

University Auxiliary and Research Services Corporation

Financial Statements and Supplemental Information

Years Ended June 30, 2017 and 2016



UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Financial Statements and Supplemental Information
Years Ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of University Auxiliary and Research Services Corporation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Auxiliary and Research Services Corporation as of June 30, 2017 and 2016, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information included on pages 17 - 26 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 20, 2017, on our consideration of the University Auxiliary and Research Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University Auxiliary and Research Services Corporation's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 10, University Auxiliary and Research Services Corporation received the student housing funds from San Marcos University Corporation and changed its name to the California State University San Marcos Corporation. These events were effective as of July 1, 2017.

Aldrich CPAs + Advisors LLP

San Diego, California
September 20, 2017

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

June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 846,492	\$ 310,348
Accounts receivable	2,500,454	1,603,372
Other receivables	186,853	242,273
Due from related parties	928,230	561,748
Prepaid expenses	16,167	20,012
Current portion of certificates of deposits	491,923	737,107
Investments	1,640,839	1,823,471
	<hr/>	<hr/>
Total Current Assets	6,610,958	5,298,331
Property and equipment, net of accumulated depreciation	8,222,198	6,931,611
Certificates of deposits, less current portion	1,227,009	739,684
Other assets	61,081	61,081
	<hr/>	<hr/>
Total Assets	\$ 16,121,246	\$ 13,030,707
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 804,579	\$ 323,480
Due to related parties	427,321	431,018
Current portion of deferred revenue	512,912	310,865
Accrued payroll and benefits	745,569	775,269
Current portion of accrued postretirement benefit costs	18,805	13,917
	<hr/>	<hr/>
Total Current Liabilities	2,509,186	1,854,549
Deferred revenue, net of current portion	3,480,117	1,833,740
Accrued postretirement benefit costs, net of current portion	1,445,544	1,303,119
Note payable, net of current portion	198,291	198,291
	<hr/>	<hr/>
Total Liabilities	7,633,138	5,189,699
Net Assets:		
Unrestricted:		
Board-designated:		
Operating reserves	1,888,719	1,560,806
Other program reserves	2,195,146	1,515,168
Equipment	4,404,243	4,765,034
	<hr/>	<hr/>
Total Net Assets	8,488,108	7,841,008
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 16,121,246	\$ 13,030,707
	<hr/>	<hr/>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Statements of Activities

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Revenue, Gains, and Other Support:		
Federal grants and contracts	\$ 11,114,724	\$ 8,642,218
Campus programs	3,920,297	4,015,100
Other sponsored programs	764,526	1,196,407
Child care center in-kind rental income	510,124	502,090
Commissions	527,150	490,845
Ground lease income	270,660	266,398
Rental income	139,092	139,092
Interest and dividend income	14,339	15,475
Net realized and unrealized gain (loss) on investments	84,368	(4,575)
	<u>17,345,280</u>	<u>15,263,050</u>
Total Unrestricted Revenue, Gains and Other Support		
Expenses:		
Program services:		
Sponsored programs	10,371,334	8,800,563
Campus programs	2,029,400	2,254,552
Student scholarships	903,977	543,519
	<u>13,304,711</u>	<u>11,598,634</u>
Total Program Services		
General and administrative	3,393,469	3,312,561
	<u>16,698,180</u>	<u>14,911,195</u>
Total Expenses		
Increase in Net Assets	647,100	351,855
Unrestricted Net Assets, beginning	<u>7,841,008</u>	<u>7,489,153</u>
Unrestricted Net Assets, ending	<u>\$ 8,488,108</u>	<u>\$ 7,841,008</u>

See accompanying notes to financial statements.

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

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 647,100	\$ 351,855
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	549,122	570,029
Net realized and unrealized loss (gain) on investments	(84,368)	4,575
Loss on disposals of property and equipment	41,038	-
Change in accumulated postretirement benefit obligation	147,313	103,324
Changes in operating assets and liabilities:		
Accounts receivable	(897,082)	(875,504)
Other receivables	55,420	(117,365)
Due from related parties	(366,482)	(217,962)
Prepaid expenses	3,845	14,871
Accounts payable	481,099	244,429
Due to related parties	(3,697)	22,514
Deferred revenue	1,848,424	(308,675)
Accrued payroll and benefits	(29,700)	(57,380)
Net Cash Provided (Used) by Operating Activities	2,392,032	(265,289)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,880,747)	(72,374)
Purchases of investments	(283,000)	(1,303,001)
Proceeds from the sale of investments	550,000	1,050,000
Maturities of certificates of deposits	735,000	245,000
Purchases of certificates of deposits	(977,141)	(739,592)
Net Cash Used by Investing Activities	(1,855,888)	(819,967)
Cash Flows Used by Financing Activities:		
Payments on note payable	-	(51,709)
Net Increase (Decrease) in Cash and Cash Equivalents	536,144	(1,136,965)
Cash and Cash Equivalents, beginning	310,348	1,447,313
Cash and Cash Equivalents, ending	\$ <u>846,492</u>	\$ <u>310,348</u>

See accompanying notes to financial statements.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

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

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

Related Parties

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

Basis of Presentation

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

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

There were no temporarily or permanently restricted net assets during the years ended June 30, 2017 and 2016.

