Contingencies, continued

Campus Food Service Agreement, continued

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 September 2020, the Corporation and unrelated party amended their agreement to change from an operating agreement to a management agreement due to COVID-19 and will continue under this agreement model until campus is fully open.

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. Due to COVID-19, to date, landlord has not charged rent for the space.

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, 2021 and 2020.

Workers' Compensation Insurance

During the years ended June 30, 2021 and 2020, the Corporation purchased workers' compensation insurance for \$35,295 and \$65,875, respectively, through an approved self-insurance program in which the Corporation is a member, and which is administered by the California State University Risk Management Authority (CSURMA).

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

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, 2021 and 2020, management fees paid were \$89,054 and \$178,572, respectively. This amount is reflected in the statements of activities within student housing expenses for the years ended June 30, 2021 and 2020.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 7 – Commitments and Contingencies, continued

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 8 – Contract Liabilities - Deferred Revenue

Contract liabilities - deferred revenue are as follows as of June 30, 2021:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Bookstore	\$ 83,123	\$ 249,825	\$ 332,948
Campus food service	73,923	776,185	850,108
Housing	44,397	-	44,397
Other	<u>1,208,447</u>	<u>-</u>	<u>1,208,447</u>
Total	<u>\$ 1,409,890</u>	<u>\$ 1,026,010</u>	<u>\$ 2,435,900</u>

Contract liabilities - 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	<u>716,981</u>	<u>2,500</u>	<u>719,481</u>
Total	<u>\$ 919,073</u>	<u>\$ 1,185,556</u>	<u>\$ 2,104,629</u>

Note 9 – 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.

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

Years Ended June 30, 2021 and 2020

Note 9 – Accrued Postretirement Benefits Costs, continued

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>2021</u>	<u>2020</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 767,820	\$ 1,066,917
Service cost	31,070	51,256
Interest cost	19,027	37,024
Actuarial (gain)/loss	(20,792)	(373,711)
Benefits paid	<u>(13,604)</u>	<u>(13,666)</u>
Benefit obligation at end of year	<u>\$ 783,521</u>	<u>\$ 767,820</u>

	<u>2021</u>	<u>2020</u>
Funded Status:		
Unamortized prior service cost (credit)	\$ (52,522)	\$ (61,973)
Unrecognized net actuarial gain	(674,721)	(741,209)
Accrued benefit cost	<u>1,510,764</u>	<u>1,571,002</u>
Benefit obligation at June 30	<u>\$ 783,521</u>	<u>\$ 767,820</u>
Measurement date	6/30/2021	6/30/2020
Funded status at end of year	\$ (783,521)	\$ (767,820)

	<u>2021</u>	<u>2020</u>
Net Periodic Benefit Cost:		
Service cost	\$ 31,070	\$ 51,256
Interest cost	19,027	37,024
Amortization of prior service cost	(9,451)	(9,451)
Amortization of net (gain)/loss	<u>(87,280)</u>	<u>(32,112)</u>
Net periodic benefit cost	<u>\$ (46,634)</u>	<u>\$ 46,717</u>

The accrued postretirement benefit costs listed at the statement of financial position includes the unamortized prior service credit of \$52,522 and unrecognized net actuarial gain of \$674,721. Gains are a result of prior year changes in plan eligibility requirements and decreases in future premium liabilities, which were adjusted annually by changes in discount rates and coverage assumptions.

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

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 9 – Accrued Postretirement Benefits Costs, continued

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

	<u>2021</u>	<u>2020</u>
Discount Rate	2.50%	3.50%
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate assumed for next year	4.00%	4.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	4 yrs	4 yrs

Expected retiree payments as of June 30, 2021 are as follows:

<u>Expected Retiree Payments Over the Next 10 Years</u>	
2021/22	\$ 17,831
2022/23	20,338
2023/24	24,597
2024/25	26,009
2025/26	27,355
2026-30	188,753

