UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

Dr. Ann Bersi, Chair
Nevada State Tax Commission

Mr. Matthew J. Ceppi
President's Designee
Cal State San Marcos

Mr. David Chang
Hampton Inn San Diego/
San Marcos

Mr. Tres Conrique
Rancho Santa Fe Technology

Dr. Linda L. Hawk
Cal State San Marcos

Mr. Brandon Losey
Student Member

Dr. Graham Oberem
Cal State San Marcos

Ms. Susan Schnepf
Attorney at Law

Dr. Camille P. Schuster
Faculty Member

Dr. Sharon Whitehurst-Payne
Community Member

Dr. Ernest E. Zomalt, Vice Chair
Community Member

# Regular Meeting of the Board of Directors

**November 14, 2013 - 3:00 p.m. – 4:00 p.m.**
**Hampton Inn San Marcos, 123 E. Carmel Street, San Marcos, CA**

## AGENDA

I. **Convening of the Regular Board Meeting**
   A. Consideration of Minutes September 5, 2013 Annual Meeting **(Attachment A)**
   B. Consideration of Minutes September 5, 2013 Regular Meeting **(Attachment B)**

II. **University Update and Reports**
   A. Finance & Operations Committee *(Bersi)*
   B. Joint Audit Committee *(Chang)*
   C. Nominating & Governance Committee (Zomalt)
   D. Administration
      i. Administration Update *(Knoblock)*
      ii. UARSC Audits Update *(Svatora & Hinojosa)*
   E. University Update (*Ceppi*)

III. **Action Items**
   A. Quarterly Financial Report 09/30/13 *(Svatora)* **(Attachment C)**
   B. Financial Audit Report & A 1-33 Compliance Report 06/30/13 *(Svatora)* **(Attachment D)**
   C. Revision to Signature Page of Delegation of Authority Policy *(Knoblock)* **(Attachment E)**
   D. New Board Member Nominations *(Zomalt)* **(Attachment F)**
   E. Proposed Revision to Committee Membership 2013/2014 *(Knoblock)* **(Attachment G)**

IV. **Adjournment of Regular Meeting**
   Next Meeting: February 27, 2014, 4:00 p.m., Center for Children & Families Classroom (back to normal meeting location and time)

# ATTACHMENT A

Minutes of the September 5, 2013 Annual Meeting

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

# Annual Meeting of the Board of Directors
## September 5, 2013
Center for Children and Families Classroom

**Attendees:**

Members: Ann Bersi (Chair), Matthew J. Ceppi, David Chang, Linda Hawk, Graham Oberem, Susan Schnepf, Camille Schuster, Ernest Zomalt (Vice Chair)

Absent: Tres Conrique, Brandon Losey

Guests: Chuck De Leone, Professor of Physics, Kent Gibson, Finance & Administrative Services Consultant and Sharon Whitehurst-Payne, Board Member Nominee

**Convening of the Annual Meeting**

A quorum being present, Chair Bersi called the meeting to order at 4:07 p.m. She welcomed everyone and introduced Kent Gibson, Finance & Administrative Services Consultant, Dr. Sharon Whitehurst-Payne, former Board member and Board member nominee, and Dr. Chuck De Leone, Professor of Physics, CSUSM.

**Membership Update**

Chair Bersi turned the meeting over to Zomalt, Vice Chair of the Nominating and Governance Committee for the Membership Update. Zomalt reported on the changes to Board membership since the last meeting: Powell resigned his community member term ending 9/14 due to a move out of state. Moss resigned her community member term ended 9/14 due to her increased faculty workload this term. Green resigned his Alumni member term that ended today due to his increased responsibilities at his place of employment. UARSC is presently recruiting for the alumni member seat.

**Board Member Nominations**

Zomalt reported that the Nominating and Governance Committee met and moved forward for approval the nominations for new appointments and reappointments as presented: Reappointment, Brandon Losey, partial 1-year student member term ending 12/19/13; Reappointment, Susan Schnepf, 3-year community member term ending September 2016; New Appointment, Sharon Whitehurst-Payne, 3-year community member term ending September 2016. A background and bio was provided for Whitehurst-Payne.

Zomalt asked if there were any objections to approving the proposed nominations as a slate. There were none. *A motion comes moved and seconded from the Nominating*

*and Governance Committee to approve the proposed nominations for 13/14 as presented. Motion carried.* An updated membership roster was provided. Whitehurst-Payne was welcomed to the Board and will begin her membership role at the regular meeting that follows.

**Board Officer Nominations 13/14**

Zomalt reported that the Nominating and Governance Committee met and moved forward for approval the board officer nominations for 13/14 as presented: Ann Bersi as Chairperson, Ernie Zomalt as Vice Chairperson, Dora Knoblock as Secretary and Greg Svatora as Treasurer. *A motion comes moved and seconded from the Nominating and Governance Committee to approve the Board Officer Nominations for 13/14 as presented. Motion carried.*

**Ratification of Joint Audit Committee Membership 12/13**

Zomalt reported that due to the resignation of Green from the Board, this created a vacancy on the Joint Audit Committee. UARSC holds two seats on this committee and the other seat was already vacant. The Joint Audit Committee needed to meet and hold its pre-audit meeting prior to the Annual Meeting today. The Nominating and Governance Committee discussed this issue at its August 13, 2013 meeting. *A motion comes moved and seconded to appoint Chang and Losey to the Joint Audit Committee as of August 13, 2013 and recommend that the Board ratify this change to the 12/13 Committee Membership. Motion carried.*

**Proposed Committee Membership 13/14**

*Schuster arrived.* Zomalt reported that the Nominating and Governance Committee met and moved forward for approval the proposed Committee Membership for 13/14 as presented. *A motion comes moved and seconded from the Nominating and Governance Committee to approve the committee memberships for 13/14 as presented. Motion carried.*

**Adjournment**

*The Annual Meeting adjourned by acclamation at 4:15 p.m.* A regular Board meeting will follow.

*Respectfully submitted,*
*Sarah Derho*

*I, Dora Knoblock, Secretary, hereby certify that the above Minutes were approved by the University Auxiliary and Research Services Corporation Board of Directors at a regular meeting held on November 14, 2013, at San Marcos, California.*

_____ _____

Secretary Date

# ATTACHMENT B

Minutes of the September 5, 2013 Regular Meeting

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

# Minutes of the Regular Meeting of the Board of Directors
## September 5, 2013
Center for Children and Families Classroom

**Attendees:**

| | |
|---|---|
| Members: | Ann Bersi (Chair), Matthew J. Ceppi, David Chang, Linda Hawk, Graham Oberem, Susan Schnepf, Camille Schuster, Sharon Whitehurst-Payne, Ernest Zomalt (Vice Chair) |
| Absent: | Tres Conrique, Brandon Losey |
| Staff: | Sarah Derho, Michelle Hinojosa, Grant Hubbard, Tipper Phillips, Dora Knoblock, Greg Svatora |
| Guests: | Chuck De Leone, Professor of Physics and Kent Gibson, Finance & Administrative Services Consultant |

**Convening of the Regular Meeting**
A quorum being present, Chair Bersi called the meeting to order at 4:15 p.m. Having followed the Annual Meeting, Bersi had already provided welcome and introductions to Kent Gibson, Finance & Administrative Services Consultant, Sharon Whitehurst-Payne, former Board member and Board member nominee, and Chuck De Leone, Professor of Physics, CSUSM.

**Changes to Agenda**
Agenda Item IX, Campus Partner Presentation by PepsiCo was removed.

**Minutes of the May 23, 2013 Regular Meeting**
*A motion was made and seconded (Zomalt/Schnepf) to approve the May 23, 2013 regular meeting minutes. Motion carried.*

**Minutes of the June 26, 2013 Special Meeting**
*A motion was made and seconded (Oberem/Zomalt) to approve the June 26, 2013 special meeting minutes. Motion carried.*

**Special Guest Presentation**
Dr. Chuck De Leone, Professor of Physics in the College of Science and Mathematics provided a presentation to the Board on the Impact of the STEP project, facilitated through the Office of Sponsored Projects. Dr. De Leone also currently serves as the non-UARSC Board member faculty representative on the Sponsored Projects Committee.

**University Update, Administration and Committee Reports**
Finance and Operations Committee

Bersi reported. The Finance & Operations Committee met on August 27th and received updates on healthcare, benefits, audits and administration. The Committee reviewed the quarterly financials, compensation administration guidelines and a revision to the Operating Agreement which will all be considered for action later in the meeting.