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

Income Taxes

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

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

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

Income Taxes, continued

The Organization follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the statements of activities, when applicable. Management has determined that the Organization has no uncertain tax positions as of June 30, 2017 and 2016; therefore, no amounts have been accrued.

Receivables

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

Investments

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

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

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of 3 to 30 years.

Deferred Revenue

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

Note 2 – Concentration of Credit Risk

The Organization 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 Organization's account balances may, at times, exceed the limits. The Organization has not experienced any such losses in these accounts.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 3 – Fair Value Measurement

Fair Value Measurements

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

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

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

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, 2017 and 2016.

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Core fixed-income institutional mutual funds	\$ 1,640,839	\$ -	\$ -	1,640,839
Certificates of deposit	-	1,718,932	-	1,718,932
	<u>\$ 1,640,839</u>	<u>\$ 1,718,932</u>	<u>\$ -</u>	<u>\$ 3,359,771</u>

Investments and certificates of deposit at fair value according to the fair value hierarchy are as follows as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Core fixed-income institutional mutual funds	\$ 1,823,471	\$ -	\$ -	1,823,471
Certificates of deposit	-	1,476,791	-	1,476,791
	<u>\$ 1,823,471</u>	<u>\$ 1,476,791</u>	<u>\$ -</u>	<u>\$ 3,300,262</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 4 – Property and Equipment

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

	2017	2016
Land improvements	\$ 1,535,469	\$ 1,535,469
Building and improvements	4,385,743	4,385,743
Furniture and equipment	2,223,700	2,249,052
Leasehold improvements	2,924,302	2,924,302
	11,069,214	11,094,566
Less accumulated depreciation	(4,655,439)	(4,162,955)
	6,413,775	6,931,611
Construction in progress	1,808,423	-
	\$ 8,222,198	\$ 6,931,611

Note 5 – Commitments and Contingencies

Leases

The Organization has entered into various operating lease agreements with the University for facilities, with monthly rents totaling \$3,666 through January 31, 2018. The Organization leases office space at 435 E. Carmel Street under a lease agreement which may be terminated by either party upon a four-month written notice and had monthly rent of approximately \$10,500. The lease expires on December 31, 2017. Total rent expense was approximately \$170,000 for each of the years ended June 30, 2017 and 2016.

Minimum future lease payments as of June 30, 2017 are due as follows:

<u>Year Ending June 30,</u>	
2018	\$ 88,422
Thereafter	-
	\$ 88,422

Bookstore Operating Agreement

In July 2011, the Organization entered into an agreement with an unrelated third party to operate the campus bookstore. In July 2014, the Organization amended the bookstore operating agreement with the third-party operator. As part of the agreement, the unrelated third party relocated the bookstore to the former campus dining area and paid for the relocation and improvement costs related to the move. The cost will be depreciated and amortized over the contract term. All capital equipment or improvements not attached as fixtures to real estate are the property of the unrelated third-party. If the Organization terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Organization is required to purchase any existing inventory at the time of termination at fair value according to the agreement, reimburse the unrelated third party for the book value of its capital improvements, and refund the unamortized portion of the bookstore build-out. The contract term was extended to June 30, 2025.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 5 – Commitments and Contingencies, continued

Bookstore Operating Agreement, continued

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, 2017 and 2016 was \$354,723 and \$352,557, respectively.

In June 2015, as part of the agreement, the unrelated third party placed into service \$836,241 of equipment, design and construction services for the build-out of the bookstore for the Organization. The Organization has ownership of the assets and has recorded a corresponding liability to deferred revenue which is amortized to revenue over the 10 remaining years of the contract. The Organization recognized revenues of \$83,123 and \$83,351 for the years ended June 30, 2017 and 2016, respectively. In addition, the Organization has deferred revenue of \$665,440 and \$748,563 as of June 30, 2017 and 2016, respectively, related to the noncash transaction.

Child Care Center Lease Agreement

The Organization owns and operates the Center for Children and Families and has a Child Care Center Development Agreement (Agreement) with Children's Creative Learning Center (CCLC), a California Corporation, which expires on February 28, 2023. In exchange for operating, maintaining, and managing the center, CCLC is not charged rent. Management estimated that the value of the Agreement was \$510,124 and \$502,090 for the years ended June 30, 2017 and 2016, respectively. These amounts are included in the statements of activities for the years ended June 30, 2017 and 2016 as child care center in-kind rental income and campus programs expense.

For operating the child care center, the Organization does not pay rent under the ground lease. Management estimated that the value of the lease agreement was \$270,660 and \$266,398 for the years ended June 30, 2017 and 2016, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2017 and 2016 as property ground lease income and land leasing costs, which is included in campus programs expense. As consideration for the Agreement the third party pays the Organization an annual revenue share based on gross margin and net revenue of the center.