Note 10 – Long-Term Debt

Housing Program

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

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

In March 2005, a ground and facility lease was signed between the Board and UCorp for a term of 28 years beginning on May 1, 2005, with an option to extend an additional 10 years. The Ground and Facility Lease agreement was amended in July 2017 due to the Ucorp and Corporation merger. The Corporation is responsible for paying a base rent equal to the relating bond obligation and additional rental payments to cover all administrative costs and other expenses in connection with the refinancing or leasing of the facility. The bonds comprise Series 2013A and Series 2014A bonds bearing annual interest of 5.0 percent (paid semiannually). Rental payments are secured by a pledge of all 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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 10 – Long-Term Debt, continued

Housing Program, continued

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, 2021, in the amount of \$15,889,974, is net of the remaining \$127,593 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, 2020 was \$16,945,976, which was net of \$148,545 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 owns 120,400 gross square feet which is 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 owns 14,600 gross square feet which is to be used for retail. A condominium structure was created to divide ownership of the building and land, and provides for shared use of the common spaces in the building. The Corporation and Developer 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. 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 11). All advanced lease payments were incorporated into the capital lease.

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 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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 10 – Long-Term Debt, continued

Paycheck Protection Program Loan, continued

The Loan, which was in the form of a Note dated May 5, 2020 matures on May 5, 2025 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, 2021, are as follows:

June 30,	Bond Payable		Notes Payable			
	Housing Program	Extended Learning Building	Paycheck Protection Program	Starbucks	Total Notes Payable	Total
2022	\$ 1,079,790	\$ 935,000	\$ 12,074	\$ 29,235	\$ 976,309	\$ 2,056,099
2023	1,123,766	975,000	2,069,968	30,039	3,075,007	4,198,773
2024	1,166,947	1,030,000	-	30,865	1,060,865	2,227,812
2025	1,214,274	1,075,000	-	31,712	1,106,712	2,320,986
2026	1,260,685	1,135,000	-	-	1,135,000	2,395,685
Thereafter	9,916,919	47,290,000	-	-	47,290,000	57,206,919
	15,762,381	52,440,000	2,082,042	121,851	54,643,893	70,406,274
Unamortized Premium Balance	-	8,485,962	-	-	8,485,962	8,485,962
Remaining Gain on Modification	127,593	-	-	-	-	127,593
	15,889,974	60,925,962	2,082,042	121,851	63,129,855	79,019,829
Less current portion	(1,079,790)	(935,000)	(12,074)	(29,235)	(976,309)	(2,056,099)
Noncurrent portion	\$ 14,810,184	\$ 59,990,962	\$ 2,069,968	\$ 92,616	\$ 62,153,546	\$ 76,963,730

Note 11 – 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, 2021, are as follows:

June 30,	Lease Receivable	Unearned Capital Lease Income	Net Investment in Direct Financing Lease
2022	\$ 3,501,727	\$ (2,325,582)	\$ 1,176,145
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
2026	3,502,047	(2,106,712)	1,395,335
Thereafter	78,469,335	(26,586,955)	51,882,380
Total	\$ 95,966,503	\$ (37,677,731)	\$ 58,288,772

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 12 – 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 a payroll processing agreement with 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.

Related party transactions are as follows:

<u>Related Parties</u>	<u>Description</u>	<u>Reported in</u>	<u>2021</u>	<u>2020</u>
Expenses to:				
University	Salaries and reimbursed costs	Various expenses	\$ 5,181,087	\$ 6,335,239
University	Bond Interest	Interest expense	607,655	644,595
ASI	Services, programs and other	Various expenses	2,500	5,525
Foundation	Services, programs and other	Various expenses	21,306	10,050
			<u>\$ 5,812,548</u>	<u>\$ 6,995,409</u>
Revenue from:				
University	Services and programs	Revenue	\$ 6,303,635	\$ 6,484,057
ASI	Payroll processing, administrative expenses and other expenses	Revenue	885,235	1,053,939
Foundation	Services and cost reimbursement	Revenue	17,710	1,500
			<u>\$ 7,206,580</u>	<u>\$ 7,539,496</u>
Assets:				
University	Salaries, benefits, and other expenses	Due from related parties	\$ 915,967	\$ 444,375
University	Lease receivable (Note 11)	Lease receivable	95,966,503	99,472,293
CSU Chancellor's Office	Other expenses	Due from related parties	407,782	404,813
ASI	Salaries, benefits, and other expenses	Due from related parties	171,106	125,398
Foundation	Other expenses	Due from related parties	136,749	109,577
			<u>\$ 97,598,107</u>	<u>\$ 100,556,456</u>
Liabilities:				
University	Cost reimbursement	Due to related parties	\$ 513,399	\$ 865,828
CSU Chancellor's Office	Other expenses	Due to related parties	431,549	438,714
University	Bond Interest (Note 10)	Due to related parties	102,323	109,042
University	Starbucks loan (Note 10)	Notes payable	121,852	150,294
ASI	Cost reimbursement	Due to related parties	1,000	-
Foundation	Various liabilities	Due to related parties	367	-
			<u>\$ 1,170,490</u>	<u>\$ 1,563,878</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Note 13 – 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.