Joint Audit Committee

Chang reported. The Joint Audit Committee of the four CSUSM auxiliaries (UARSC, Foundation, UCorp and ASI) met on August 13th. Chang reported on the upcoming reorganization of the Committee composition. The Foundation and UCorp are in the process of establishing and staffing their own separate audit committees. Once that process is completed, the Joint Audit Committee reorganization to include only the UARSC and ASI auxiliaries will become effective. The soft timeline is January 2014 for this change. Until the reorganization, the Committee consisting of all four auxiliaries will move forward with business as usual to include pre-audit discussions and review of the draft audit reports and 990 Information Returns. Chang reported that the Committee also took action to revise the current Committee charge including all four auxiliaries and the future Committee charge to include UARSC and ASI which will come before the Board for consideration later in the meeting. The major changes to the charges included clarifications on audit committee membership and the addition that staff members are now permitted to attend the meetings with time provided at the end of each meeting for the Committee to converse separately with the auditors without the presence of staff. The auditors, McGladrey & Pullen, also presented their annual pre-audit presentation to the Committee. Chang reported that staff was excused and the JAC meeting ended with a discussion between the auditors and Committee members.

Zomalt inquired and there was discussion regarding the contract term with the current auditors and future plans for an RFP for audit services.

Administration Update

Knoblock reported. UARSC continues to successfully adapt to the restructuring and consolidation of UARSC business practices with our State-side colleagues which began in fall 2012 and shared some highlights. The electronic signature project for checks has been accomplished. The Peoplesoft conversion project is in full swing and on schedule for implementation for July 1, 2014. UARSC and State employees continue to meet often to assist in learning auxiliary business operations.

Due to time restraints of this meeting, the Campus Partners update included just Follett and Sodexo and the other updates will be provided in November.

Follett is starting into its second year doing exceptionally well. Rent eligible titles have increased to 51% and 294 digital titles are available this semester. Their new "Rent Fearlessly" campaign allows students to highlight and write in the books they rent. Ecommerce sales are up 10.89% this month and 14.81% for the year. A challenge Follett is facing is that online sales still require limited shelf space. Follett is increasing its campus outreach, participating in new student orientations, ASI Board meetings, and invitations for future Academic Senate and Student Life and Leadership meetings.

Follett has enhanced their concession services to Athletics and attend most on-campus games. They are also working with Athletics on a new design for athletic polos. Knoblock reported that she has received approval from VP Hawk for she and Kent Gibson to begin very preliminary discussions with Follett Corporate regarding repurposing the Dome dining space once the new USU comes on board. This has sparked discussions about new services that Follett could provide for students such as a technology area to include tablets, notebooks and possibly Apple products, a small c-store, clothing and gift product expansion and additional needed space for online purchases. Knoblock and Gibson will facilitate a proposal to bring forward to VP Hawk. A big highlight for Follett was the installation of a vending machine that includes scantrons, blue books, flash drives available 24/7. It is such a hit, that a second machine has been requested to be installed near the new USU.

Sodexo just completed its first year as dining and catering service provider. Thirty plus new students were hired for fall in the Bistro, C-store, Catering and Starbucks. Meal plan dollars sold from June 2013 to present is up to $65,000. The Starbucks agreement was renewed for another decade and a new coordination agreement between UARSC/Starbucks/Sodexo has been signed allowing Sodexo to operate and manage it. Starbucks is doing exceptionally well and sales are up 14%. The Starbucks corporate team has asked if they may use our campus Starbucks store as a model for their other university accounts. Starbucks business development team members came on campus this week to provide new ideas, options and solutions for enhancing sales and building the business. One challenge for UARSC will be that our Starbucks has not been refreshed since its opening which is a requirement of the contract. The current estimate for renovations is $75,000 to $100,000. Starbucks has agreed to delay the renovation project until next year in light of the equipment and utilities expenses UARSC will incur to move to the new USU. Knoblock reported that she just signed the Notice to Proceed to commence work on the new USU for the food concepts. Sodexo has hired a General Contractor to lead the construction of the new food concepts, new c-store and new café. Knoblock attends weekly coordination construction meetings and Sodexo is on schedule with timeline for completion and also attends all the coordination meetings. Knoblock also reported that Sodexo VP for Operations and Regional Manager had the opportunity to meet with President Haynes and share with each other levels of expectations. Ceppi added that local Sport Chalet has just been approved to begin carrying CSUSM Athletics products. Gibson suggested that Sodexo be approached for financial assistance with the Starbucks renovations needs.

Knoblock reported that the fuel cell project is moving along nicely. Agreements have all been signed, the design phase is in full swing and most recently the funding from the Self-Generation Incentive Program (SGIP) has been confirmed. An engineering and geotechnical study have been completed. Knoblock reported that an alternate proposal has been presented to the Ed Johnson, the Director of Sustainability and Utility Services and he will be invited to a future meeting to provide more information and an update on the current project. Zomalt inquired as to UARSC's participation as a conduit only for the fuel cell projects and suggested that the alternative proposal need not be brought

forward to the Board. The fuel cell alternative proposal will be provided as an information item only.

Conflict of Interest Acknowledgments

A hard copy of the annual conflict of interest acknowledgment statement was provided to each Board member and Knoblock asked that they please sign and return the form today.

Healthcare and Benefits Update

Hinojosa reported on healthcare and benefits updates for UARSC. She gave an overview on the new Healthcare Reform Act and changes to the Defense of Marriage Act (DOMA) and reported on UARSC's steps to be in compliance with all regulations. UARSC will review all employee classifications and how it categorizes independent contractors in addition to updating payroll processes and the Employee Handbook.

UARSC's broker Wells Fargo just this week negotiated another fee increase pass this year for our dental, a savings of 6% and will also provide a comparison with another dental plan. UARSC will continue to offer six medical insurance options through CalPers. There are both increase and decreases in rates for these six plans. Based on current employee participation in the plans, there is an anticipated overall 1% decrease in medical costs to UARSC this year. The Vision Plan increase to UARSC is 2% and represents regulations passed through the Affordable Care Act, the costs of which are being passed to the employers and represents the entire increase.

UARSC Audits Update

Svatora provided updates on all the recently completed and current ongoing audits at UARSC: The recently completed Chancellor's Office 3-year Audit, findings and responses, the annual Financial Audit by McGladrey & Pullen of the four auxiliaries, the annual A-133 Compliance audit on grants and contracts, a new Centers & Institute Audit by the Chancellor's Office to include Center Artes, the National Latino Research Center and the California Indian Culture and Sovereignty Center for which UARSC provides accounting and administrative support, and a new audit on the year-old Institute for Palliative Care by the California Healthcare Foundation which provided the start-up funds. Hinojosa reported on first-time EDD Audit on UARSC which is currently in process.

University Update

Ceppi reported. CSUSM has over 12,000 students attending this semester. He shared the results of President Haynes' triennial review and will provide the Board with the Open Letter from Chancellor White. CSUSM will continue to see 5% growth through 16/17 based on State funding and how the CSU looks at CSUSM strategically. Native American enrollment has doubled and Veteran enrollment is strong. Ceppi reported that CSUSM's yield is up for the local service area as well as the area to include Orange County, Riverside, San Diego and Imperial Regions, as CSUSM is becoming more of a first-choice institution. He reported that with the addition of the Quad, 1,200 students now live on campus now versus 400 in 2004 when student housing first opened. A

groundbreaking for a new Veterans Center will take place in November with an anticipated early spring opening. The groundbreaking for the new Student Health Center took place and he reported on plans to expand the Clarke Field House to include a new gym seating 1500-2000 people and locker rooms. Ceppi shared that Chancellor White plans to visit CSUSM on October 24th. Ceppi shared information regarding expectations/timelines for campus growth, the Master Plan, and construction priorities in response to questions.

