

California State University San Marcos Corporation

Financial Statements and Supplemental Information

Years Ended June 30, 2019 and 2018



CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of California State University San Marcos Corporation, (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, the California State University San Marcos Corporation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements for Not-for-Profit Entities*. 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 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 23 - 31 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, on our consideration of the California State University San Marcos Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California State University San Marcos Corporation's internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
September 26, 2019

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

June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 3,019,933	\$ 7,243,788
Accounts receivable	3,682,262	2,634,418
Other receivables	608,408	180,501
Due from related parties	9,785,107	3,682,476
Prepaid expenses	809,852	8,217
Current portion of investments	<u>12,631,201</u>	<u>6,243,621</u>
Total Current Assets	30,536,763	19,993,021
Property and equipment, net of accumulated depreciation	89,339,587	42,819,152
Investments, less current portion	2,694,303	2,153,261
Other assets	<u>56,581</u>	<u>56,581</u>
Total Assets	<u>\$ 122,627,234</u>	<u>\$ 65,022,015</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 8,450,196	\$ 4,654,249
Due to related parties	1,816,680	571,943
Current portion of deferred revenue	1,482,341	499,959
Accrued payroll and benefits	867,372	840,654
Accrued interest	117,163	121,754
Current portion of bond payable	999,628	958,576
Current portion of accrued postretirement benefit costs	21,592	18,312
Current portion of note payable	<u>877,692</u>	<u>20,306</u>
Total Current Liabilities	14,632,664	7,685,753
Bond payable, net of current portion	16,968,257	17,991,447
Deferred revenue, net of current portion	12,039,642	9,487,596
Accrued postretirement benefit costs, net of current portion	1,516,359	1,513,235
Note payable, net of current portion	<u>62,602,072</u>	<u>15,077,985</u>
Total Liabilities	107,758,994	51,756,016
Net Assets Without Donor Restrictions	<u>14,868,240</u>	<u>13,265,999</u>
Total Liabilities and Net Assets	<u>\$ 122,627,234</u>	<u>\$ 65,022,015</u>

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

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenue, Gains, and Other Support Without Donor Restriction:		
Federal grants and contracts	\$ 13,601,326	\$ 11,638,466
Housing and rental income	5,596,361	5,458,907
Campus programs	2,404,917	2,436,997
Other sponsored programs	2,054,097	1,416,767
Ground lease income	803,349	790,698
Commissions	608,889	643,035
Child care center in-kind rental income	533,316	524,917
Housing, other fees	623,056	418,084
Net realized and unrealized gain on investments	252,200	38,003
Interest and dividend income	169,338	26,694
Rental income	3,250	31,380
	<u>26,650,099</u>	<u>23,423,948</u>
Expenses:		
Program Services:		
Sponsored programs	14,172,633	11,263,095
Student housing	5,201,589	4,965,193
Campus programs	2,455,213	1,821,997
	<u>21,829,435</u>	<u>18,050,285</u>
Supporting Services:		
Management and general	3,218,423	3,289,369
	<u>25,047,858</u>	<u>21,339,654</u>
Transfer from UCorp (Note 1)	<u>-</u>	<u>2,693,597</u>
	1,602,241	4,777,891
Net Assets Without Donor Restrictions, beginning	<u>13,265,999</u>	<u>8,488,108</u>
Net Assets Without Donor Restrictions, ending	<u>\$ 14,868,240</u>	<u>\$ 13,265,999</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services				Supporting	Total
	Sponsored Programs	Student Housing	Campus Programs	Total Programs	Management and General	
Benefits	\$ 1,579,695	\$ 215,741	\$ 177,669	\$ 1,973,105	\$ 153,362	\$ 2,126,467
Business service fees	-	-	-	-	314,000	314,000
CCF in-kind rental	-	-	-	-	533,316	533,316
Contractual services	701,687	334,365	170,240	1,206,292	297,862	1,504,154
Depreciation	151,846	1,139,267	-	1,291,113	494,267	1,785,380
Ground lease in-kind	-	520,384	-	520,384	282,966	803,350
Hospitality and events	166,669	1,343	147,801	315,813	8,576	324,389
Information technology	174,427	11,587	394,714	580,728	19,827	600,555
Insurance	17,939	84,436	-	102,375	23,165	125,540
Interest	-	684,024	-	684,024	238	684,262
Other	112,840	357,885	109,125	579,850	305,982	885,832
Related party transactions	144,222	500,000	-	644,222	200,000	844,222
Repairs and maintenance	-	244,440	2,921	247,361	-	247,361
Salaries and wages	6,297,971	613,979	1,160,478	8,072,428	519,952	8,592,380
Scholarships	859,606	-	22,197	881,803	-	881,803
Services	342,445	-	20,986	363,431	-	363,431
Stipends	1,715,780	-	111,197	1,826,977	-	1,826,977
Subrecipient	779,528	-	-	779,528	-	779,528
Supplies	695,395	25,504	72,847	793,746	13,228	806,974
Travel	409,279	28,297	58,454	496,030	25,908	521,938
Utilities	23,304	440,337	6,584	470,225	25,774	495,999
Total expenses	\$ 14,172,633	\$ 5,201,589	\$ 2,455,213	\$ 21,829,435	\$ 3,218,423	\$ 25,047,858