Note 14 – Subsequent Event

On August 6, 2021, the Corporation received partial loan forgiveness approval from the Small Business Association (SBA) for the PPP loan. The SBA forgave \$796,019 in principal and \$10,127 in interest. These amounts will be recognized as income in the fiscal year ending June 30, 2022.

SUPPLEMENTAL INFORMATION

California State University San Marcos Corporation
Schedule of Net Position
June 30, 2021
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 3,115,684
Short-term investments	13,800,346
Accounts receivable, net	4,056,138
Capital lease receivable, current portion	3,501,727
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	28,926
Total current assets	<u>24,502,821</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Capital lease receivable, net of current portion	92,464,776
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	-
Capital assets, net	21,932,730
Other assets	102,722
Total noncurrent assets	<u>114,500,228</u>
Total assets	<u>139,003,049</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	2,396,173
Accrued salaries and benefits	312,576
Accrued compensated absences, current portion	731,955
Unearned revenue, current portion	3,735,472
Capital lease obligations, current portion	1,079,790
Long-term debt obligations, current portion	976,309
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	-
Total current liabilities	<u>9,232,275</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue, net of current portion	36,378,159
Grants refundable	-
Capital lease obligations, net of current portion	14,682,591
Long-term debt obligations, net of current portion	62,153,546
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Net other postemployment benefits obligations	1,510,764
Net pension liability	-
Other liabilities	-
Total noncurrent liabilities	<u>114,725,060</u>
Total liabilities	<u>123,957,335</u>
Deferred inflows of resources:	
Service concession arrangements	-
Net pension liability	-
Net OPEB liability	-
Unamortized gain on debt refunding	127,593
Nonexchange transactions	-
Others	-
Total deferred inflows of resources	<u>127,593</u>
Net Position:	
Net investment in capital assets	1,714,084
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	-
Unrestricted	13,204,037
Total net position	<u>\$ 14,918,121</u>

California State University San Marcos Corporation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2021
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees, gross	\$ -
Scholarship allowances	-
Grants and contracts, noncapital:	
Federal	11,196,343
State	1,727,275
Local	17,087
Nongovernmental	588,487
Sales and services of educational activities	2,062,223
Sales and services of auxiliary enterprises, gross	7,515,370
Scholarship allowances	-
Other operating revenues	-
Total operating revenues	<u>23,106,785</u>
Expenses:	
Operating expenses:	
Instruction	2,772,130
Research	8,263,998
Public service	164,329
Academic support	863,544
Student services	2,993,859
Institutional support	1,228,354
Operation and maintenance of plant	-
Student grants and scholarships	975,605
Auxiliary enterprise expenses	2,817,380
Depreciation and amortization	1,687,262
Total operating expenses	<u>21,766,461</u>
Operating income (loss)	<u>1,340,324</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	2,625,761
Endowment income (loss), net	-
Interest expense	(2,900,186)
Other nonoperating revenues (expenses) - excl. interagency transfers	77,704
Net nonoperating revenues (expenses)	<u>(196,721)</u>
Income (loss) before other revenues (expenses)	1,143,603
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase (decrease) in net position	<u>1,143,603</u>
Net position:	
Net position at beginning of year, as previously reported	13,774,518
Restatements	-
Net position at beginning of year, as restated	<u>13,774,518</u>
Net position at end of year	<u>\$ 14,918,121</u>