**Action Items**

Quarterly Financial Report 06/30/13

Svatora reviewed the quarterly financial report ended 06/30/13 and the summary provided. UARSC's net operating revenues for fiscal year 12/13 came in at ($260,000) versus the budgeted $8,000. He reported that food services revenues fell below budget due to the delayed Sodexo transition and recently revised negotiations for delayed commissions until 2019. UARSC will also now be responsible to provide utilities for food services for the new USU of approximately $40,000 annually without the commission revenue offset. He reported on investment income outcomes and strategies and the flat grants activity due to the slow down in federal funding. The Follett bookstore generated commissions of $385,000, higher than expectations. Gibson added that our Follett store is doing extremely well compared to campuses of similar size. Svatora reported on below-budget campus program activity due to moving the American and Language Culture Institute state-side. Additional unexpected administrative expenses were also incurred as a result of increased audit fees and organizational transition costs this past year. *A motion comes moved and seconded from the Finance and Operations Committee to approve the Quarterly Financial Report ended 06/30/13 as presented. Motion carried.*

Proposed 13/14 Compensation Administration Guidelines

Hinojosa reviewed the proposed 13/14 Compensation Administration Guidelines and answered questions. No changes are recommended from last year and Hinojosa reviewed that UARSC has recommended no increases for regular non-sponsored projects staff for the past four years. Sponsored projects staff have been eligible with some restrictions and any increases are performance-based and must fall within the project budget. *A motion comes moved and seconded from the Finance and Operations Committee to approve the 13/14 Compensation Administration Guidelines as presented. Motion carried.*

Ratification of UARSC Operating Revision

Knoblock reported that the UARSC Operating Agreement with the campus expired on June 30, 2013 and was renewed through 2018. The only revisions to the agreement were related to the format/template received from the Chancellor's Office. All activities and functions of the auxiliaries remain the same. *A motion comes moved and seconded from the Finance and Operations Committee to ratify the executed UARSC Operating Agreement revision effective July 1, 2013 to June 30, 2018. Motion carried.*

Revision to current Joint Audit Committee Charge

Svatora reviewed the revision to the current Joint Audit Committee Charge of the four auxiliaries. The major revisions include clarifications to audit committee membership, that staff are now permitted to attend committee meetings, and that a time will be set aside at the end of each meeting for the Committee to converse separately with the auditors without the presence of staff. *A motion comes moved and seconded from the Joint Audit Committee to approve the revision to the current Joint Audit Committee charge of the four auxiliaries as presented. Motion carried.*

Revision to new Joint Audit Committee Charge – UARSC & ASI Only

Svatora stated that the Joint Audit Committee Charge for UARSC & ASI only is basically the same as the version just approved to the current charge. The minor revisions have to do with composition of the committee membership due to the removal of the Foundation and UCorp auxiliaries. This new JAC Charge for UARSC and ASI only will become effective when the Foundation and UCorp establish and staff their separate audit committees, timeline expected beginning of 2014. The current charge of all four auxiliaries will remain in effect until then. *A motion comes moved and seconded from the Joint Audit Committee to approve the revision to the Joint Audit Committee charge to include UARSC and ASI auxiliaries only, effective date to be determined, as presented. Motion carried.*

Closed Session

At 5:25 p.m., *a motion was made and seconded (Whitehurst-Payne/Zomalt) to move to Closed Session. Motion carried.* The purpose of the closed session is to review the results of the UARSC organizational assessment study conducted by Finance and Administrative Services consultant, Kent Gibson. All UARSC staff members in attendance were excused by Chair Bersi.

Reconvening of Regular Board Meeting

At 6:25 p.m. Bersi reconvened the regular Board meeting and a motion was immediately made to adjourn.

**Adjournment**

*The meeting adjourned by acclamation at 6:25 p.m.*

*Respectfully submitted,*
*Sarah Derho*

*I, Dora Knoblock, Secretary, hereby certify that the above Minutes were approved by the University Auxiliary and Research Services Corporation Board of Directors at a regular meeting held on November 14, 2013, at San Marcos, California.*

_____ _____

Secretary Date

# ATTACHMENT C

Quarterly Financial Report 09/30/13

University Auxiliary and Research Services Corporation

Summary of 9/30/13 Financial Statements

**Statement of Financial Position (pg 1) and Net Asset Summary (pg 2)**

- Assets: Total assets at 9/30/13 were $20,425,554, up approximately $1.0 million from the 6/30/13 final audited balance of $19,374,853. Most of the increase was due to the increase in cash of $1.1 million primarily due to the increase of cash reimbursements on Sponsored Program activities and an increase in Campus Program balances. There was also an increase of cash held on behalf of CSUSM Foundation during the quarter of about $286k to end the quarter at $7,814,146.

- Liabilities: Total liabilities at 9/30/13 increased slightly to approximately $11.6 million vs. the balance of $11.0 million at 6/30/13. Most of the increase related to amount due the Foundation at 9/30/13 vs. 6/30/13 of $286k.

- Net Assets: Page 2 of the financial statements provides a breakout of the Net Assets shown on Page 1, the Statement of Financial Position. The Working Capital Operating Reserve decreased by $146k due to $75k being allocated to the Presidents FY 13/14 Campus and Community Relations funding and $72k being allocated to the Post Retiree Benefit accrual. Campus Program balances increase by approximately $431k and Current Year Net Asset activity increased by $124k.

**Program Revenue Activity Summary (pg 3)**

- Total Grants and Contracts activity through the quarter ending 9/30/13 was approximately $1.9 million vs. a budgeted amount of $1.8 million.

- Campus and Designated Programs gross revenue activity through the quarter ending 9/30/13 was approximately $380k vs. a budgeted amount of $604k.

- The Bookstore and Food Service Operations: Follett Higher Education Group, the bookstore operator, paid net commissions to UARSC of $184k for the quarter ending 9/30/13, slightly less than the $188k received during the prior year quarter ending 9/30/12.

Sodexo, the food service operator, is beginning to apply their $1.4 commitment to food service operations in the new Student Union Building scheduled to open during the spring, 2014 semester.

**Net Operating Revenue Summary (pg 4)**

- Net administrative fee recovery from Grants and Contracts generated net indirect recovery revenues of $325k for the quarter ending 9/30/13, which was above budget of $290k. The annual amount of indirect sharing to the campus was accrued at $100k for the quarter.

- Campus Program and Business Service Fee Revenues. Campus Program admin fee revenue was $38k for the quarter 9/30/13 vs. budgeted amount of $30k. The Business Service Fee for CSUSM Foundation was accrued at $37,500 for the quarter.

- Bookstore Net Revenue. Commissions of bookstore net revenues were at budget of $183k.

- Investment Income came in at slightly above budget for the quarter at $12k.

- UARSC Operations through Sept 30, 2013 was $419k vs. $386k budget. UARSC is working with the campus to determine the appropriate chargeback amounts for accounting services provided by state-funded sources.

- Net Operating Revenues through the quarter ending 9/30/13 was $124k vs. a budgeted amount of $86k and is shown on the Statement of Financial Position and Net Asset Summary.

# UARSC
# Statement of Financial Position
# September 30, 2013

| | Balance 9/30/13 | Balance 6/30/13 | Fiscal Year Increase/ (Decrease) |
|---|---|---|---|
| **Assets** | | | |
| Cash and Short-Term Investments-(UARSC) | $ 5,576,226 | $ 4,410,962 | $ 1,165,264 |
| Cash and Short-Term Investments-(CSUSMF) | 7,814,146 | 7,527,922 | 286,224 |
| Accts Receivable-Sponsored Programs | 627,404 | 985,878 | (358,474) |
| Other Receivables | 278,563 | 313,793 | (35,230) |
| Notes Receivables | 250,000 | 250,000 | - |
| Other Assets | 202,355 | 105,739 | 96,616 |
| CCF-Bldg & Fixtures (Net) | 5,466,240 | 5,557,281 | (91,041) |
| Property & Equipment (Net) | 210,619 | 223,278 | (12,659) |
| **Total Assets** | **$ 20,425,554** | **$ 19,374,853** | **$ 1,050,701** |
| **Liabilities & Net Assets** | | | |
| **Liabilities:** | | | |
| Accounts Payable and Accrued Expenses | $ 1,749,779 | $ 1,574,671 | $ 175,108 |
| Due to CSUSMF - Cash and Short-Term Invest's | 7,814,146 | 7,527,922 | 286,224 |
| Deferred Revenue | 463,009 | 418,104 | 44,905 |
| Post-Retiree Health Benefit Accrual | 1,555,885 | 1,483,436 | 72,449 |
| **Total Liabilities** | **$ 11,582,819** | **$ 11,004,133** | **$ 578,686** |
| **Net Assets:** | | | |
| Unrestricted: | | | |
| Operating Reserves | $ 941,564 | $ 1,111,945 | $ (170,381) |
| Designated Programs | 648,218 | 457,841 | 190,377 |
| Campus Programs | 1,452,004 | 1,020,375 | 431,628 |
| Current Year Net Asset Activity | 124,089 | - | 124,089 |
| CCF-Bldg & Fixtures | 5,466,240 | 5,557,281 | (91,041) |
| Equipment | 210,619 | 223,278 | (12,659) |
| **Total Unrestricted Net Assets** | **$ 8,842,735** | **$ 8,370,720** | **$ 472,014** |
| Temporarily Restricted | - | - | - |
| Permanently Restricted | - | - | - |
| **Total Net Assets** | **$ 8,842,735** | **$ 8,370,720** | **$ 472,014** |
| **Total Liabilities & Net Assets** | **$ 20,425,554** | **$ 19,374,853** | **$ 1,050,700** |