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services				Supporting	Total
	Sponsored Programs	Student Housing	Campus Programs	Total Programs	Management and General	
Benefits	\$ 1,399,850	\$ 187,337	\$ 176,754	\$ 1,763,941	\$ 292,097	\$ 2,056,038
Business service fees	-	-	-	-	441,201	441,201
CCF in-kind rental	-	-	-	-	524,917	524,917
Contractual services	396,364	297,322	100,299	793,985	158,176	952,161
Depreciation	64,383	1,044,134	-	1,108,517	497,304	1,605,821
Ground lease in-kind	-	512,189	-	512,189	278,510	790,699
Hospitality and events	88,573	14,692	77,642	180,907	8,228	189,135
Information technology	46,624	3,177	47,159	96,960	21,306	118,266
Insurance	4,046	53,508	-	57,554	33,756	91,310
Interest	-	711,089	-	711,089	5,468	716,557
Other	115,873	291,338	42,945	450,156	236,459	686,615
Related party transactions	-	500,000	-	500,000	-	500,000
Repairs and maintenance	2,758	192,314	5,054	200,126	-	200,126
Salaries and wages	5,408,112	660,133	1,101,575	7,169,820	551,383	7,721,203
Scholarships	893,382	-	2,097	895,479	-	895,479
Services	210,684	-	3,599	214,283	200	214,483
Space rental	-	-	-	-	139,760	139,760
Stipends	1,374,449	-	110,943	1,485,392	-	1,485,392
Subrecipient	535,959	-	-	535,959	-	535,959
Supplies	395,151	18,845	96,694	510,690	51,294	561,984
Travel	304,611	18,050	49,638	372,299	15,091	387,390
Utilities	22,276	461,065	7,598	490,939	34,219	525,158
Total expenses	\$ 11,263,095	\$ 4,965,193	\$ 1,821,997	\$ 18,050,285	\$ 3,289,369	\$ 21,339,654

See accompanying notes to financial statements.

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

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Increase in net assets	\$ 1,602,241	\$ 4,777,891
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Transfer from UCorp	-	(2,693,597)
Depreciation	1,785,380	1,605,821
Amortization of debt premium	(23,562)	(24,792)
Net realized and unrealized gain on investments	(252,200)	(38,003)
Gain on disposals of property and equipment	-	(6,309)
Change in accumulated postretirement benefit obligation	6,404	67,198
Changes in operating assets and liabilities:		
Accounts receivable	(1,047,844)	(133,964)
Other receivables	(427,907)	271,107
Due from related parties	(6,102,631)	(2,754,246)
Prepaid expenses	(801,635)	22,040
Other assets	-	4,500
Accounts payable	3,795,947	2,502,336
Due to related parties	1,244,737	144,622
Deferred revenue	3,534,428	5,994,526
Accrued payroll and benefits	26,718	95,085
Accrued interest	(4,591)	121,754
Net Cash Provided by Operating Activities	3,335,485	9,955,969
Cash Flows from Investing Activities:		
Purchases of property and equipment	(685,848)	(2,704,316)
Purchases of investments	(11,986,422)	(5,744,110)
Proceeds from the sale of investments	5,310,000	745,000
Net Cash Used by Investing Activities	(7,362,270)	(7,703,426)
Cash Flows from Financing Activities:		
Proceeds from note payable	761,506	-
Payments on bond payable	(958,576)	(921,918)
Net Cash Used by Financing Activities	(197,070)	(921,918)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,223,855)	1,330,625
Cash and Cash Equivalents, beginning	7,243,788	846,492
Cash transfer from UCorp (Note 1)	-	5,066,671
Cash and Cash Equivalents, ending	\$ 3,019,933	\$ 7,243,788

See accompanying notes to financial statements.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Statements of Cash Flows, continued
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	\$ <u>713,174</u>	\$ <u>749,831</u>
Student housing funds transferred to Corporation (Note 1)		
Cash and cash equivalents	\$ -	\$ 5,066,671
Other receivables	-	264,753
Prepaid expenses	-	14,090
Property and equipment, net of accumulated depreciation	-	18,592,150
Accounts payable	-	(1,347,334)
Bonds payable	-	<u>(19,896,733)</u>
Net transfer	\$ <u>-</u>	\$ <u>2,693,597</u>
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Property and equipment purchased with debt financing	\$ <u>47,619,967</u>	\$ <u>14,900,000</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

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), organized and operated in accordance with the California Code of Regulations and the Education Code of the State of California. The Corporation was organized in December 1989 to provide service and opportunity to the University. The Corporation accomplishes this through its focus on administering research and educational grants and contracts; human resource and payroll services, business services to other Auxiliary programs, and management of various entrepreneurial commercial enterprises. Commercial enterprises include childcare services, campus dining services, bookstore and retail services, and managing other commercial partnerships, including real estate, real property development, student housing, and summer conferences.

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

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

New Accounting Pronouncement

During 2019 the Corporation adopted ASU No. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

Related Parties

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

Basis of Presentation

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

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation's management and the board of directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Corporation did not have any donor restrictions that were temporary or perpetual in nature for the years ended June 30, 2019 and 2018.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

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

Basis of Presentation, continued

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.

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, 2019 and 2018; therefore, no amounts have been accrued.

Receivables

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

Investments

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

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

Property and Equipment

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

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

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

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. Also represented in deferred revenue is the deferred rent revenue for payments made from the Campus to the Corporation for the Extended Learning Building and Parking Project.

Bond Premium

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

Housing

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

Subsequent Events

The Corporation has evaluated subsequent events through September 26, 2019, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

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

Note 3 – Financial Assets and Liquidity Resources

Board Designations

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

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 8,810,237	\$ 8,524,087
Board designation:		
Reserved for working capital and current operating	3,082,598	3,088,154
Reserved for capital replacement	1,006,000	900,000
Reserved for venture capital/opportunity	<u>1,969,405</u>	<u>753,758</u>
	<u>\$ 14,868,240</u>	<u>\$ 13,265,999</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 3 – Financial Assets and Liquidity Resources, continued

Liquidity

The following reflects the Corporation's financial assets as of June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
Financial assets available to be used within one year:		
Cash and cash equivalents	\$ 3,019,933	\$ 7,243,788
Sponsored programs receivable	3,682,262	2,634,418
Other receivables	608,408	180,501
Due from related parties	9,785,107	3,682,476
Prepaid expenses	809,852	8,217
Investments	<u>12,631,201</u>	<u>6,243,621</u>
Total financial assets	30,536,763	19,993,021
Less amounts not available for general use within one year:		
Board designated	<u>(6,058,003)</u>	<u>(4,741,912)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 24,478,760</u>	<u>\$ 15,251,109</u>

Note 4 – Fair Value Measurement

Fair Value Measurements

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

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

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

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.