California State University San Marcos Corporation

Other Information

June 30, 2021

(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	3,115,684
Total	<u>\$ 3,115,684</u>

2.1 Composition of investments:

	Current	Noncurrent	Total
Money Market funds	\$ -	\$ -	\$ -
Repurchase agreements	-	-	-
Certificates of deposit	-	-	-
U.S. agency securities	-	-	-
U.S. treasury securities	-	-	-
Municipal bonds	-	-	-
Corporate bonds	-	-	-
Asset backed securities	-	-	-
Mortgage backed securities	-	-	-
Commercial paper	-	-	-
Mutual funds	13,800,346	-	13,800,346
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	<u>13,800,346</u>	-	<u>13,800,346</u>
Less endowment investments	-	-	-
Total investments, net of endowments	<u>\$ 13,800,346</u>	<u>\$ -</u>	<u>\$ 13,800,346</u>

See independent auditors' report.

California State University San Marcos Corporation
Other Information
June 30, 2021
(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	-	-	-	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Commercial paper	-	-	-	-	-
Mutual funds	13,800,346	13,800,346	-	-	-
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	\$ 13,800,346	\$ 13,800,346	\$ -	\$ -	\$ -

**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, 2021
(for inclusion in the California State University)

3.1 Composition of capital assets:

	Balance June 30, 2020	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2020 (Restated)	Additions	Retirements	Transfer of completed CWIP	Balance June 30, 2021
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Works of art and historical treasures	-	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	323,834	-	-	-	323,834	12,913	(2,155)	-	334,592
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	323,834	-	-	-	323,834	12,913	(2,155)	-	334,592
Depreciable/Amortizable capital assets:									
Buildings and building improvements	31,914,982	-	-	-	31,914,982	20,255	(11,289)	-	31,923,948
Improvements, other than buildings	2,495,867	-	-	-	2,495,867	138,734	-	-	2,634,601
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	2,200,274	-	-	-	2,200,274	-	-	-	2,200,274
Personal property:									
Equipment	5,814,536	-	-	-	5,814,536	345,364	(13,815)	-	6,146,085
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	42,425,659	-	-	-	42,425,659	504,353	(25,104)	-	42,904,908
Total capital assets	42,749,493	-	-	-	42,749,493	517,266	(27,259)	-	43,239,500
Less accumulated depreciation/amortization:									
Buildings and building improvements	(11,390,371)	(1,256,705)	-	-	(12,647,076)	(966,702)	11,289	-	(13,602,489)
Improvements, other than buildings	(2,928,949)	1,256,705	-	-	(1,672,244)	(170,834)	-	-	(1,843,078)
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	(1,337,617)	339,768	-	-	(997,849)	(157,920)	-	-	(1,155,769)
Personal property:									
Equipment	(3,987,675)	(339,768)	-	-	(4,327,443)	(391,806)	13,815	-	(4,705,434)
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	(19,644,612)	-	-	-	(19,644,612)	(1,687,262)	25,104	-	(21,306,770)
Total capital assets, net	\$ 23,104,881	\$ -	\$ -	\$ -	23,104,881	\$ (1,169,996)	\$ (2,155)	\$ -	\$ 21,932,730

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital assets	\$ 1,687,262
Amortization expense related to other assets	-
Total depreciation and amortization	<u>\$ 1,687,262</u>

California State University San Marcos Corporation
Other Information
June 30, 2021
(for inclusion in the California State University)