# UARSC
## Net Asset Summary Detail
### September 30, 2013

| Unrestricted Net Assets | Balance 9/30/13 | Balance 6/30/13 | Fiscal Year Increase/ (Decrease) |
|---|---|---|---|
| **Operating Reserves** | | | |
| Audit Disallowance | $ 350,000 | $ 350,000 | $ - |
| Commercial Operations | 200,000 | 200,000 | - |
| Working Capital | 59,147 | 206,017 | (146,870) |
| Capital Development | 332,417 | 355,928 | (23,511) |
| **Total Operating Reserves** | **$ 941,564** | **$ 1,111,945** | **$ (170,381)** |
| **Designated Programs** | | | |
| Inventories-Food Service | - | - | - |
| Other DesignatedPrograms | 648,218 | 457,841 | 190,377 |
| **Total Designated Programs** | **$ 648,218** | **$ 457,841** | **$ 190,377** |
| **Campus Programs** | 1,452,004 | 1,020,375 | 431,629 |
| **CCF Bldg & Fixtures** | 5,466,240 | 5,557,281 | (91,041) |
| **Equipment** | 210,619 | 223,278 | (12,659) |
| **Current Year Net Asset Activity** | 124,089 | - | 124,089 |
| **Total Other Net Assets** | **$ 7,252,953** | **$ 6,800,934** | **$ 452,019** |
| **TOTAL UNRESTRICTED NET ASSETS** | **$ 8,842,735** | **$ 8,370,720** | **$ 472,015** |

# UARSC
# Program Revenue Activity Summary
## 7/1/13 to 9/30/13

| Program Activity | Annual Budget FY 13/14 | Quarter 1 7/1/13 - 9/30/13 Budget | Quarter 1 7/1/13 - 9/30/13 Actual | Quarter 1 7/1/13 - 9/30/13 Variance | Fiscal Year To Date 7/1/13 - 9/30/13 Budget | Fiscal Year To Date 7/1/13 - 9/30/13 Actual | Fiscal Year To Date 7/1/13 - 9/30/13 Variance | Comparison of Prior FYTD Actual to Current FYTD Actual: Prior FYTD 9/30/2012 | Current FYTD 9/30/2013 | % Inc. (Dec.) | % of Prior Year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Grants/Contracts*** | | | | | | | | | | | |
| Federal | $ 6,034,000 | $ 1,508,500 | $ 1,843,614 | $ 335,114 | $ 1,508,500 | $ 1,843,614 | $ 335,114 | $ 1,518,783 | $ 1,843,614 | *21%* | *121%* |
| State/Private/Other | 1,130,000 | 282,500 | 70,804 | (211,696) | 282,500 | 70,804 | (211,696) | 530,639 | 70,804 | *-87%* | *13%* |
| **Total Grants/Contracts** | $ 7,164,000 | $ 1,791,000 | $ 1,914,418 | $ 123,418 | $ 1,791,000 | $ 1,914,418 | $ 123,418 | $ 2,049,422 | $ 1,914,418 | *-7%* | *93%* |
| ***Campus/Designated Programs*** | $ 2,415,000 | $ 603,750 | $ 379,096 | $ (224,654) | $ 603,750 | $ 379,096 | $ (224,654) | $ 1,375,708 | $ 379,096 | *-72%* | *28%* |
| **Total Program Revenues** | $ 9,579,000 | $ 2,394,750 | $ 2,293,514 | $ (101,236) | $ 2,394,750 | $ 2,293,514 | $ (101,236) | $ 3,425,130 | $ 2,293,514 | *-33%* | *67%* |

# UARSC
## Net Operating Revenue Summary
### 7/1/13 - 9/30/13

| Revenue | Annual Budget FY 13/14 | Quarter 1 7/1/13 - 9/30/13 Budget | Quarter 1 7/1/13 - 9/30/13 Actual | Quarter 1 7/1/13 - 9/30/13 Variance | Fiscal Year To Date 7/1/13 - 9/30/13 Budget | Fiscal Year To Date 7/1/13 - 9/30/13 Actual | Fiscal Year To Date 7/1/13 - 9/30/13 Variance | Comparison of Prior FYTD Actual to Current FYTD Actual: Prior FYTD 9/30/12 | Current FYTD 9/30/13 | % Change | % of Prior Yr Balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant/Contract Admin Fees | $ 1,160,000 | $ 290,000 | $ 325,007 | $ 35,007 | $ 290,000 | $ 325,007 | $ 35,007 | $ 339,484 | $ 325,007 | -4% | 96% |
| Less: Unallowance Reserve | - | - | - | - | - | - | - | | - | 0% | 0% |
| Less: University Sharing | (402,000) | (100,500) | (100,500) | - | (100,500) | (100,500) | - | (99,000) | (100,500) | 2% | 102% |
| Net Grant/Contract Admin Fees | $ 758,000 | $ 189,500 | $ 224,507 | $ 35,007 | $ 189,500 | $ 224,507 | $ 35,007 | $ 240,484 | $ 224,507 | -7% | 93% |
| Admin Fees - Campus Programs | 120,000 | 30,000 | 38,116 | 8,116 | 30,000 | 38,116 | 8,116 | 47,673 | 38,116 | -20% | 80% |
| Business Service Revenue | 150,000 | 37,500 | 37,500 | - | 37,500 | 37,500 | - | 19,574 | 37,500 | 92% | 192% |
| Bookstore Net Revenue | 409,000 | 183,000 | 182,969 | (31) | 183,000 | 182,969 | (31) | 153,784 | 182,969 | 19% | 119% |
| Food Service - Net Oper Revenue/Commissions | (39,000) | (9,750) | (9,384) | 367 | (9,750) | (9,384) | 367 | (16,597) | (9,384) | -43% | 57% |
| Food Service - Net Contract Revenue | 80,000 | 20,000 | 35,886 | 15,886 | 20,000 | 35,886 | 15,886 | 17,546 | 35,886 | 0% | 0% |
| Investment Income | 41,000 | 10,250 | 12,544 | 2,294 | 10,250 | 12,544 | 2,294 | 19,057 | 12,544 | -34% | 66% |
| Leases/Mgmt Fees/Support | 48,000 | 12,000 | 21,192 | 9,192 | 12,000 | 21,192 | 9,192 | 12,894 | 21,192 | 64% | 164% |
| Total Revenue | $ 1,567,000 | $ 472,500 | $ 543,330 | $ 70,830 | $ 472,500 | $ 543,330 | $ 70,830 | $ 494,415 | $ 543,330 | 10% | 110% |
| Expenses: UARSC Operations | $ 1,546,000 | $ 386,500 | $ 419,241 | $ (32,741) | $ 386,500 | $ 419,241 | $ (32,741) | $ 382,487 | $ 419,241 | 10% | 110% |
| Net Operating Revenues | $ 21,000 | $ 86,000 | $ 124,089 | $ 38,089 | $ 86,000 | $ 124,089 | $ 38,089 | $ 111,929 | $ 124,089 | 11% | 111% |

# ATTACHMENT D

Financial Audit Report &
A 1-33 Compliance Report 06/30/13

McGladrey

To Management
University Auxiliary and Research Services Corporation
San Marcos, CA

In connection with our audit of the financial statements of University Auxiliary and Research Services Corporation (the Organization) as of and for the year ended June 30, 2013, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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.

Certain control deficiencies that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

**Accrued Employee Paid Time Off**

During the testing of accrued vacation, it was noted that the following error was made in the determination of accrued amounts as of June 30, 2013:

The Organization incorrectly determined that Sponsored Projects employees did not require vacation, paid time off and personal holiday accrual as the liability amounts would be immaterial to the financial statements.

The net adjustment related to the error illustrated above in the current year was an increase to vacation accrual of approximately $148,000 as well as an increase in the corresponding payroll expense. Prior year net assets and accrued vacation accounts were also misstated by approximately $123,000, since the Organization had excluded certain employees in prior years as well.

**Deferred Revenue**

During test work of deferred revenue, it was noted that the following error was made in revenue recognition as of June 30, 2013:

The Organization recognized revenue for the entire $50,000 lump sum due from Pepsi in the prior year even though the revenue was to be recognized over the 10-year life of the contract as specified by the contract. The adjustment booked in the current year was a decrease in revenue of $42,500 and an increase in deferred revenue of $42,500. In addition to this, there was a passed adjustment to restate prior year net assets in the amount of $47,500 for the amount of revenue that should have been deferred in the prior year.