Beverage Distribution Rights Contract

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

As consideration for the agreement, the unrelated third party paid the Organization an initial support fund in the amount of \$50,000 earned over the term of the agreement and payable upon signing the agreement. Additional consideration includes an annual sponsorship fee of \$20,000 and \$1,500 in marketing funds payable annually at the end of each calendar year, 35 percent commission paid quarterly on actual cash collected by vending machines plus proceeds from credit card transactions. Commission revenue included \$61,677 and \$61,055 for the years ended June 30, 2017 and 2016, respectively, under this agreement, which includes the \$20,000 sponsorship fee for the year ended June 30, 2017.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 5 – Commitments and Contingencies, continued

Campus Food Service Agreement

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

In January 2014, as part of the agreement, the unrelated third party purchased approximately \$1.4 million of equipment, design and construction services for the build-out of retail concepts for the Organization. The Organization has ownership of the assets and has recorded a corresponding liability to deferred revenue which is amortized to revenue over the 18 remaining years of the contract. The Organization recognized revenues of \$73,923 and \$73,923 for the years ended June 30, 2017 and 2016, respectively. In addition, the Organization has deferred revenue of \$1,145,801 and \$1,219,724 at June 30, 2017 and 2016, related to the noncash transaction.

Sponsored Programs

The Organization receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and operating subsidies. 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 Organization. However in the opinion of management, any such disallowed claims would not have a material adverse impact on the overall financial position of the Organization as of June 30, 2017 and 2016.

Workers' Compensation Insurance

During the years ended June 30, 2017 and 2016, the Organization purchased workers' compensation insurance for \$46,865 and \$62,025, respectively, through an approved self-insurance program in which the Organization is a member, and which is administered by the California State University Risk Management Authority (CSURMA).

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

Unemployment Insurance

For the years ended June 30, 2017 and 2016, CSURMA estimated an overage in reserves for unemployment insurance from the Organization of \$84,695 and \$88,275, respectively. The Organization recorded a receivable of \$84,695 and \$88,275 at June 30, 2017 and 2016, respectively.

Legal Proceedings

The Organization 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.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Notes to Financial Statements**

Years Ended June 30, 2017 and 2016

Note 6 – Accrued Postretirement Benefits Costs

The Organization has a postretirement program that provides lifetime medical, dental, and vision coverage to retiring employees age 65 or older with at least 10 years of service and having been enrolled in health benefits as of December 31, 2014 as a regular employee. Medical coverage will be provided through the AOA pooled medical program. Dependent spouses of eligible retirees will also receive lifetime medical, dental, and vision coverage.

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

	<u>2017</u>	<u>2016</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 1,354,679	\$ 1,075,350
Service cost	102,693	79,082
Interest cost	50,795	43,925
Amendments	-	-
Actuarial (gain)/loss	(200,524)	170,239
Acquisition	N/A	N/A
Benefits paid	<u>(13,930)</u>	<u>(13,917)</u>
Benefit obligation at end of year	\$ <u>1,293,713</u>	\$ <u>1,354,679</u>
Curtailment and settlement gain	\$ -	\$ -
	<u>2017</u>	<u>2016</u>
Funded Status:		
Unamortized prior service cost	\$ 118,438	\$ 128,501
Unrecognized net actuarial gain	(289,074)	(90,858)
Accrued benefit cost	<u>1,464,349</u>	<u>1,317,036</u>
Benefit obligation at June 30	\$ <u>1,293,713</u>	\$ <u>1,354,679</u>
Measurement date	6/30/2017	6/30/2016
Funded status at end of year	\$ (1,293,713)	\$ (1,354,679)
	<u>2017</u>	<u>2016</u>
Net Periodic Benefit Cost:		
Service cost	\$ 102,693	\$ 79,082
Interest cost	50,795	43,925
Amortization of prior service cost	10,063	10,063
Amortization of net (gain)/loss	<u>(2,308)</u>	<u>(15,829)</u>
Net periodic benefit cost	\$ <u>161,243</u>	\$ <u>117,241</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Notes to Financial Statements**

Years Ended June 30, 2017 and 2016

Note 6 – Accrued Postretirement Benefits Costs, continued

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

	<u>2017</u>	<u>2016</u>
Discount Rate	4.00%	4.00%
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Health care cost trend rate assumed for next year	5.50%	5.80%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	4 yrs	5 yrs

Expected retiree payments as of June 30, 2017 are as follows:

<u>Expected Retiree Payments Over the Next 10 Years</u>	<u>Dental</u>	<u>Medical</u>	<u>Total</u>
2017/18	\$ 1,795	\$ 17,010	\$ 18,805
2018/19	2,112	19,622	21,734
2019/20	2,352	21,932	24,284
2020/21	2,686	25,379	28,065
2021/22	3,059	29,596	32,655
2022/23	3,427	33,999	37,426
2023/24	3,885	38,398	42,283
2024/25	4,076	41,280	45,356
2025/26	4,240	43,942	48,182
2026/27	4,445	46,714	51,159
	<u>\$ 32,077</u>	<u>\$ 317,872</u>	<u>\$ 349,949</u>

Note 7 – Note Payable

In July 2014, the Organization entered into a ten-year note payable with the University for \$250,000 to be used for the refurbishment and modernization of the on campus Starbucks retail store. The note was amended, during the year ended June 30, 2016, to change the payment terms and interest rate from 3.00 percent to 2.75 percent per annum and is payable in annual principal and interest installments. From this revision, the Organization paid principal and interest totaling \$64,325 for the year ended June 30, 2016. No payments were due in 2017.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 7 – Note Payable, continued

Minimum future principal payments on long-term debt as of June 30, 2017 are due as follows:

<u>Year Ending June 30,</u>		
2018	\$	-
2019		20,306
2020		27,692
2021		28,442
2022		29,235
Thereafter		<u>92,616</u>
	\$	<u><u>198,291</u></u>

Note 8 – Related Party Transactions

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

The Organization, as a lessor, has entered into an operating lease agreement to rent storage space to the University. The monthly rental income is approximately \$11,591 per month through June 30, 2017. The future minimum rental receipts for the year ending June 30, 2017 are approximately \$139,092

The Organization entered into payroll processing agreements with UCorp and ASI.