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

Years Ended June 30, 2019 and 2018

Note 4 – Fair Value Measurement, continued

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, 2019 and 2018.

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, 2019:

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Net Asset Value	Total
	Level 1	Level 2	Level 3	NAV	
Mutual funds	\$ 11,160,880	\$ -	\$ -	\$ -	\$ 11,160,880
Certificates of deposit	-	4,164,624	-	-	4,164,624
	<u>\$ 11,160,880</u>	<u>\$ 4,164,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,325,504</u>

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

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

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 5 – Property and Equipment

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

	2019	2018
Land improvements	\$ 2,475,208	\$ 2,475,208
Building and improvements	31,827,325	31,063,847
Furniture and equipment	5,738,392	4,738,492
Leasehold improvements	2,200,274	2,200,274
	<u>42,241,199</u>	<u>40,477,821</u>
Less accumulated depreciation	(17,951,364)	(16,167,117)
	24,289,835	24,310,704
Construction in progress	65,049,752	18,508,448
	<u>\$ 89,339,587</u>	<u>\$ 42,819,152</u>

The total cost of one building, UVA (Note 1), under capital lease, as of June 30, 2019 and 2018 was \$23,849,021. Accumulated depreciation associated with this asset as of June 30, 2019 and 2018 was \$9,414,176 and \$8,817,950, respectively.

Note 6 – Commitments and Contingencies

Leases

The Corporation has entered into various operating lease agreements with the University for facilities, with monthly rents totaling \$3,500 through June 30, 2019. The Corporation leased office space at 435 E. Carmel Street under a lease agreement and had monthly rent averaging \$8,675 for eight months during the year ended June 30, 2018. The lease was terminated on February 28, 2018. The Corporation moved their offices to the University in March 2018 at which time an additional \$70,000 was paid for rent. Total rent expense was approximately \$42,000 and \$181,400 for each of the years ended June 30, 2019 and 2018, 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, 2019 and 2018 was \$312,364 and \$337,245, respectively.

In addition, the unrelated third party placed into service \$836,241 of equipment, design and construction services for the build-out of the bookstore for the Corporation. The Corporation has ownership of the assets and has recorded a corresponding liability to deferred revenue which is amortized to revenue over the 10 remaining years of the contract. The Corporation recognized revenues of \$83,123 for the years ended June 30, 2019 and 2018, respectively. In addition, the Corporation has deferred revenue of \$499,194 and \$582,317 of June 30, 2019 and 2018, respectively, related to the noncash transaction.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 6 – 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 \$533,316 and \$524,917 for the years ended June 30, 2019 and 2018, 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 \$282,966 and \$278,510 for the years ended June 30, 2019 and 2018, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2019 and 2018 as property ground lease income and land leasing costs, which is included in ground lease income. As consideration for the Agreement the third party pays the Corporation an annual revenue share based on gross margin and net revenue of the center.

Beverage Distribution Rights Contract

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

As consideration for the agreement, the unrelated third party paid the Corporation an initial support fund in the amount of \$50,000 earned over the term of the agreement and payable upon signing the agreement. Additional consideration includes an annual sponsorship fee of \$20,000 and \$1,500 in marketing funds payable annually at the end of each calendar year, 35 percent commission paid quarterly on actual cash collected by vending machines plus proceeds from credit card transactions. Commission revenue included \$64,441 and \$65,730 for the years ended June 30, 2019 and 2018, respectively, under this agreement, which includes the \$20,000 sponsorship fee for the year ended June 30, 2019.

Campus Food Service Agreement

The Corporation has an agreement with an unrelated third party to operate the campus food services, including retail sales, catering and concessions. The term of the agreement is 20 years through August 5, 2032, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the Corporation will continue to own the equipment used to operate the food services and the unrelated third party shall purchase and own the inventories of food, beverage and supplies used in operations. In the event of a termination by the Corporation, all amounts due to the unrelated third party shall be payable immediately as defined in the agreement. The Corporation does not expect early termination. As consideration for the agreement, the unrelated third party pays the Corporation a 5 percent commission all retail sales with the exception of Panda Express and Starbucks as of July 1, 2017.

In January 2014, as part of the agreement, the unrelated third party purchased approximately \$1.4 million of equipment, design and construction services for the build-out of retail concepts for the Corporation. The Corporation has ownership of the assets and has recorded a corresponding liability to deferred revenue which is amortized to revenue over the 18 remaining years of the contract. The Corporation recognized revenues of \$73,923 and \$73,923 for the years ended June 30, 2019 and 2018, respectively. In addition, the Corporation has deferred revenue of \$997,955 and \$1,071,878 at June 30, 2019 and 2018, respectively, related to the noncash transaction.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 6 – Commitments and Contingencies, continued

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, 2019 and 2018.

Workers' Compensation Insurance

During the years ended June 30, 2019 and 2018, the Corporation purchased workers' compensation insurance for \$59,724 and \$50,807, respectively, through an approved self-insurance program in which the Corporation is a member, and which is administered by the California State University Risk Management Authority (CSURMA).