**Management Advice**

Although no errors or deficiencies were detected during the audit with respect to related-party transactions at the Organization, the audit team found it difficult to reconcile related-party payable and receivable balances as well as related-party expenses and revenues with respect to the University and other auxiliary organizations. Obtaining the proper amounts for disclosure purposes required various inquiries and changes to the financial statements, and the responses sometimes differed between the separate entities. Oftentimes, balances were mixed with third-party transactions and difficult to identify, disaggregate and analyze. McGladrey recommends that the Organization (as well as other auxiliary organizations) develop additional controls surrounding its processing of related-party transactions. Below is a list of some recommendations you could implement:

- Create separate payable, receivable, revenue and expense accounts for each related party with whom the Organization transacts.

- Ensure the separate accounts are maintained based on the nature of the services performed by or for the related party, so that the amounts can easily be compared to existing contracts and easily summarized for reporting and budgeting purposes. Separation of the accounts by nature of transaction will make it easier to identify and review payments made or received that do not meet the criteria of existing agreements, and to determine when new agreements may be required.

- Develop a monthly or quarterly reconciliation process to compare related-party balances against the records of the University and other auxiliary organizations. Ensure this process is completed independently on both sides before comparisons are made; that way it's easier to identify possible errors.

This communication is intended solely for the information and use of management and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey LLP

San Diego, CA
September 24, 2013

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

September 24, 2013

McGladrey LLP
1455 Frazee Road, Suite 600
San Diego, CA 92108

This representation letter is provided in connection with your audits of the financial statements of University Auxiliary and Research Services Corporation (the Organization) which comprise the statements of financial position as of June 30, 2013 and 2012 and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of September 24, 2013, the following representations made to you during your audit:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated August 1, 2013, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. In that regard, adequate provisions have been made postretirement benefits other than pensions attributable to employee services rendered through June 30, 2013.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:

a. Related-party relationships, transactions and related amounts receivable or payable, including revenues, expenses, transfers and leasing agreements, all of which have been recorded in accordance with the economic substance of the transactions.

b. Investments in debt and equity securities, including their classification.

c. All leases and material amounts of rental obligations under long-term leases.

d. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

e. Assets and liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

f. Tax status. We have evaluated the tax positions under the two-step approach for recognition and measurement of uncertain tax positions required by the Income Taxes Topic of the FASB Accounting Standards Codification.

g. Allocations of functional expenses based on reasonable basis.

h. Board designated unrestricted net assets.

i. Concentrations of credit risk.

9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:

   a. The Organization has no significant amounts of idle property and equipment.

   b. The Organization has no plans or intentions to discontinue the operations of any division or to discontinue any significant product lines.

10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made postretirement benefits other than pensions attributable to employee services rendered through June 30, 2013.

11. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.

    c. Guarantees, whether written or oral, under which the Organization is contingently liable.

    d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

e. Lines of credit or similar arrangements.

f. Agreements to repurchase assets previously sold.

g. Security agreements in effect under the Uniform Commercial Code.

h. Liens or encumbrances on assets and all other pledges of assets.

i. Contractual obligations for plant construction and/or purchase of real property, equipment, other assets, and intangibles.

j. Liabilities that are subordinated to any other actual or possible liabilities of the Organization.

k. Derivative financial instruments.

l. All recordable contributions, by appropriate net asset class.

m. Reclassifications between net asset classes.

n. Composition of assets in amounts needed to comply with all donor restrictions.

o. Deferred revenue from exchange transactions.

p. Refundable advances.

q. Obsolete, damaged, or excess inventories.

r. Deferred tax assets.

s. Uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2013, or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2013.

t. Material losses to be sustained in the fulfillment of or from the inability to fulfill any sales commitments, including promises to give.

u. Environmental clean-up obligations.

v. Amounts held for others under agency and/or split interest agreements.

w. Investments or other assets that have permanently declined in value.

x. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

y. Uncollectible receivables.

z. Pension obligations or deferred compensation agreements.

12. The Organization has satisfactory title to all owned assets.

13. We have complied with all aspects of contractual agreements, grants, and donor restrictions that would have a material effect on the financial statements in the event of noncompliance.

In considering the disclosures that should be made about risks and uncertainties, we have concluded that the following are required:

14. The Organization reimburses California State University San Marcos (the University) for salaries and other program-related costs for personnel working on contracts, other programs and other campus programs. The total paid to the University for these services was $4,732,943 and $4,604,583 for the years ended June 30, 2013 and 2012, respectively. Amounts due to the University were $290,212

and $456,811 as of June 30, 2013 and 2012, respectively. During the year, the Organization received cash of $2,302,541 from students in connection with the ALCI program that was immediately remitted to the University.

15. The University reimburses the Organization for services and programs. The total amount received by the Organization was $719,197 and $984,523 for the years ended June 30, 2013 and 2012, respectively. Amounts due from the University at June 30, 2013 and 2012 were $87,216 and $4,049, respectively, and were included in due from affiliates.

16. From time to time, the Organization receives funds for University related programs that are subsequently transferred to the University. Amounts held for this purpose as of June 30, 2013 were $262,267 and are included in amounts due to affiliates. There was no balance for this purpose as of June 30, 2012.

17. The Organization as a lessor has entered into an operating lease agreement to rent storage space to the University at 435 E. Carmel Street. The monthly rental income is $12,140 through December 31, 2012 and $11,591 from January 1, 2013 through June 30, 2014. The total rental income was $145,680 for the years ended June 30, 2013 and 2012. The future minimum rental receipts for the year ending June 30, 2014 are $139,092.

18. In July 2004, the Organization entered into an agreement with San Marcos University Corporation (the Corporation) to provide certain personnel and other operating services. The total amount charged to the Corporation for these services and costs was $309,645 and $273,960 for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, there was an amount due from the Corporation for these services in the amount of $132,518 and $273,960, respectively.

19. On July 1, 2010, the Organization entered into a payroll processing agreement with Associated Students Inc. (ASI). Under this agreement, all ASI employees became employees of the Organization. During the year ended June 30, 2013, the Organization invoiced ASI $738,627 and $816,268 for payroll and benefits, administration fees and supplies. As of June 30, 2013 and 2013 the Organization had receivables due from ASI in the amounts of $31,239, and $43,112, respectively, which are included in due from affiliates.

20. On July 1, 2012, the Organization transferred the activities of the American Language & Culture Institute (ALCI) program to the University. Associated with this transfer, the Organization paid expenses in the amount of $859,979 on the University's behalf and is recorded as a transfer of net assets. The ALCI activities continue to operate as a component of the extended learning program at the University.

21. On June 28, 2013, the Organization loaned the University $250,000 at three percent interest payable over seven years through June 30, 2020, in order to help with the budget reductions faced by the University. Interest only payments of $7,500 are due the first two years and then principal and interest payments of $54,589 per year are due over the remaining five years.

22. On July 1, 2011, San Marcos University Corporation (the Corporation) transferred the assets and functions of the campus child care center, Center for Children and Families, from the Corporation to the Organization. The child care center assets consisted of a building, land improvements and related furniture and equipment with a net book value of $6,285,611 at July 1, 2011. As part of the transfer, the Organization assumed the Child Care Center Development Agreement (the Agreement) with Children's Creative Learning Center (CCLC), a California corporation, which terminated on August 30, 2012. CCLC operated and managed the center for the children rent-free. Management estimated that the value of the agreement was $486,408 for the year ended June 30, 2013. This

amount is included in the statement of activities for the year ended June 30, 2013 as child care center in-kind rental income and campus programs expense.

23. Along with the assets for the child care center, the ground lease was also transferred to the Organization. Management estimated that the value of the lease agreement was $258,077 for the year ended June 30, 2013. This amount is reflected in the statement of activities for the year ended June 30, 2013 as property management fees revenue and land leasing costs, which are included in the campus program expense.

24. The Organization has an operating agreement with CSUSMF to provide certain administrative services, including cash management processes, gift account administration, and accounting and financial reporting assistance. The Organization receives an administrative fee when CSUSMF funds are expended. The due to affiliate liability represents the status of that relationship as of June 30, 2013 and 2012 in terms of balances held by the Organization that are being managed on behalf of CSUSMF. The balances due to CSUSMF as of June 30, 2013 and 2012 were $7,527,922 and $8,373,994, respectively, which are included in due to affiliates.