Related party transactions are as follows:

<u>Related Parties</u>	<u>Description</u>	<u>Reported in</u>	<u>2017</u>	<u>2016</u>
Expenses to:				
University	Salaries and reimbursed costs	Various expenses	\$ 3,305,999	\$ 3,062,422
UCorp	Services, programs and other	Various expenses	32,233	48,098
ASI	Services, programs and other	Various expenses	8,016	8,931
Foundation	Services, programs and other	Various expenses	-	1,110
			<u>\$ 3,346,248</u>	<u>\$ 3,120,561</u>
Revenue from:				
University	Services and programs	Various revenue	\$ 3,471,015	\$ 1,819,493
UCorp	Payroll processing, administrative expenses and other expenses	Various revenue	1,610,597	1,650,614
ASI	Payroll processing, administrative expenses and other expenses	Various revenue	760,596	779,725
Foundation	Payroll processing, administrative expenses and other expenses	Various revenue	30,243	78,925
			<u>\$ 5,872,451</u>	<u>\$ 4,328,757</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION**Notes to Financial Statements**

Years Ended June 30, 2017 and 2016

Note 8 – Related Party Transactions, continued

<u>Related Parties</u>	<u>Description</u>	<u>Reported in</u>	<u>2017</u>	<u>2016</u>
Due from:				
University	Salaries, benefits, and other expenses	Due from related parties	\$ 363,804	\$ 112,167
UCorp	Salaries, benefits, and other expenses	Due from related parties	293,529	232,544
ASI	Salaries, benefits, and other expenses	Due from related parties	139,404	115,787
Foundation	Other expenses	Due from related parties	131,493	101,250
			<u>\$ 928,230</u>	<u>\$ 561,748</u>
Due to:				
University	Cost reimbursement	Due to related parties	\$ 426,501	\$ 427,136
UCorp	Cost reimbursement	Due to related parties	820	3,882
			<u>\$ 427,321</u>	<u>\$ 431,018</u>

Note 9 – Functional Allocation of Expenses

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

Note 10 – Subsequent Event

As of July 1, 2017, UCorp's student housing funds have merged with the Organization. Those funds are the University Village Apartments (UVA) and Residential Life Operations (RLO). Additionally, various contracts will be assumed by the Organization. After merging the student housing funds, the Organization changed its name to the California State University San Marcos Corporation (CSUSM Corporation). The remaining UCorp funds have been transferred to the University.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Notes to Financial Statements

Years Ended June 30, 2017 and 2016

Note 10 – Subsequent Event, continued

The assets and liabilities related to the student housing funds have been allocated to the CSUSM Corporation as follows as of June 30, 2017:

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 5,066,671
Receivables, net of allowance	264,755
Prepaid expenses	<u>14,090</u>
Total Current Assets	5,345,516
Property and Equipment, net of accumulated depreciation	<u>18,592,150</u>
Total Assets	\$ <u><u>23,937,666</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	\$ 2,269,252
Long-term debt	<u>18,974,815</u>
Total Liabilities	21,244,067
Net Assets	<u>2,693,599</u>
Total Liabilities and Net Assets	\$ <u><u>23,937,666</u></u>

The Corporation has evaluated subsequent events through September 20, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

University Auxiliary and Research Services Corporation
Schedule of Net Position
June 30, 2017
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 846,492
Short-term investments	2,132,762
Accounts receivable, net	3,615,537
Leases receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	16,167
Total current assets	<u>6,610,958</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Leases receivable, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	1,227,009
Capital assets, net	8,222,198
Other assets	61,081
Total noncurrent assets	<u>9,510,288</u>
Total assets	<u>16,121,246</u>
Deferred outflows of resources:	
Unamortized loss on debt refunding	-
Net pension liability	-
Others	-
Total deferred outflows of resources	<u>-</u>
Liabilities:	
Current liabilities:	
Accounts payable	1,231,900
Accrued salaries and benefits	368,993
Accrued compensated absences, current portion	376,576
Unearned revenue	512,912
Capitalized lease obligations, current portion	-
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	-
Total current liabilities	<u>2,490,381</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue	3,480,117
Grants refundable	-
Capitalized lease obligations, net of current portion	-
Long-term debt obligations, net of current portion	198,291
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Other postemployment benefits obligations	1,464,349
Net pension liability	-
Other liabilities	-
Total noncurrent liabilities	<u>5,142,757</u>
Total liabilities	<u>7,633,138</u>
Deferred inflows of resources:	
Service concession arrangements	-
Net pension liability	-
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Others	-
Total deferred inflows of resources	<u>-</u>
Net Position:	
Net investment in capital assets	4,404,243
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	-
Unrestricted	4,083,865
Total net position	<u>\$ 8,488,108</u>

See independent auditors' report.