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

Unemployment Insurance

For the years ended June 30, 2019 and 2018, CSURMA estimated an overage in reserves for unemployment insurance from the Corporation of \$0 and \$51,328, respectively. The Corporation recorded a receivable of \$0 and \$51,328 at June 30, 2019 and 2018, respectively.

University Village Apartments

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, 2019 and 2018, management fees paid were \$194,640 and \$177,704, respectively. This amount is reflected in the statements of activities within student housing expenses for the years ended June 30, 2019 and 2018.

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.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 7 – Accrued Postretirement Benefits Costs

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

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

	<u>2019</u>	<u>2018</u>
Change in Benefit Obligation:		
Benefit obligation at beginning of year	\$ 917,445	\$ 1,293,713
Service cost	45,015	52,442
Interest cost	36,421	43,277
Changes in plan provisions	-	(189,250)
Actuarial (gain)/loss	82,025	(268,643)
Benefits paid	<u>(13,989)</u>	<u>(14,094)</u>
Benefit obligation at end of year	<u>\$ 1,066,917</u>	<u>\$ 917,445</u>
	<u>2019</u>	<u>2018</u>
Funded Status:		
Unamortized prior service cost (credit)	\$ (71,424)	\$ (80,875)
Unrecognized net actuarial gain	(399,610)	(533,227)
Accrued benefit cost	<u>1,537,951</u>	<u>1,531,547</u>
Benefit obligation at June 30	<u>\$ 1,066,917</u>	<u>\$ 917,445</u>
Measurement date	6/30/2019	6/30/2018
Funded status at end of year	\$ (1,066,917)	\$ (917,445)
	<u>2019</u>	<u>2018</u>
Net Periodic Benefit Cost:		
Service cost	\$ 45,015	\$ 52,442
Interest cost	36,421	43,277
Amortization of prior service cost	(9,451)	10,063
Amortization of net (gain)/loss	<u>(51,592)</u>	<u>(24,490)</u>
Net periodic benefit cost	<u>\$ 20,393</u>	<u>\$ 81,292</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 7 – Accrued Postretirement Benefits Costs, continued

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

	<u>2019</u>	<u>2018</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%	5.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	4 yrs	4 yrs

Expected retiree payments as of June 30, 2019 are as follows:

<u>Expected Retiree Payments Over the Next 10 Years</u>	
2019/20	\$ 18,312
2020/21	21,592
2021/22	24,361
2022/23	28,133
2023/24	31,651
2024-2028	209,498

Note 8 – Long-Term Debt

Note Payable

The Corporation entered into a ten-year note payable with the University for \$250,000 to be used for the refurbishment and modernization of the on campus Starbucks retail store. The note was amended to change the payment terms and interest rate from 3.00 percent to 2.75 percent per annum and is payable in annual principal and interest installments. From this revision, the Corporation made no payments during the years ended June 30, 2019 and 2018. The note agreement matures on July 1, 2024.

Minimum future principal payments on long-term debt as of June 30, 2019 are due as follows:

<u>Year Ending June 30,</u>	
2020	\$ 27,692
2021	28,442
2022	29,235
2023	30,039
2024	30,865
Thereafter	<u>31,713</u>
	<u>\$ 177,986</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 8 – Long-Term Debt, continued

Student Housing

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

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

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

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

The balance of the liability under capital lease at June 30, 2019, in the amount of \$17,967,885, is net of the remaining \$170,826 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, 2018 was \$18,950,023, which was net of \$194,388 in unamortized gain associated with the modification of the capital lease in August 2014.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 8 – Long-Term Debt, continued

Minimum future principal payments on bond payable debt as of June 30, 2019 are due as follows:

<u>Year Ending June 30,</u>	
2020	\$ 1,674,625
2021	1,670,375
2022	1,673,875
2023	1,674,874
2024	1,673,375
Thereafter	<u>14,670,750</u>
Total minimum lease payments	23,037,874
Less amount representing interest (3.89% average effective interest rate)	<u>(5,240,815)</u>
Present value of minimum lease payments	17,797,059
Less current portion	<u>(999,628)</u>
Noncurrent portion	16,797,431
Remaining gain on modification	<u>170,826</u>
	<u>\$ 16,968,257</u>

Extended Learning Building and Parking Project

See Note 11.

Note 9 – Related Party Transactions

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

The Corporation, as a lessor, had entered into an operating lease agreement to rent storage space to the University. The monthly rental income is approximately \$5,796 per month through December 31, 2017 at which time the lease was terminated with the University. The rental receipts for the year ending June 30, 2019 and 2018 was approximately \$0 and \$34,773, respectively.

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

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

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

Years Ended June 30, 2019 and 2018

Note 9 – Related Party Transactions, continued

Related party transactions are as follows:

<u>Related Parties</u>	<u>Description</u>	<u>Reported in</u>	<u>2019</u>	<u>2018</u>
Expenses to:				
University	Salaries and reimbursed costs	Various expenses	\$ 5,412,990	\$ 4,327,673
University	Bond Interest	Interest expense	683,389	713,170
ASI	Services, programs and other	Various expenses	5,800	6,925
Foundation	Services, programs and other	Various expenses	3,300	600
			<u>\$ 6,105,479</u>	<u>\$ 5,048,368</u>
Revenue from:				
University	Services and programs	Various revenue	\$ 971,116	\$ 1,387,762
ASI	Payroll processing, administrative expenses and other expenses	Various revenue	1,070,169	995,195
Foundation	Payroll processing, administrative expenses and other expenses	Various revenue	-	11,681
			<u>\$ 2,041,285</u>	<u>\$ 2,394,638</u>
Assets:				
University	Salaries, benefits, and other expenses	Due from related parties	\$ 8,945,144	\$ 3,397,971
CSU Chancellor's Office	Other expenses	Due from related parties	537,430	-
ASI	Salaries, benefits, and other expenses	Due from related parties	164,223	141,331
Foundation	Other expenses	Due from related parties	138,310	143,174
			<u>\$ 9,785,107</u>	<u>\$ 3,682,476</u>
Liabilities:				
University	Cost reimbursement	Due to related parties	\$ 1,370,068	\$ 571,943
CSU chancellor's Office	Other expenses	Due to related parties	444,187	-
University	Bond Interest	Accrued interest	117,163	121,754
University	EL Building (Note 11)	Deferred revenue	10,692,041	7,977,948
ASI	Cost reimbursement	Due to related parties	2,425	-
			<u>\$ 12,625,884</u>	<u>\$ 8,671,645</u>