4 Long-term liabilities:

	Balance June 30, 2020	Prior Period Adjustments/ Reclassifications	Balance June 30, 2020 (Restated)	Additions	Reductions	Balance June 30, 2021	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 659,779	\$ -	\$ 659,779	\$ 159,036	\$ (86,860)	\$ 731,955	\$ 731,955	\$ -
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations:								
Gross balance	16,797,431	-	16,797,431	-	(1,035,050)	15,762,381	1,079,790	14,682,591
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations	16,797,431	-	16,797,431	-	(1,035,050)	15,762,381	1,079,790	14,682,591
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	-	-	-	-	-	-	-	-
4.2 Commercial paper	-	-	-	-	-	-	-	-
4.3 Notes payable (SRB related)	53,335,000	-	53,335,000	-	(895,000)	52,440,000	935,000	51,505,000
4.4 Others:								
Note Payable	150,294	-	150,294	-	(28,442)	121,852	29,235	92,617
Note Payable	2,082,042	-	2,082,042	-	-	2,082,042	12,074	2,069,968
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
Total others	2,232,336	-	2,232,336	-	(28,442)	2,203,894	41,309	2,162,585
Sub-total long-term debt	55,567,336	-	55,567,336	-	(923,442)	54,643,894	976,309	53,667,585
4.5 Unamortized net bond premium/(discount)	8,801,370	-	8,801,370	-	(315,409)	8,485,961	-	8,485,961
Total long-term debt obligations	64,368,706	-	64,368,706	-	(1,238,851)	63,129,855	976,309	62,153,546
Total long-term liabilities	\$ 81,825,916	\$ -	\$ 81,825,916	\$ 159,036	\$ (2,360,761)	\$ 79,624,191	\$ 2,788,054	\$ 76,836,137

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:									
2022	\$ 1,079,790	\$ 594,085	\$ 1,673,875	\$ -	\$ -	\$ -	\$ 1,079,790	\$ 594,085	\$ 1,673,875
2023	1,123,766	551,109	1,674,875	-	-	-	1,123,766	551,109	1,674,875
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	1,260,685	411,690	1,672,375	-	-	-	1,260,685	411,690	1,672,375
2027 - 2031	6,823,855	1,285,520	8,109,375	-	-	-	6,823,855	1,285,520	8,109,375
2032 - 2036	3,093,064	121,685	3,214,749	-	-	-	3,093,064	121,685	3,214,749
2037 - 2041	-	-	-	-	-	-	-	-	-
2042 - 2046	-	-	-	-	-	-	-	-	-
2047 - 2051	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum lease payments	\$ 15,762,381	\$ 3,930,493	\$ 19,692,874	\$ -	\$ -	\$ -	\$ 15,762,381	\$ 3,930,493	\$ 19,692,874
Less: amounts representing interest									(3,930,493)
Present value of future minimum lease payments									15,762,381
Unamortized net premium/(discount)									-
Total capital lease obligations									15,762,381
Less: current portion									(1,079,790)
Capital lease obligations, net of current portion									\$ 14,682,591

California State University San Marcos Corporation
Other Information
June 30, 2021
(for inclusion in the California State University)

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:									
2022	\$ -	\$ -	\$ -	\$ 976,309	\$ 2,587,511	\$ 3,563,820	\$ 976,309	\$ 2,587,511	\$ 3,563,820
2023	-	-	-	3,075,008	2,505,677	5,580,685	3,075,008	2,505,677	5,580,685
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	-	-	-	1,135,000	2,367,047	3,502,047	1,135,000	2,367,047	3,502,047
2027 - 2031	-	-	-	6,575,000	10,925,150	17,500,150	6,575,000	10,925,150	17,500,150
2032 - 2036	-	-	-	8,410,000	9,093,194	17,503,194	8,410,000	9,093,194	17,503,194
2037 - 2041	-	-	-	10,760,000	6,740,878	17,500,878	10,760,000	6,740,878	17,500,878
2042 - 2046	-	-	-	12,930,000	3,761,073	16,691,073	12,930,000	3,761,073	16,691,073
2047 - 2051	-	-	-	8,615,000	659,040	9,274,040	8,615,000	659,040	9,274,040
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	\$ -	\$ -	\$ 54,643,894	\$ 43,534,996	\$ 98,178,890	\$ 54,643,894	\$ 43,534,996	\$ 98,178,890
Less: amounts representing interest									(43,534,996)
Present value of future minimum payments									54,643,894
Unamortized net premium/(discount)									8,485,961
Total long-term debt obligations									63,129,855
Less: current portion									(976,309)
Long-term debt obligations, net of current portion									\$ 62,153,546