University Auxiliary and Research Services Corporation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$_____)	\$ -
Grants and contracts, noncapital:	
Federal	11,114,724
State	645,144
Local	15,000
Nongovernmental	104,382
Sales and services of educational activities	3,920,297
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ 0)	1,447,026
Other operating revenues	-
Total operating revenues	<u>17,246,573</u>
Expenses:	
Operating expenses:	
Instruction	2,767,419
Research	6,370,162
Public service	42,100
Academic support	335,055
Student services	4,494,025
Institutional support	997,286
Operation and maintenance of plant	-
Student grants and scholarships	903,977
Auxiliary enterprise expenses	239,034
Depreciation and amortization	549,122
Total operating expenses	<u>16,698,180</u>
Operating income (loss)	<u>548,393</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	98,707
Endowment income (loss), net	-
Interest expense	-
Other nonoperating revenues (expenses)	-
Net nonoperating revenues (expenses)	<u>98,707</u>
Income (loss) before other revenues (expenses)	<u>647,100</u>
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase (decrease) in net position	<u>647,100</u>
Net position:	
Net position at beginning of year, as previously reported	7,841,008
Restatements	-
Net position at beginning of year, as restated	<u>7,841,008</u>
Net position at end of year	<u>\$ 8,488,108</u>

University Auxiliary and Research Services Corporation
 Other Information
 June 30, 2017
 (for inclusion in the California State University)

		<u>Amount</u>
2.3 Restricted current investments at June 30, 2017 related to:		
Add description	\$	-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Total restricted current investments at June 30, 2017	\$	-
		<hr style="border-top: 3px double black;"/>
2.4 Restricted noncurrent investments at June 30, 2017 related to:		
Endowment investment	\$	-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Add description		-
Total restricted noncurrent investments at June 30, 2017	\$	-
		<hr style="border-top: 3px double black;"/>

University Auxiliary and Research Services Corporation
Other Information
June 30, 2017
(for inclusion in the California State University)

2.5 Fair value hierarchy in investments at June 30, 2017:

	Total	Fair Value Measurements Using			Net Asset Value (NAV)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
State of California Surplus Money Investment Fund (SMIF)	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Certificates of deposit	1,718,932	-	1,718,932	-	-
Mutual funds	1,640,839	1,640,839	-	-	-
Money Market funds	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Commercial paper	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Equity securities	-	-	-	-	-
Exchange traded funds (ETFs)	-	-	-	-	-
Alternative investments:					
Private equity (including limited partnerships)	-	-	-	-	-
Hedge funds	-	-	-	-	-
Managed futures	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Other alternative investment types	-	-	-	-	-
Other external investment pools (excluding SWIFT)					
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Other major investments:					
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Add description	-	-	-	-	-
Total investments	<u>3,359,771</u>	<u>1,640,839</u>	<u>1,718,932</u>	<u>-</u>	<u>-</u>

See independent auditors' report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2017
(for inclusion in the California State University)

3.1 Composition of capital assets at June 30, 2017:

	Balance June 30, 2016	Prior period Adjustments	Reclassifications	Balance June 30, 2016 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2017
Nondepreciable/nonamortizable capital assets:								
Land and land improvements	\$ -	-	-	-	-	-	-	-
Works of art and historical treasures	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	-	-	-	-	1,808,423	-	-	1,808,423
Intangible assets:								
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-
Internally generated intangible assets in progress	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total nondepreciable/nonamortizable capital assets	-	-	-	-	1,808,423	-	-	1,808,423
Depreciable/amortizable capital assets:								
Buildings and building improvements	4,385,743	-	-	4,385,743	-	-	-	4,385,743
Improvements, other than buildings	1,535,469	-	-	1,535,469	-	-	-	1,535,469
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	2,924,302	-	-	2,924,302	-	-	-	2,924,302
Personal property:								
Equipment	2,249,051	-	-	2,249,051	72,325	(97,676)	-	2,223,700
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets:								
Software and websites	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total depreciable/amortizable capital assets	11,094,565	-	-	11,094,565	72,325	(97,676)	-	11,069,214
Total capital assets	11,094,565	-	-	11,094,565	1,880,748	(97,676)	-	12,877,637
Less accumulated depreciation/amortization:								
Buildings and building improvements	(795,209)	-	-	(795,209)	(146,191)	-	-	(941,400)
Improvements, other than buildings	(617,124)	-	-	(617,124)	(102,366)	-	-	(719,490)
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	(1,082,401)	-	-	(1,082,401)	(161,927)	-	-	(1,244,328)
Personal property:								
Equipment	(1,668,220)	-	-	(1,668,220)	(138,638)	56,637	-	(1,750,221)
Library books and materials	-	-	-	-	-	-	-	-
Intangible assets:								
Software and websites	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	(4,162,954)	-	-	(4,162,954)	(549,122)	56,637	-	(4,655,439)
Total capital assets, net	\$ 6,931,611	-	-	6,931,611	1,331,626	(41,039)	-	8,222,198