Note 10 – Functional Allocation of Expenses

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

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION

Notes to Financial Statements

Years Ended June 30, 2019 and 2018

Note 11 – Extended Learning Building and Parking Project

The Extended Learning Building/Student Services Building and Parking Project (Project) is being developed through a Public/Private Partnership with North City University One (Developer). The Project includes a 135,000 gross square foot, six-story building, and a 709-parking garage on 2-acres directly across the street from campus. The Corporation entered into a Purchase and Sale Agreement (PSA) with the Developer to manager the design, construction, and final closeout of the Project.

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

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

The Corporation will own, equip and operate the Project and act as landlord to the University. The University authorized advanced lease payments for the years ended June 30, 2019 and 2018 of \$10,692,041 and \$7,977,948, respectively, to fund the design, and construction of the Project. Advanced lease payments are classified as deferred revenue.

In March 2018, the Corporation received a loan from the Trustees of the California State University in the amount of \$14,900,000. Interest rates range from 1.32% to 2.9%. On August 2, 2018, the loan agreement between the Trustees of the California State University and the Corporation was amended to increase the loan amount to \$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.

Minimum future principal payments on long-term debt as of June 30, 2019 are due as follows:

<u>Year Ending June 30,</u>	
2020	\$ 850,000
2021	895,000
2022	935,000
2023	975,000
2024	1,030,000
Thereafter	<u>49,500,000</u>
	54,185,000
Unamortized Premium Balance	<u>9,116,778</u>
Total	<u>\$ 63,301,778</u>

SUPPLEMENTAL INFORMATION

California State University San Marcos Corporation
Schedule of Net Position
June 30, 2019
(for inclusion in the California State University)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 3,019,933
Short-term investments	12,631,201
Accounts receivable, net	14,075,777
Capital lease receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	809,852
Total current assets	<u>30,536,763</u>
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Capital lease receivable, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	2,694,303
Capital assets, net	89,339,587
Other assets	56,581
Total noncurrent assets	<u>92,090,471</u>
Total assets	<u>122,627,234</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	10,266,876
Accrued salaries and benefits	375,988
Accrued compensated absences, current portion	491,384
Unearned revenue	1,482,341
Capital lease obligations, current portion	999,628
Long-term debt obligations, current portion	877,692
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	117,163
Total current liabilities	<u>14,611,072</u>
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenue	12,039,642
Grants refundable	-
Capital lease obligations, net of current portion	16,797,431
Long-term debt obligations, net of current portion	62,602,072
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Net other postemployment benefits obligations	1,537,951
Net pension liability	-
Other liabilities	-
Total noncurrent liabilities	<u>92,977,096</u>
Total liabilities	<u>107,588,168</u>
Deferred inflows of resources:	
Service concession arrangements	-
Net pension liability	-
Net OPEB liability	-
Unamortized gain on debt refunding	170,826
Nonexchange transactions	-
Others	-
Total deferred inflows of resources	<u>170,826</u>
Net Position:	
Net investment in capital assets	4,061,424
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	-
Unrestricted	10,806,816
Total net position	<u>\$ 14,868,240</u>

California State University San Marcos Corporation
Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2019
(for inclusion in the California State University)

Revenues:		
Operating revenues:		
Student tuition and fees, gross	\$	-
Scholarship allowances		-
Grants and contracts, noncapital:		
Federal		13,601,326
State		1,486,694
Local		102,199
Nongovernmental		465,204
Sales and services of educational activities		2,404,917
Sales and services of auxiliary enterprises, gross		8,168,221
Scholarship allowances		-
Other operating revenues		-
Total operating revenues		<u>26,228,561</u>
Expenses:		
Operating expenses:		
Instruction		3,160,082
Research		8,561,820
Public service		44,348
Academic support		555,695
Student services		4,062,081
Institutional support		1,277,233
Operation and maintenance of plant		-
Student grants and scholarships		881,803
Auxiliary enterprise expenses		4,035,154
Depreciation and amortization		1,785,380
Total operating expenses		<u>24,363,596</u>
Operating income (loss)		<u>1,864,965</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		421,538
Endowment income (loss), net		-
Interest expense		(684,262)
Other nonoperating revenues (expenses) - excl. interagency transfers		-
Other nonoperating revenues (expenses) - interagency transfers		-
Net nonoperating revenues (expenses)		<u>(262,724)</u>
Income (loss) before other revenues (expenses)		<u>1,602,241</u>
State appropriations, capital		-
Grants and gifts, capital		-
Additions (reductions) to permanent endowments		-
Increase (decrease) in net position		<u>1,602,241</u>
Net position:		
Net position at beginning of year, as previously reported		13,265,999
Restatements		-
Net position at beginning of year, as restated		<u>13,265,999</u>
Net position at end of year	\$	<u><u>14,868,240</u></u>

California State University San Marcos Corporation

Other Information

June 30, 2019

(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	3,019,933
	<u>\$ 3,019,933</u>