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 373,924
Payments to University for other than salaries of University personnel	4,388,169
Payments received from University for services, space, and Gifts-in-kind to the University from discretely presented	7,882,663
Gifts (cash or assets) to the University from discretely presented component units	-
Accounts (payable to) University	1,026,649
Other amounts (payable to) University	(513,399)
Accounts receivable from University	(224,175)
Other amounts receivable from University	915,967
	95,966,503

California State University San Marcos Corporation
Other Information
June 30, 2021
(for inclusion in the California State University)

8 Restatements/Prior period adjustments:

Provide a detailed breakdown of the journal entries (at the financial statement line items level) booked to record each restatement/PPA:

	Debit/(Credit)
Restatement #1	-
	-
	-
	-
	-
	-
	-
	-
	-
Restatement #2	-
	-
	-
	-
	-
	-
	-
	-
	-

9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	\$ 1,025,359	\$ 326,308	\$ -	\$ -	\$ -	\$ 1,420,463	\$ -	\$ 2,772,130
Research	4,045,446	1,098,956	-	-	-	3,119,596	-	8,263,998
Public service	122,235	25,542	-	-	-	16,552	-	164,329
Academic support	538,801	82,223	-	-	-	242,520	-	863,544
Student services	1,900,265	564,750	-	-	-	528,844	-	2,993,859
Institutional support	304,281	26,626	-	-	-	897,447	-	1,228,354
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	975,605	-	-	975,605
Auxiliary enterprise expenses	485,828	271,305	-	-	-	2,060,247	-	2,817,380
Depreciation and amortization	-	-	-	-	-	-	1,687,262	1,687,262
Total operating expenses	\$ 8,422,215	\$ 2,395,710	\$ -	\$ -	\$ 975,605	\$ 8,285,669	\$ 1,687,262	\$ 21,766,461

See independent auditors' report.

California State University San Marcos Corporation
Other Information
June 30, 2021
(for inclusion in the California State University)

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)	127,593
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	\$ 127,593

11 Other nonoperating revenues (expenses)

Other nonoperating revenues	77,704
Other nonoperating (expenses)	-
Total other nonoperating revenues (expenses)	\$ 77,704

**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, 2021, 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 28, 2021.

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 28, 2021

**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, 2021. 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, 2021.