3.2 Detail of depreciation and amortization expense for the year ended June 30, 2017:

Depreciation and amortization expense related to capital assets	\$ 549,122
Amortization expense related to other assets	-
Total depreciation and amortization	\$ 549,122

University Auxiliary and Research Services Corporation
Other Information
June 30, 2017
(for inclusion in the California State University)

4 Long-term liabilities activity schedule:

	Balance June 30, 2016	Prior period adjustments	Reclassifications	Balance June 30, 2016 (restated)	Additions	Reductions	Balance June 30, 2017	Current portion	Long-term portion
Accrued compensated absences	\$ 458,503	-	-	458,503	13,674	(95,601)	376,576	376,576	-
Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-	-
Capitalized lease obligations:									
Gross balance	-	-	-	-	-	-	-	-	-
Unamortized premium / (discount) on capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations:									
Auxiliary revenue bonds	-	-	-	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-	-	-	-
Notes payable related to SRB	-	-	-	-	-	-	-	-	-
Others: (list by type)									
Note Payable	198,291	-	-	198,291	-	-	198,291	-	198,291
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Total long-term debt obligations	198,291	-	-	198,291	-	-	198,291	-	198,291
Unamortized bond premium / (discount)	-	-	-	-	-	-	-	-	-
Total long-term debt obligations, net	198,291	-	-	198,291	-	-	198,291	-	198,291
Total long-term liabilities	\$ 656,794	-	-	656,794	13,674	(95,601)	574,867	376,575	198,291

5 Future minimum lease payments - capitalized lease obligations:

	Capitalized lease obligations related to SRB			All other capitalized lease obligations			Total capitalized lease obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2018	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-
2023 - 2027	-	-	-	-	-	-	-	-	-
2028 - 2032	-	-	-	-	-	-	-	-	-
2033 - 2037	-	-	-	-	-	-	-	-	-
2038 - 2042	-	-	-	-	-	-	-	-	-
2043 - 2047	-	-	-	-	-	-	-	-	-
2048 - 2052	-	-	-	-	-	-	-	-	-
2053 - 2057	-	-	-	-	-	-	-	-	-
2058 - 2062	-	-	-	-	-	-	-	-	-
2063 - 2067	-	-	-	-	-	-	-	-	-
Total minimum lease payments	-	-	-	-	-	-	-	-	-
Less amounts representing interest	-	-	-	-	-	-	-	-	-
Present value of future minimum lease payments	-	-	-	-	-	-	-	-	-
Unamortized net premium (discount)	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Less: current portion	-	-	-	-	-	-	-	-	-
Capitalized lease obligation, net of current portion	-	-	-	-	-	-	-	-	\$ -

See independent auditors' report.

University Auxiliary and Research Services Corporation
Other Information
June 30, 2017
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6 Long-term debt obligation schedule

	Auxiliary revenue bonds			All other long-term debt obligations			Total long-term debt obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2018	\$ -	-	-	-	-	-	-	-	-
2019	-	-	-	20,306	12,280	32,586	20,306	12,280	32,586
2020	-	-	-	27,692	4,895	32,587	27,692	4,895	32,587
2021	-	-	-	28,442	4,144	32,586	28,442	4,144	32,586
2022	-	-	-	29,235	3,351	32,586	29,235	3,351	32,586
2023 - 2027	-	-	-	92,616	5,142	97,758	92,616	5,142	97,758
2028 - 2032	-	-	-	-	-	-	-	-	-
2033 - 2037	-	-	-	-	-	-	-	-	-
2038 - 2042	-	-	-	-	-	-	-	-	-
2043 - 2047	-	-	-	-	-	-	-	-	-
2048 - 2052	-	-	-	-	-	-	-	-	-
2053 - 2057	-	-	-	-	-	-	-	-	-
2058 - 2062	-	-	-	-	-	-	-	-	-
2063 - 2067	-	-	-	-	-	-	-	-	-
Total minimum payments	-	-	-	198,291	29,812	228,103	198,291	29,812	228,103
Less amounts representing interest									(29,812)
Present value of future minimum payments									198,291
Unamortized net premium (discount)									-
Total long-term debt obligations									198,291
Less: current portion									-
Long-term debt obligations, net of current portion									\$ 198,291

University Auxiliary and Research Services Corporation
 Other Information
 June 30, 2017
 (for inclusion in the California State University)

7 Calculation of net position

7.1 Calculation of net position - net investment in capital assets

Capital assets, net of accumulated depreciation	\$ 8,222,198
Capitalized lease obligations, current portion	-
Capitalized lease obligations, net of current portion	-
Long-term debt obligations, current portion	-
Long-term debt obligations, net of current portion	(198,291)
Portion of outstanding debt that is unspent at year-end	-
Other adjustments: (please list)	
Deferred revenue	(3,619,664)
Add description	-
Add description	-
Add description	-
Add description	-
Net position - net investment in capital asset	<u>\$ 4,404,243</u>

7.2 Calculation of net position - restricted for nonexpendable - endowments

Portion of restricted cash and cash equivalents related to endowments	\$ -
Endowment investments	-
Other adjustments: (please list)	
Unappropriated temporarily restricted endowment earnings	-
Amounts of endowments underwater below principal	-
Quasi endowment	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
Net position - Restricted for nonexpendable - endowments per SNP	<u>\$ -</u>