2.1 Composition of investments:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Money Market funds	\$ -	\$ -	\$ -
Repurchase agreements	-	-	-
Certificates of deposit	1,470,321	2,694,303	4,164,624
U.S. agency securities	-	-	-
U.S. treasury securities	-	-	-
Municipal bonds	-	-	-
Corporate bonds	-	-	-
Asset backed securities	-	-	-
Mortgage backed securities	-	-	-
Commercial paper	-	-	-
Mutual funds	11,160,880	-	11,160,880
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)			
Other investments	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-
State of California Surplus Money Investment Fund (SMIF)	-	-	-
Total investments	<u>12,631,201</u>	<u>2,694,303</u>	<u>15,325,504</u>
Less endowment investments	-	-	-
Total investments, net of endowments	<u>\$ 12,631,201</u>	<u>\$ 2,694,303</u>	<u>\$ 15,325,504</u>

See independent auditors' report.

California State University San Marcos Corporation
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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	4,164,624	-	4,164,624	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Commercial paper	-	-	-	-	-
Mutual funds	11,160,880	11,160,880	-	-	-
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)	-	-	-	-	-
Other investments	-	-	-	-	-
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
State of California Surplus Money Investment Fund (SMIF)	-	-	-	-	-
Total investments	\$15,325,504	11,160,880	4,164,624	-	-

**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
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(for inclusion in the California State University)

3.1 Composition of capital assets:

	Balance June 30, 2018	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2018 (Restated)	Additions	Retirements	Transfer of completed CWIP	Balance June 30, 2019
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Works of art and historical treasures	-	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	18,508,448	-	-	-	18,508,448	47,619,970	-	(1,078,666)	65,049,752
Intangible assets:									
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Intangible assets in progress (PWIP)	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets:									
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	18,508,448	-	-	-	18,508,448	47,619,970	-	(1,078,666)	65,049,752
Depreciable/Amortizable capital assets:									
Buildings and building improvements	31,063,847	-	-	-	31,063,847	200,867	-	562,611	31,827,325
Improvements, other than buildings	2,475,208	-	-	-	2,475,208	-	-	-	2,475,208
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	2,200,274	-	-	-	2,200,274	-	-	-	2,200,274
Personal property:									
Equipment	4,738,492	-	-	-	4,738,492	484,978	(1,133)	516,055	5,738,392
Library books and materials	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	-	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets:									
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total depreciable/amortizable capital assets	40,477,821	-	-	-	40,477,821	685,845	(1,133)	1,078,666	42,241,199
Total capital assets	58,986,269	-	-	-	58,986,269	48,305,815	(1,133)	-	107,290,951
Less accumulated depreciation/amortization:									
Buildings and building improvements	(10,532,296)	-	-	-	(10,532,296)	(742,417)	-	-	(11,274,713)
Improvements, other than buildings	(1,422,222)	-	-	-	(1,422,222)	(425,512)	-	-	(1,847,734)
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	(801,383)	-	-	-	(801,383)	(378,064)	-	-	(1,179,447)
Personal property:									
Equipment	(3,411,216)	-	-	-	(3,411,216)	(239,387)	1,133	-	(3,649,470)
Library books and materials	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	-	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights 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	(16,167,117)	-	-	-	(16,167,117)	(1,785,380)	1,133	-	(17,951,364)
Total capital assets, net	\$ 42,819,152	\$ -	\$ -	\$ -	42,819,152	\$ 46,520,435	\$ -	\$ -	\$ 89,339,587

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital assets	\$ 1,785,380
Amortization expense related to other assets	-
Total depreciation and amortization	\$ 1,785,380

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4 Long-term liabilities:

	Balance June 30, 2018	Adjustments/ Reclassifications	Balance June 30, 2018 (Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 485,919	\$ -	\$ 485,919	\$ 97,549	\$ (92,084)	\$ 491,384	\$ 491,384	\$ -
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations:								
Gross balance	18,755,635	-	18,755,635	-	(958,576)	17,797,059	999,628	16,797,431
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations	18,755,635	-	18,755,635	-	(958,576)	17,797,059	999,628	16,797,431
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	-	-	-	-	-	-	-	-
4.2 Commercial paper	-	-	-	-	-	-	-	-
4.3 Notes payable (SRB related)	14,900,000	-	14,900,000	54,185,000	(14,900,000)	54,185,000	850,000	53,335,000
4.4 Others:								
Note Payable	198,291	-	198,291	-	(20,306)	177,985	27,692	150,293
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
Total others	198,291	-	198,291	-	(20,306)	177,985	27,692	150,293
Sub-total long-term debt	15,098,291	-	15,098,291	54,185,000	(14,920,306)	54,362,985	877,692	53,485,293
4.5 Unamortized net bond premium/(discount)	-	-	-	9,405,904	(289,125)	9,116,779	-	9,116,779
Total long-term debt obligations	15,098,291	-	15,098,291	63,590,904	(15,209,431)	63,479,764	877,692	62,602,072
Total long-term liabilities	\$ 34,339,845	\$ -	\$ 34,339,845	\$ 63,688,453	\$ (16,260,091)	\$ 81,768,207	\$ 2,368,704	\$ 79,399,503