25. On July 7, 2011, the Organization entered into an agreement with an unrelated third party to operate the campus bookstore. The term of the agreement is through June 30, 2021, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the unrelated third party purchased the remaining bookstore inventory, made capital improvements of approximately $158,000, and made a payment of $200,000 for a one-time contribution to the Organization. If the Organization terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Organization is required to purchase any existing inventory at the time of termination at fair value according to the agreement, reimburse the unrelated third party for the book value of its capital improvements, and refund the unamortized portion of the one-time contribution. As consideration for the agreement, the Organization will receive an annual 12.5 percent commission on gross revenue up to $4 million plus 13.5 percent from gross revenue in excess of $4 million. Commission revenue for the year ended June 30, 2013 and 2012, respectively, was $385,152 and $347,515. The one-time contribution was recorded as other income for the year ended June 30, 2012.

26. On June 5, 2012, the Organization entered into an agreement with an unrelated third party which granted the unrelated third party exclusive rights to campus beverage sales and distribution. The term of the agreement is a ten year period commencing on January 1, 2012 and 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 sales and distribution, including the right to provide all beverages at athletic events, club activities, special events, concessions, and vending locations. As consideration for the agreement, the unrelated third party paid the Organization an initial support fund in the amount of $50,000 earned over the term of the agreement and payable upon signing the agreement. Additional consideration includes an Annual Sponsorship Fee of $20,000 payable annually at the end of each calendar year and 35% commission paid quarterly on actual cash collected by vending machines plus proceeds from credit card transactions. Commission revenue was $36,109 and $5,468 for the years ended June 30, 2013 and 2012, respectively. The sponsorship fee of $20,000 for the year ended June 30, 2013 is also included in commission revenue.

27. On April 17, 2013, the Organization entered into 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 twenty years commencing on August 6, 2012 and continuing through August 5, 2032 unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the Organization will continue to own the premises and equipment used to operate the

food services and the unrelated third party shall purchase and own the inventories of food, beverage, and supplies used in operations. In the event of a termination by the Organization, all amounts due to the unrelated third party shall be payable immediately as defined in the agreement. The Organization does not expect early termination. As consideration for the agreement, the unrelated third party will pay the Organization a commission of 5% on retail and catering sales commencing on July 1, 2019.

28. We agree with the findings of specialists in evaluating the postretirement benefit obligation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

29. We have informed you of all uncorrected misstatements.

As of and for the Year Ended June 30, 2013

We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

| | Effect - Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Net Assets | Revenue | Expense |
| Carryover Impact from Previous Years | | | | | |
| Nonreversing: | | | | | |
| • None | - | - | - | - | - |
| Reversing: | | | | | |
| • To reduce CY depreciation expense that should have been taken in the prior year | $ - | $ - | $ 15,891 | $ - | $ (15,891) |
| • To record prior year effect of sponsored projects vacation/PTO accrual | - | - | 123,033 | - | (123,033) |
| • To record prior year effect for the deferral of revenue related to commissions payments received but not earned | - | - | 47,500 | (47,500) | - |
| Current Year Mistatements | | | | | |
| Total effect | $ - | $ - | $ 186,424 | $ (47,500) | $ (138,924) |
| Current year effect on the statement of activities | | | (186,424) | | |
| Total net assets effect | | | $ - | | |

*Information Provided*

30. We have provided you with:

a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;

b. Additional information that you have requested from us for the purpose of the audit;

c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

31. All transactions have been recorded in the accounting records and are reflected in the financial statements.

32. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

33. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:

a. Management.

b. Employees who have significant roles in the internal control.

c. Others where the fraud could have a material effect on the financial statements.

34. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements received in communications from employees, former employees, regulators, or others.

35. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

36. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.

37. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

38. We are aware of no significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect the Organization's ability to record, process, summarize, and report financial data.

39. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

*Supplementary Information*

40. With respect to supplementary information presented in relation to the financial statements as a whole:

a. We acknowledge our responsibility for the presentation of such information.

b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.

c. The methods of measurement or presentation have not changed from those used in the prior period.

41. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.

42. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through September 24, 2013, have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the balance sheet date and through September 24, 2013 that would require recognition or disclosure in the financial statements. We further represent that as of September 24, 2013, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.

43. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

In connection with your audit, conducted in accordance with GAS, we confirm:

44. We are responsible for:
    a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Organization.

    b. Establishing and maintaining effective internal control over financial reporting.

45. We have identified and disclosed to you:
    a. All laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
    b. Violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
46. We know of no fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that has been reported.

47. We have a process to track the status of audit findings and recommendations.

48. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.

49. We have provided you with our views on your reported findings, conclusions and recommendations, as well as our planned corrective actions for the report.

50. We have reviewed, approved, and take full responsibility for, the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

In connection with your audit of federal awards conducted in accordance with OMB Circular A-133, *Audits of State, Local Governments, and Non-profit Organizations*, we confirm:

51. We are responsible for complying, and we have complied, with the requirements of OMB Circular A-133.

52. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance.

53. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the Organization is managing federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on our federal programs.

54. We are responsible for complying with the requirements of laws, regulations and the provisions of contracts and grant agreements related to each of the Organization's federal programs and have complied, in all material respects, with those requirements.

55. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

56. There are no interpretations of compliance requirements that have varying interpretations.

57. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.

58. There are no amounts questioned or any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.

59. We have charged costs to federal awards in accordance with applicable cost principles.

60. We have made available all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

61. We are responsible for taking corrective action on audit findings of the compliance audit.

62. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.

63. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

64. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

65. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

66. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

67. There are no subrecipients, only subcontracted work as identified in grant agreements.

68. We have accurately completed appropriate sections of the data collection form.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Dora Knoblock, Executive Director — Date: 09-24-13

Clint Roberts, University Controller — Date: 9/24/13

Greg Svatora, Director of Finance and Business Development — Date: 9/24/13

Deborah Davis, Manager of Auxiliary Financial Operations — Date: 9/24/13

Grant Hubbard, Director of Sponsored Projects — Date: 9/24/13

# University Auxiliary and Research Services Corporation

Financial Report
June 30, 2013




Assurance • Tax • Consulting

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McGladrey

## Independent Auditor's Report

To the Board of Directors
University Auxiliary and Research
Services Corporation
San Marcos, CA

### Report on the Financial Statements

We have audited the accompanying financial statements of University Auxiliary and Research Services Corporation, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); 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.

### Auditor's 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Auxiliary and Research Services Corporation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. GAAP.



Member of the RSM International network of independent accounting, tax and consulting firms.

**Report on Schedules to be included in the California State University System's Financial Report (Supplementary Information)**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information 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.

McGladrey LLP

San Diego, CA
September 24, 2013

**University Auxiliary and Research Services Corporation**

**Statements of Financial Position**
**June 30, 2013 and 2012**

| **Assets** | **2013** | 2012 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | **$ 450,438** | $ 641,078 |
| Sponsored programs receivable | **985,879** | 672,906 |
| Other receivables | **62,821** | 31,125 |
| Due from affiliates (Note 6) | **250,973** | 321,121 |
| Prepaids | **44,658** | 32,670 |
| Certificates of deposit | **8,251,374** | 11,891,486 |
| Investments (Note 2) | **3,237,070** | 2,212,128 |
| Inventory (Note 4) | **-** | 29,326 |
| **Total current assets** | **13,283,213** | 15,831,840 |
| Other Assets | | |
| Property and equipment, net (Notes 3 and 4) | **5,780,559** | 6,244,339 |
| Note receivable from University (Note 6) | **250,000** | - |
| Other assets | **61,081** | 61,081 |
| **Total other assets** | **6,091,640** | 6,305,420 |
| **Total assets** | **$ 19,374,853** | $ 22,137,260 |
| **Liabilities and Net Assets** | | |
| Current Liabilities | | |
| Accounts payable | **$ 322,724** | $ 456,943 |
| Due to affiliates (Note 6) | **8,080,401** | 8,830,805 |
| Deferred revenue | **418,104** | 902,316 |
| Accrued payroll and benefits | **682,012** | 594,791 |
| Other current liabilities | **17,456** | 25,162 |
| **Total current liabilities** | **9,520,697** | 10,810,017 |
| Accrued postretirement benefit costs (Note 5) | **1,483,436** | 1,205,268 |
| **Total liabilities** | **11,004,133** | 12,015,285 |
| Commitments and Contingencies (Note 4) | | |
| Net Assets | | |
| Unrestricted: | | |
| Board-designated: | | |
| Operating reserves | **1,111,945** | 1,465,858 |
| Program reserves | **457,841** | 628,708 |
| Campus programs | **1,020,375** | 1,776,604 |
| Equipment | **5,780,559** | 6,244,339 |
| Scholarship | **-** | 6,466 |
| **Total net assets** | **8,370,720** | 10,121,975 |
| | **$ 19,374,853** | $ 22,137,260 |

See Notes to Financial Statements.