8 Transactions with related entities

	<u>Amount</u>
Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 1,147,502
Payments to University for other than salaries of University personnel	2,159,132
Payments received from University for services, space, and programs	3,219,377
Gifts-in-kind to the University from discretely presented component units	-
Gifts (cash or assets) to the University from discretely presented component units	-
Accounts (payable to) University (enter as negative number)	(426,501)
Other amounts (payable to) University (enter as negative number)	(198,291)
Accounts receivable from University	363,804
Other amounts receivable from University	-

9 Other postemployment benefits obligation (OPEB)

Annual required contribution (ARC)	\$ 147,313
Contributions during the year	-
Increase (decrease) in net OPEB obligation (NOO)	<u>147,313</u>
Other adjustments	-
NOO - beginning of year	<u>1,317,036</u>
NOO - end of year	<u>\$ 1,464,349</u>

University Auxiliary and Research Services Corporation
Other Information
June 30, 2017
(for inclusion in the California State University)

10 Pollution remediation liabilities under GASB Statement No. 49:

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

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

	Net Position Class	Amount
		Dr. (Cr.)
Net position as of June 30, 2016, as previously reported		\$ 7,841,008
Prior period adjustments:		
1 Increase in accounts receivable		-
2 (list description of each adjustment)		-
3 (list description of each adjustment)		-
4 (list description of each adjustment)		-
5 (list description of each adjustment)		-
6 (list description of each adjustment)		-
7 (list description of each adjustment)		-
8 (list description of each adjustment)		-
9 (list description of each adjustment)		-
10 (list description of each adjustment)		-
Net position as of June 30, 2016, as restated		\$ 7,841,008

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

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

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

To the Board of Directors
University Auxiliary and Research Services Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Auxiliary and Research Services Corporation (nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2017-001

Compliance and Other Matters

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

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 20, 2017

**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
University Auxiliary and Research Services Corporation

Report on Compliance for Each Major Federal Program

We have audited University Auxiliary and Research Services Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of University Auxiliary and Research Services Corporation's major federal programs for the year ended June 30, 2017. University Auxiliary and Research Services Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of University Auxiliary and Research Services Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 University Auxiliary and Research Services Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, University Auxiliary and Research Services Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of University Auxiliary and Research Services Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered University Auxiliary and Research Services Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 University Auxiliary and Research Services Corporation's internal control over compliance.

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

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

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

Aldrich CPAs + Advisors LLP

San Diego, California
September 20, 2017

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster:			
Department of Homeland Security			
<i>Direct Programs</i>			
Assistance to Firefighters Grant	97.044	N/A	\$ 86,869
Total Department of Homeland Security			<u>86,869</u>
United States Environmental Protection Agency			
<i>Pass-through from State Water Resources Control Board</i>			
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	14-078-270	285,665
Total United States Environmental Protection Agency			<u>285,665</u>
Office of Naval Research			
<i>Direct Programs</i>			
Basic and Applied Scientific Research	12.300	N/A	502,457
Total Department of Defense			<u>502,457</u>
Department of Health and Human Services			
<i>Direct Programs</i>			
Allergy, Immunology and Transplantation Research	93.855	N/A	159,717
Biomedical Research and Research Training	93.859	N/A	1,546,487
Mental Health Research Grants	93.242	N/A	247,803
Advanced Nursing Education Grant Program	93.247	N/A	298,626
Health Professions Recruitment Program for Indians	93.970	N/A	202,901
<i>Pass-through from Vista Community Clinic</i>			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0105-01-00	46,453
<i>Pass-through from University of San Diego</i>			
Family Smoking Prevention and Tobacco Control Act	93.077	77211099	56,212
<i>Pass-through from Vista Community Clinic</i>			
Nurse Education, Practice and Retention Grants	93.359	UD7HP26899	178,492
Total Department of Health and Human Services			<u>2,736,691</u>
Department of Agriculture			
<i>Direct Programs</i>			
Cooperative Forestry Assistance	10.652	N/A	258,004
<i>Direct Programs</i>			
Cooperative Forestry Assistance	10.664	N/A	308,704
Total Department of Agriculture			<u>566,708</u>
National Aeronautical and Space Administration			
<i>Direct Programs</i>			
Science	43.001	N/A	82,644
Total National Aeronautical and Space Administration			<u>82,644</u>
Corporation for National and Community Service			
<i>Direct Programs</i>			
National Service and Civic Engagement Research Competition	94.026	N/A	451,565
Total Corporation for National and Community Service			<u>451,565</u>