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:									
2020	999,628	674,997	1,674,625	-	-	-	999,628	674,997	1,674,625
2021	1,035,050	635,325	1,670,375	-	-	-	1,035,050	635,325	1,670,375
2022	1,079,790	594,085	1,673,875	-	-	-	1,079,790	594,085	1,673,875
2023	1,123,765	551,109	1,674,874	-	-	-	1,123,765	551,109	1,674,874
2024	1,166,947	506,428	1,673,375	-	-	-	1,166,947	506,428	1,673,375
2025 - 2029	6,431,816	1,802,809	8,234,625	-	-	-	6,431,816	1,802,809	8,234,625
2030 - 2034	5,960,063	476,062	6,436,125	-	-	-	5,960,063	476,062	6,436,125
2035 - 2039	-	-	-	-	-	-	-	-	-
2040 - 2044	-	-	-	-	-	-	-	-	-
2045 - 2049	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum lease payments	\$ 17,797,059	\$ 5,240,815	\$ 23,037,874	\$ -	\$ -	\$ -	\$ 17,797,059	\$ 5,240,815	\$ 23,037,874
Less: amounts representing interest									(5,240,815)
Present value of future minimum lease payments									17,797,059
Unamortized net premium/(discount)									-
Total capital lease obligations									17,797,059
Less: current portion									(999,628)
Capital lease obligations, net of current portion									\$ 16,797,431

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6 Long-term debt obligations schedule:

	Auxiliary revenue bonds (non-SRB related)			All other long-term debt obligations			Total long-term debt obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2020	-	-	-	877,692	2,653,599	3,531,291	877,692	2,653,599	3,531,291
2021	-	-	-	923,442	2,614,934	3,538,376	923,442	2,614,934	3,538,376
2022	-	-	-	964,235	2,570,078	3,534,313	964,235	2,570,078	3,534,313
2023	-	-	-	1,005,039	2,523,110	3,528,149	1,005,039	2,523,110	3,528,149
2024	-	-	-	1,060,865	2,473,700	3,534,565	1,060,865	2,473,700	3,534,565
2025 - 2029	-	-	-	5,986,712	11,538,609	17,525,321	5,986,712	11,538,609	17,525,321
2030 - 2034	-	-	-	7,620,000	9,881,521	17,501,521	7,620,000	9,881,521	17,501,521
2035 - 2039	-	-	-	9,755,000	7,752,362	17,507,362	9,755,000	7,752,362	17,507,362
2040 - 2044	-	-	-	12,480,000	5,020,457	17,500,457	12,480,000	5,020,457	17,500,457
2045 - 2049	-	-	-	13,690,000	1,775,159	15,465,159	13,690,000	1,775,159	15,465,159
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	\$ -	\$ -	\$ 54,362,985	\$ 48,803,529	\$ 103,166,514	\$ 54,362,985	\$ 48,803,529	\$ 103,166,514
Less: amounts representing interest									(48,803,529)
Present value of future minimum payments									54,362,985
Unamortized net premium/(discount)									9,116,779
Total long-term debt obligations									63,479,764
Less: current portion									(877,692)
Long-term debt obligations, net of current portion									<u>\$ 62,602,072</u>

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 1,106,047
Payments to University for other than salaries of University personnel	779,410
Payments received from University for services, space, and Gifts-in-kind to the University from discretely presented Gifts (cash or assets) to the University from discretely presented component units	3,722,156
Accounts (payable to) University	-
Other amounts (payable to) University	1,936,598
Accounts receivable from University	(1,370,068)
Other amounts receivable from University	(177,985)
	116,415
	8,828,729

California State University San Marcos Corporation
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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)
Transaction #1	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
Transaction #2	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-
	Enter transaction description	-

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	1,311,948	\$ 401,458	\$ -	\$ -	\$ -	1,446,676	\$ -	3,160,082
Research	4,241,732	982,652	-	-	-	3,337,436	-	8,561,820
Public service	31,878	2,912	-	-	-	9,558	-	44,348
Academic support	212,226	39,341	-	-	-	304,128	-	555,695
Student services	2,259,369	597,878	-	-	-	1,204,834	-	4,062,081
Institutional support	115,889	15,135	-	-	-	1,146,209	-	1,277,233
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	881,803	-	-	881,803
Auxiliary enterprise expenses	419,338	87,091	-	-	-	3,528,725	-	4,035,154
Depreciation and amortization	-	-	-	-	-	-	1,785,380	1,785,380
Total operating expenses	\$ 8,592,380	2,126,467	-	-	881,803	10,977,566	1,785,380	24,363,596

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(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:	
Add description	-
Add description	-
Add description	-
Add description	-
Add description	-
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)	170,826
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	\$ 170,826

**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, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Aldrich CPAs + Advisors LLP

San Diego, California
September 26, 2019

**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, 2019. 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, 2019.