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 28, 2021

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal/Pass-Through Grantor and Program Title	Assistance Listing Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster:			
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	\$ (778)
Total United States Environmental Protection Agency			<u>(778)</u>
Department of Defense			
<i>Direct Programs</i>			
Basic and Applied Scientific Research	12.300	N/A	1,355,605
Total Department of Defense			<u>1,355,605</u>
Department of the Interior			
<i>Direct Programs</i>			
Endangered Species Conservation – Recovery Implementation Funds	15.657	N/A	(964)
Total Department of the Interior			<u>(964)</u>
Department of Education			
<i>Direct Programs</i>			
Higher Education Institutional Aid	84.031	N/A	1,973,567
Minority Science and Engineering Improvement	84.120	N/A	202,996
<i>Pass-through from Palomar College</i>			
Higher Education Institutional Aid	84.031	PO31S160113	107,344
Total Department of Education			<u>2,283,907</u>
Department of Health and Human Services			
<i>Direct Programs</i>			
Family and Community Violence Prevention Program	93.910	N/A	396,835
Biomedical Research and Research Training	93.859	N/A	856,531
Mental Health Research Grants	93.242	N/A	195,617
Trans-NIH Research Support	93.310	N/A	178,011
Health Professions Recruitment Program for Indians	93.970	N/A	70,607
<i>Pass-through from Vista Community Clinic</i>			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0105-01-00	17,117
<i>Pass-through from Indian Health Council Inc.</i>			
Biomedical Research and Research Training	93.859	1S06GM128073	29,251
Total Department of Health and Human Services			<u>1,743,969</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal/Pass-Through Grantor and Program Title	Assistance Listing 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	22,771
Cooperative Forestry Assistance	10.664	N/A	12,643
Partnership Agreements	10.699	N/A	63,379
Total Department of Agriculture			<u>98,793</u>
National Aeronautical and Space Administration			
<i>Direct Programs</i>			
Science	43.001	N/A	241,415
Office of Inspector General	43.011	N/A	77,815
Total National Aeronautical and Space Administration			<u>319,230</u>
Corporation for National and Community Service			
<i>Direct Programs</i>			
National Service and Civic Engagement Research Competition	94.026	N/A	89,309
Total Corporation for National and Community Service			<u>89,309</u>
National Endowment for the Humanities			
<i>Pass-through from University of Washington</i>			
National Leadership Grants	45.312	LG-96-18-0041-18	2,888
Total National Endowment for the Humanities			<u>2,888</u>
National Science Foundation			
<i>Direct Programs</i>			
Computer and Information Science and Engineering	47.070	N/A	136,985
Biological Sciences	47.074	N/A	125,735
Education and Human Resources	47.076	N/A	1,856,539
Social, Behavioral, and Economic Sciences	47.075	N/A	127,935
Mathematical and Physical Sciences	47.049	N/A	6,560
<i>Pass-through from Drexel University</i>			
Education and Human Resources	47.076	2010306	27,229
<i>Pass-through from University of California Office of the President</i>			
Education and Human Resources	47.076	1626624	2,454
<i>Pass-through from University Enterprises, Inc.</i>			
Education and Human Resources	47.076	1826490	15,736
Total National Science Foundation			<u>2,299,173</u>
Total Research and Development Cluster			<u>8,191,132</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal/Pass-Through Grantor and Program Title	Assistance Listing Number	Agency or Pass-Through Grantor No.	Expenditures
TRIO Cluster:			
Department of Education			
<i>Direct Programs</i>			
Student Support Services	84.042	N/A	330,214
Talent Search	84.044	N/A	340,502
Upward Bound	84.047	N/A	301,255
McNair Postbaccalaureate Achievement Program	84.217	N/A	272,321
Total Department of Education			1,244,292
Total TRIO Cluster			1,244,292
Other Programs:			
Department of Commerce			
<i>Pass-through from University of San Diego</i>			
Cluster Grants	11.020	ED19HDQ0200025	1,725
Total Department of Commerce			1,725
Department of Education			
<i>Direct Programs</i>			
English Language Acquisition State Grants	84.365	N/A	604,050
Migrant Education College Assistance Migrant Program	84.149	N/A	417,116
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	N/A	32,579
<i>Pass-through from University of California Office of the President</i>			
Improving Teacher Quality State Grants	84.367	S367A170005	836
Total Department of Education			1,054,581
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	704,613
Total Department of Health and Human Services			704,613
Total Other Programs			1,760,919
Total Expenditures of Federal Awards			\$ 11,196,343

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

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:

National Aeronautics and Space Administration Assistance Listing Number 43.001

University of Pennsylvania	\$ 147,682
University of California San Bernardino	8,828
Total National Aeronautics and Space Administration Assistance Listing Number 43.001	<u>156,510</u>

Education and Human Resources Assistance Listing Number 47.076

Tennessee Technologic University	51,996
University of Maryland	109,053
University of Central Florida	16,705
Horizon Research Inc	31,772
San Diego State University	132,484
San Diego State University	32,173
Texas A&M University	74,513
Total Education and Human Resources Assistance Listing Number 47.076	<u>448,696</u>

Trans-NIH Research Support Assistance Listing Number 93.310

Parent Institute for Quality Education	70,000
Total Trans-NIH Research Support Assistance Listing Number 93.310	<u>70,000</u>

Biomedical Research and Research Training Assistance Listing Number 93.859

MiraCosta College	29,716
Total Biomedical Research and Research Training Assistance Listing Number 93.859	<u>29,716</u>

Family and Community Violence Prevention Program Assistance Listing Number 93.910

North County Health Services	2,923
Total Family and Community Violence Prevention Program Assistance Listing Number 93.910	<u>2,923</u>

Total amounts provided to subrecipients	<u>\$ 707,845</u>
---	-------------------

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major program:	
Significant deficiency(ies) identified?	None reported
Material weakness(es) identified?	No

Type of auditors' report issued on compliance for major programs	Unmodified
--	------------

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

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Development Cluster

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

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

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Prior Year Audit Findings
Year Ended June 30, 2021

Section IV – Schedule of Prior Year Findings

None reported.