See independent auditors' report and notes to schedule of expenditures of federal awards.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster, continued:			
National Archives and Records Administration			
<i>Direct Programs</i>			
National Historical Publications and Records Grants	89.003	N/A	32,267
Total National Archives and Records Administration			32,267
National Endowment for the Humanities			
<i>Direct Programs</i>			
Teaching and Learning Resources and Curriculum Development	45.162	N/A	75,305
Total National Archives and Records Administration			75,305
National Science Foundation			
<i>Direct Programs</i>			
Computer and Information Science and Engineering	47.070	N/A	(2,013)
Biological Sciences	47.074	N/A	113,359
Education and Human Resources	47.076	N/A	1,593,792
Office of Cyberinfrastructure	47.080	N/A	108,727
Mathematical and Physical Sciences	47.049	N/A	112,272
<i>Pass-through from The University Corporation, Northridge</i>			
CSU Alliance for undergrads	47.049	F-12-3105CSUSM	5,000
<i>Pass-through from American Society for Biochemistry and Molecular Biology</i>			
Education and Human Resources	47.074	1	19,799
<i>Pass-through from University Enterprises, Inc.</i>			
Education and Human Resources	47.076	N/A	11,016
<i>Pass-through from University of San Diego</i>			
Education and Human Resources	47.076	F12078-U2013-004	5,261
Total National Science Foundation			1,967,213
Total Research and Development Cluster			6,787,384
TRIO Cluster:			
Department of Education			
<i>Direct Programs</i>			
Student Support Services	84.042	N/A	269,775
Talent Search	84.044	N/A	235,780
Upward Bound	84.047	N/A	320,533
Total Department of Education			826,088
Total TRIO Cluster			826,088

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Other Programs:			
Department of Education			
<i>Direct Programs</i>			
English Language Acquisition State Grants	84.365	N/A	698,385
Migrant Education College Assistance Migrant Program	84.149	N/A	397,607
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	N/A	286,895
Higher Education Institutional Aid	84.031	N/A	812,256
<i>Pass-through from National Writing Project</i>			
Improving Teacher Quality State Grants	84.367	02-CA19-SEED2016ILI	14,279
Improving Teacher Quality State Grants	84.367	02-CA19-SEED2016CRWP	14,794
<i>Pass-through from Palomar College</i>			
Higher Education Institutional Aid	84.031	N/A	87,247
<i>Pass-through from University of California Irvine</i>			
Investing in Innovation (i3) Fund	84.411	2014-3027	334,924
<i>Pass-Through from Valley Center Pauma Unified School District</i>			
Mathematics and Science Partnerships	84.366	37-75614	15,009
<i>Pass-through from University of California Office of the President</i>			
Improving Teacher Quality State Grants	84.367	NCLB13-CWP	474
Improving Teacher Quality State Grants	84.367	02CA19-SEED2016	36,004
Total Department of Education			<u>2,697,874</u>
Department of Health and Human Services			
<i>Pass-through from University of California Berkeley:</i>			
Foster Care - Title IV-E	93.658	8904	655,312
Foster Care - Title IV-E	93.658	9215	148,066
Total Department of Health and Human Services			<u>803,378</u>
Total Other Programs			<u>3,501,252</u>
Total Expenditures of Federal Awards			<u>\$ 11,114,724</u>

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Notes to Schedule of Expenditure of Federal Awards
Year Ended June 30, 2017

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of University Auxiliary and Research Services Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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

University Auxiliary and Research Services Corporation did not elect to use the 10% de minimus cost rate as covered in the Uniform Guidance 2.CFR.200.414 Indirect costs.

Note 3 – Amounts Provided to Subrecipients

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

Biomedical Research and Research Training

Palomar College	\$ 18,450
Mira Costa College	17,995
Total Biomedical Research and Research Training	<u>36,445</u>

Education and Human Resources

Palomar College	32,130
San Diego State University Foundation	3,778
SRI International	66,964
Horizon Research, Inc.	13,430
University of California San Diego	12,446
Total Education and Human Resources	<u>128,748</u>

Advanced Nursing Education Grant Program

University of California San Diego	81,844
Total Advanced Nursing Education Grant Program	<u>81,844</u>

Assistance to Firefighters Grant

National Institute of Standards and Technology	22,869
Total Assistance to Firefighters Grant	<u>22,869</u>

Biological Sciences

Temple University	15,529
Total Biological Sciences	<u>15,529</u>

Total amounts provided to subrecipients	<u>\$ 285,435</u>
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UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Significant deficiency(ies) identified?	Yes
Material weakness(es) identified?	None
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?	None
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.200.516(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Development Cluster
84.031	Higher Education – Institutional Aid
84.365	English Language Acquisition Grants

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.200.520?	Yes

Section II – Financial Statement Findings

2017-001 Schedule of Expenditures of Federal Awards:

Condition:

Management must have appropriate controls and procedures in place to correctly prepare the Schedule of Federal Expenditures each year. This includes including all required amounts in the Schedule.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings, continued

2017-001 Schedule of Expenditures of Federal Awards, continued:

Criteria:

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

Cause:

The omitted federal grants were incorrectly classified as non-federal within the system.

Effect:

Omitting grants potentially means that the program should have been tested as a major program in prior years and was not. In this case, the omitted grants were part of the R&D cluster which was tested last year, but since these grants were not correctly included in the R&D cluster population, there could have been findings which were not identified.

Recommendation:

We recommend that the Organization develop procedures where all new grants are reviewed to ensure they were properly input into the system.

Views of Responsible Officials and Planned Corrective Actions:

The Organization agrees with the recommendation. Processes have been put in place by the Organization for each new award received which included review of grant files and system entry. In addition, the Organization has started to review the SEFA on a quarterly basis.

Section III – Federal Award Findings and Questioned Costs

None reported.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017

Section IV – Schedule of Prior Year Findings

None reported.