**University Auxiliary and Research Services Corporation**

**Statements of Activities**
**Years Ended June 30, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| Revenue, Gains and Other Support: | | |
| Federal grants and contracts | $ 6,273,797 | $ 6,325,338 |
| Other sponsored programs | 1,253,263 | 1,263,991 |
| Campus programs (Note 6) | 1,451,960 | 3,300,561 |
| Commercial operations (Note 4) | 125,788 | 1,639,947 |
| Commissions (Note 4) | 459,392 | 379,256 |
| Interest income | 7,087 | 37,268 |
| Dividend income | 40,273 | 76 |
| Net realized and unrealized loss on investments (Note 2) | (41,209) | (6,260) |
| Child care center in-kind rental income (Note 4) | 486,408 | 478,022 |
| Ground lease income (Note 4) | 258,077 | 253,627 |
| Rental income (Note 6) | 145,680 | 145,680 |
| Other income (Note 4) | - | 200,000 |
| **Total revenue, gains and other support** | 10,460,516 | 14,017,506 |
| Expenses (Note 6): | | |
| Program services: | | |
| Sponsored programs (Note 4) | 6,519,135 | 6,448,461 |
| Campus programs (Notes 4 and 6) | 1,199,422 | 3,306,530 |
| Commercial operations (Note 4) | 211,089 | 1,604,854 |
| Student scholarships | 94,662 | 48,627 |
| **Total program services** | 8,024,308 | 11,408,472 |
| General administration (Notes 4 and 6) | 3,327,484 | 3,088,237 |
| **Total expenses** | 11,351,792 | 14,496,709 |
| **Change in net assets before transfer of assets** | (891,276) | (479,203) |
| Transfer of Assets to University (Note 6) | (859,979) | - |
| Transfer of Assets from UCorp (Notes 3 and 4) | - | 6,285,611 |
| Net Assets, beginning | 10,121,975 | 4,315,567 |
| Net Assets, ending | $ 8,370,720 | $ 10,121,975 |

See Notes to Financial Statements.

**University Auxiliary and Research Services Corporation**

**Statements of Cash Flows**
**Years Ended June 30, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Change in net assets | $ (891,276) | $ (479,203) |
| Transfer of assets to University (Note 6) | (859,979) | - |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 494,149 | 541,631 |
| Net realized and unrealized loss on investments | 41,209 | 6,260 |
| Change in accumulated postretirement benefit obligation | 278,168 | 177,281 |
| (Increase) decrease in: | | |
| Sponsored programs receivable | (312,973) | (31,644) |
| Other receivables | (31,696) | 278 |
| Due from affiliates | 70,148 | (232,669) |
| Prepaids | (11,988) | (32,670) |
| Deposits | - | 844,226 |
| Inventory | 29,326 | 167,028 |
| Increase (decrease) in: | | |
| Accounts payable | (134,219) | (261,461) |
| Due to affiliates | (750,404) | 1,943,847 |
| Deferred revenue | (484,212) | 3,712 |
| Accrued payroll and benefits | 87,221 | 100,912 |
| Other current liabilities | (7,706) | (173,207) |
| **Net cash provided by (used in) operating activities** | (2,484,232) | 2,574,321 |
| Cash Flows From Investing Activities | | |
| Purchases of property and equipment | (30,369) | - |
| Purchases of investments | (1,066,151) | (2,218,388) |
| Maturities of certificates of deposit | 9,505,000 | 10,513,000 |
| Purchases of certificates of deposit | (5,864,888) | (14,840,402) |
| Distributions on note receivable to the University | (250,000) | - |
| **Net cash provided by (used in) investing activities** | 2,293,592 | (6,545,790) |
| **Change in cash and cash equivalents** | (190,640) | (3,971,469) |
| Cash and Cash Equivalents, beginning of year | 641,078 | 4,612,547 |
| Cash and Cash Equivalents, end of year | $ 450,438 | $ 641,078 |
| Supplemental Disclosures of Noncash Activities | | |
| Transfer of assets from UCorp (Note 4): | | |
| Property and equipment | $ - | $ 6,285,611 |

See Notes to Financial Statements.

## Note 1. Nature of Operations and Summary of Significant Accounting Policies

**Nature of operations:** University Auxiliary and Research Services Corporation (formerly named California State University San Marcos Foundation (CSUSMF)) (the Organization) is a nonprofit California corporation and an auxiliary organization of California State University San Marcos (the University), organized and operated in accordance with the California Code of Regulations and the Education Code of the State of California. The Organization was organized in December 1989 to assist the University in various activities, including developing and administering research and educational grants and contracts; managing the bookstore and food service operations; and administering various education-related functions, special programs and other activities.

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

**Affiliated organizations:** The Organization is related to other auxiliaries of the University, including San Marcos University Corporation (the Corporation or UCorp), Associated Students, Inc. (ASI) and CSUSMF. These auxiliaries, although independent, and the University periodically provide various services to one another.

**A summary of significant accounting policies is as follows:**

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

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds and accumulated endowment earnings in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

There were no temporarily or permanently restricted net assets as of June 30, 2013 or 2012.

## Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

**Cash and cash equivalents:** The Organization maintains accounts at one financial institution, with funds insured by the Federal Deposit Insurance Corporation (FDIC). The Organization's accounts at this institution may, at times, exceed FDIC-insured limits. At June 30, 2013, the Organization's cash balance at this institution did not exceed the current FDIC-insured limits.

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

**Sponsored programs receivable:** The sponsored programs receivable arise in the normal course of sponsored research. It is the policy of management to review the outstanding 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. Management determined no allowance was necessary at June 30, 2013 or 2012.

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

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

**Inventory:** Inventory at June 30, 2012 consists primarily of food and is valued at the lower of cost (first-in, first-out method) or fair value. There was no inventory as of June 30, 2013 (see Note 4).

**Property and equipment:** Property and equipment are recorded at cost, if purchased, or at the fair value of the contribution, if donated. Certain equipment acquired through grants and contracts is subject to restrictions on its use and disposition subsequent to the conclusion of the related grants and contracts. A physical inventory list is maintained by the Organization of these assets as required by the grant funding agency. The funding source may have a reversionary interest in the property as well as the right to determine the use of any proceeds from sale of equipment purchased with their respective funds. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment, generally three to 30 years. The estimated lives of leasehold improvements are the shorter of the useful life or the term of the lease.

**Long-lived assets:** The Organization evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected future undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period which the determination is made. Management has determined that no impairment of long-lived assets currently exists.

## Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates include assessing the lives and methods for recording depreciation of property and equipment, determining the fair value of investments and determining the allowance for doubtful accounts for receivables.

**Revenue recognition:** Revenue from federal grants and contracts and other sponsored programs is recognized as support in the fiscal year in which allowable expenditures have been made. Revenue from federal grants and contracts and other sponsored programs received prior to incurring the related expenses have been deferred. Revenues from registration fees received in advance of classes occurring have been deferred. Revenue from commercial operations is recognized upon sale of products.

**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 benefited.

**Reclassifications:** Certain items in the 2012 financial statements have been reclassified to conform with 2013 presentation. These reclassifications had no impact on net assets or the change in net assets.

**Income taxes:** The Organization is a qualified nonprofit organization that is generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. This exemption is for all income taxes except for those assessed on unrelated business income (UBI), if any. In order to maintain that status, the Organization is precluded from making certain expenditures, principally in support of political parties. Management believes that no such expenditures have been made. The Organization is not a private foundation.

The Organization adopted accounting guidance relating to accounting for uncertainty in income taxes, which is primarily codified in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740. The Organization files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to the Organization include such matters as the tax-exempt status of the entity and various positions relative to potential sources of UBI. UBI is reported on Form 990-T, as appropriate. The benefit of tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying statements of financial position, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of June 30, 2013 and 2012, the Organization has addressed uncertainty in its income tax position under the guidance, and there are no unrecognized/derecognized tax benefits requiring an accrual.

## Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Forms 990 and 990-T filed by the Organization are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Management believes Forms 990 and 990-T have been filed appropriately. Forms 990 and 990-T filed by the Organization are no longer subject to examination for the fiscal years ended June 30, 2009 and prior.