Report on Internal Control over Compliance

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

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

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

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

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

Aldrich CPAs + Advisors LLP

San Diego, California
September 26, 2019

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster:			
Department of Homeland Security			
<i>Direct Programs</i>			
Hazard Mitigation Grant	97.039	N/A	\$ 506,315
Total Department of Homeland Security			<u>506,315</u>
United States Environmental Protection Agency			
<i>Pass-through from State Water Resources Control Board</i>			
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	98910016	198,310
Total United States Environmental Protection Agency			<u>198,310</u>
Department of Defense			
<i>Direct Programs</i>			
Basic and Applied Scientific Research	12.300	N/A	1,003,166
Basic, Applied, and Advanced Research in Science and Engineering	12.630	N/A	225,085
Total Department of Defense			<u>1,228,251</u>
Department of the Interior			
<i>Direct Programs</i>			
Endangered Species Conservation – Recovery Implementation Funds	15.657	N/A	36,372
Total Department of the Interior			<u>36,372</u>
Department of Education			
<i>Direct Programs</i>			
Higher Education Institutional Aid	84.031	N/A	2,173,352
<i>Pass-through from Palomar College</i>			
Higher Education Institutional Aid	84.031	PO31S160113	160,464
Total Department of Education			<u>2,333,816</u>
Department of Health and Human Services			
<i>Direct Programs</i>			
Family and Community Violence Prevention Program	93.910	N/A	434,330
Biomedical Research and Research Training	93.859	N/A	1,774,831
Mental Health Research Grants	93.242	N/A	355,435
Health Professions Recruitment Program for Indians	93.970	N/A	286,112
<i>Pass-through from Vista Community Clinic</i>			
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0105-01-00	17,977
<i>Pass-through from University of California San Diego</i>			
Family Smoking Prevention and Tobacco Control Act	93.077	5R01CA130347-03	45,178
<i>Pass-through from Vista Community Clinic</i>			
Nurse Education, Practice and Retention Grants	93.359	UD7HP26899	114
<i>Pass-through from Indian Health Council Inc.</i>			
Nurse Education, Practice and Retention Grants	93.859	1S06GM128073	33,167
Total Department of Health and Human Services			<u>2,947,144</u>
Department of Agriculture			
<i>Direct Programs</i>			
Agriculture and Food Research Initiative	10.310	N/A	44,174
Cooperative Forestry Assistance	10.664	N/A	11,270
Partnership Agreements	10.699	N/A	167,797
<i>Pass-through from California State University Chico Research Foundation</i>			
Unknown	99.999	14-CS-11052009-027	47,835
Total Department of Agriculture			<u>271,076</u>

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Research and Development Cluster, continued:			
National Aeronautical and Space Administration			
<i>Direct Programs</i>			
Science	43.001	N/A	6,524
Total National Aeronautical and Space Administration			6,524
Corporation for National and Community Service			
<i>Direct Programs</i>			
National Service and Civic Engagement Research Competition	94.026	N/A	261,493
Total Corporation for National and Community Service			261,493
National Science Foundation			
<i>Direct Programs</i>			
Biological Sciences	47.074	N/A	413,786
Education and Human Resources	47.076	N/A	1,948,169
Social, Behavioral, and Economic Sciences	47.075	N/A	148,606
Mathematical and Physical Sciences	47.049	N/A	88,467
<i>Pass-through from University of California Office of the President</i>			
Education and Human Resources	47.076	1626624	19,451
<i>Pass-through from Research Foundation for SUNY/Buffalo State</i>			
Education and Human Resources	47.076	1347681	5,000
<i>Pass-through from University Enterprises, Inc.</i>			
Education and Human Resources	47.076	1826490	12,070
Total National Science Foundation			2,635,549
Total Research and Development Cluster			10,424,850
SNAP Cluster:			
Department of Agriculture			
<i>Direct Programs</i>			
Supplemental Nutrition Assistance Program	10.561	N/A	3,713
Total Department of Education			3,713
Total SNAP Cluster			3,713
TRIO Cluster:			
Department of Education			
<i>Direct Programs</i>			
Student Support Services	84.042	N/A	321,622
Talent Search	84.044	N/A	237,656
Upward Bound	84.047	N/A	265,288
McNair Postbaccalaureate Achievement Program	84.217	N/A	237,356
Total Department of Education			1,061,922
Total TRIO Cluster			1,061,922
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

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
Other Programs, continued:			
Department of State			
<i>Pass-through from World Learning, Inc.</i>			
Charles B. Rangel International Affairs Program	19.020	SIZ-100-16-CA-008	54,026
<i>Pass-through from Partners of the Americas</i>			
Public Diplomacy Programs	19.040	SPE5001GF032	10,573
Total Department of Commerce			64,599
Department of Education			
<i>Direct Programs</i>			
English Language Acquisition State Grants	84.365	N/A	459,794
Migrant Education College Assistance Migrant Program	84.149	N/A	464,750
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	N/A	262,215
<i>Pass-through from University of California Office of the President</i>			
Improving Teacher Quality State Grants	84.367	S367A170005	33,086
<i>Pass-through from University of California Irvine</i>			
Investing in Innovation (i3) Fund	84.411	U411B1300029	259,673
Total Department of Education			1,479,518
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	564,999
Total Department of Health and Human Services			564,999
Total Other Programs			2,110,841
Total Expenditures of Federal Awards			\$ 13,601,326

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Notes to Schedule of Expenditure of Federal Awards
Year Ended June 30, 2019

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.

Note 3 – Amounts Provided to Subrecipients

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

Education and Human Resources CFDA 47.076

Tennessee Technologic University	\$ 82,674
University of Maryland	35,844
West Virginia University Research Corp.	25,210
Arizona State University	63,492
Horizon Research Inc	45,794
San Diego State University	135,704
San Diego State University	28,350
Total Education and Human Resources CFDA 47.076	<u>417,068</u>

Department of Homeland Security CFDA 97.039

International Association of Fire Fighters	34,780
Total Department of Homeland Security CFDA 97.039	<u>34,780</u>

Biomedical Research and Research Training CFDA 93.859

University of Kansas Medical Center	15,125
Palomar College	15,781
MiraCosta College	15,781
Total Biomedical Research and Research Training CFDA 93.859	<u>46,687</u>

Department of Homeland Security CFDA 47.074

Temple University	30,844
Total Department of Homeland Security CFDA 47.074	<u>30,844</u>

Family and Community Violence Prevention Program CFDA 93.910

North County Health Services	18,512
Total Family and Community Violence Prevention Program CFDA 93.910	<u>18,512</u>

Total amounts provided to subrecipients	<u><u>\$ 547,890</u></u>
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CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Type of auditors' report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR Section 200.516(a)?	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Development Cluster
Various	Trio Cluster
93.658	Foster Care Title IV-E

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

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

CALIFORNIA STATE UNIVERSITY SAN MARCOS CORPORATION
Schedule of Prior Year Audit Findings
Year Ended June 30, 2019

Section IV – Schedule of Prior Year Findings

None reported.