**Subsequent events:** The Organization has evaluated subsequent events through September 24, 2013, the date the financial statements were available to be issued, and has determined that there were no subsequent events to recognize in these financial statements.

**Recent accounting guidance:** In October the 2012, the FASB issued Accounting Standards Update (ASU) 2012-05, *Statement of Cash Flows (Topic 230)—Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* This Update requires, with certain exceptions, a not-for-profit (NFP) to classify in the statement of cash flows cash received from donated financial assets as an operating activity if those donated financial assets were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted. For fiscal years beginning before October 22, 2012, early adoption is permitted only if an NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance. Certain transition disclosures are required. The adoption of this standard is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958)—Services Received From Personnel of an Affiliate.* These amendments are effective on a prospective basis for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient NFP entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

## Note 2. Investments

Investments consisted of the following at June 30:

| | 2013 | 2012 |
|---|---|---|
| Core fixed income institutional mutual funds | $ 1,940,831 | $ 903,764 |
| Domestic equity securities | 1,296,239 | 1,308,364 |
| | $ 3,237,070 | $ 2,212,128 |

As required by the Fair Value Measurement Topic of the FASB ASC, which establishes a three-tiered fair value hierarchy, the Organization prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets. Classifications included equity securities and mutual funds that have share prices and net asset values provided daily.

**Note 2. Investments (Continued)**

- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly. Classifications included institutional mutual funds that have net asset values provided daily.

- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Classifications included hedge funds that do not have daily pricing but for which fair value could be determined based on the most recent report of the net asset value of the fund.

Investments at fair value, as of June 30, 2013, according to the fair value hierarchy were as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Core fixed income institutional mutual funds | $ 1,940,831 | $ 1,940,831 | $ - | $ - |
| Domestic equity securities | 1,296,239 | 1,296,239 | - | - |
| | $ 3,237,070 | $ 3,237,070 | $ - | $ - |

Investments at fair value, as of June 30, 2012, according to the fair value hierarchy were as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Core fixed income institutional mutual funds | $ 903,764 | $ 903,764 | $ - | $ - |
| Domestic equity securities | 1,308,364 | 1,308,364 | - | - |
| | $ 2,212,128 | $ 2,212,128 | $ - | $ - |

The following table reflects a reconciliation of beginning and ending investment balances for the Organization's total investments for the years ended June 30:

| | 2013 | 2012 |
|---|---|---|
| Beginning balance | $ 2,212,128 | $ - |
| Net additions, purchases, sales and maturities | 1,066,151 | 2,218,388 |
| Net realized and unrealized loss | (41,209) | (6,260) |
| Ending balance | $ 3,237,070 | $ 2,212,128 |

## Note 3. Property and Equipment

Property and equipment consisted of the following at June 30:

| | 2013 | 2012 |
|---|---|---|
| Land improvements | $ 1,818,992 | $ 1,818,992 |
| Building and improvements | 4,102,220 | 4,102,220 |
| Furniture and equipment | 1,524,124 | 1,524,124 |
| Leasehold improvements | 1,767,960 | 1,737,591 |
| | 9,213,296 | 9,182,927 |
| Less accumulated depreciation | (3,432,737) | (2,938,588) |
| | $ 5,780,559 | $ 6,244,339 |

On July 1, 2011, UCorp transferred the assets and functions of the campus child care center, Center for Children and Families, to the Organization. The child care center assets consist of a building, land improvements, and related furniture and equipment totaling $6,285,611, net of accumulated depreciation (see Note 4).

## Note 4. Commitments and Contingencies

**Leases:** The Organization has entered into various operating lease agreements with the University for office facilities, with monthly rents totaling $3,666 through December 31, 2013. The lease agreement for 435 E. Carmel Street may be terminated by either party upon a six-month written notice and has monthly rent of $11,592 expiring on June 30, 2014. Total rent expense was approximately $183,100 for each of the years ended June 30, 2013 and 2012.

The minimum future rental payments are as follows:

| Years Ending June 30, | Amount |
|---|---|
| 2014 | $ 161,102 |
| | $ 161,102 |

**Book store operating agreement:** On July 7, 2011, the Organization entered into an agreement with an unrelated third party to operate the campus bookstore. The term of the agreement is through June 30, 2021, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the unrelated third party purchased the remaining bookstore inventory, made capital improvements of approximately $158,000, and made a payment of $200,000 for a one-time contribution to the Organization. If the Organization terminates the agreement prior to the termination date or if the unrelated third party terminates the agreement for cause, the Organization is required to purchase any existing inventory at the time of termination at fair value according to the agreement, reimburse the unrelated third party for the book value of its capital improvements, and refund the unamortized portion of the one-time contribution. As consideration for the agreement, the Organization will receive an annual 12.5 percent commission on gross revenue up to $4 million plus 13.5 percent from gross revenue in excess of $4 million. Commission revenue for the years ended June 30, 2013 and 2012 included $385,152 and $347,515, respectively, under this agreement. The one-time contribution was recorded as other income for the year ended June 30, 2012.

## Note 4. Commitments and Contingencies (Continued)

**Child care center lease agreement:** On July 1, 2011, UCorp transferred the assets and functions of the campus child care center, Center for Children and Families, to the Organization. The child care assets consisted of a building, land improvements, and related furniture and equipment, with a net book value of $6,285,611 at July 1, 2011. As part of the transfer, the organization assumed the Child Care Center Development Agreement (the Agreement) with Children's Creative Learning Center (CCLC), a California Corporation, which terminated on August 30, 2012. CCLC operated and managed the center for the children rent-free. Management estimated that the value of the agreement was $486,408 and $478,022 for the years ended June 30, 2013 and 2012, respectively. These amounts are included in the statements of activities for the years ended June 30, 2013 and 2012 as child care center in-kind rental income and campus programs expense.

Along with the assets for the child care center, the ground lease was also transferred to the Organization. Management estimated that the value of the lease agreement was $258,077 and $253,627 for the years ended June 30, 2013 and 2012, respectively. These amounts are reflected in the statements of activities for the years ended June 30, 2013 and 2012 as property ground lease income and land leasing costs, which is included in campus programs expense.

On June 5, 2012, the Organization entered into an agreement with an unrelated third party that granted the unrelated third party exclusive rights to campus beverage sales and distribution. The term of the agreement is a 10-year period commencing on January 1, 2012 and expiring on December 31, 2021, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the unrelated third party will have exclusive rights for beverage sale and distribution, including the right to provide all beverages at athletic events, club activities, special events, concessions and vending locations. As consideration for the agreement, the unrelated third party paid the Organization an initial support fund in the amount of $50,000 earned over the term of the agreement and payable upon signing the agreement. Additional consideration includes an Annual Sponsorship Fee of $20,000 payable annually at the end of each calendar year and 35 percent commission paid quarterly on actual cash collected by vending machines plus proceeds from credit card transactions. Commission revenue included $56,109 and $5,468 for the years ended June 30, 2013 and 2012, respectively, under this agreement, which includes the $20,000 sponsorship fee for the year ended June 30, 2013.

On April 17, 2013, the Organization entered into 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 commencing on August 6, 2012 and continuing through August 5, 2032, unless terminated by either party with advance notice, as defined in the agreement. As part of the agreement, the Organization will continue to own the premises and equipment used to operate the food services and the unrelated third party shall purchase and own the inventories of food, beverage and supplies used in operations. In the event of a termination by the Organization, all amounts due to the unrelated third party shall be payable immediately as defined in the agreement. The Organization does not expect early termination. As consideration for the agreement, the unrelated third party will pay the Organization a commission of 5 percent on retail and catering sales commencing on July 1, 2019.

**Sponsored programs:** The Organization receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and operating subsidies. Disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability to the Organization. However, in the opinion of management, any such disallowed claims would not have a material adverse impact on the overall financial position of the Organization at June 30, 2013.

## Note 4. Commitments and Contingencies (Continued)

**Workers' compensation insurance:** During the fiscal years 2013 and 2012, the Organization purchased workers' compensation insurance for $50,986 and $40,120, respectively, through an approved self-insurance program in which the Organization is a member (as are ASI and the Foundation), 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.

**Legal proceedings:** The Organization is involved in legal proceedings arising in the normal course of business. Management believes the final outcome of these proceedings will not have a material adverse effect on the Organization's results of activities or financial position.

## Note 5. Accrued Postretirement Benefit Costs

The Organization has a postretirement program that provides lifetime medical and dental coverage to retiring employees aged 65 or older with at least 10 years of service. Medical coverage will be provided through the CalPERS medical program. Dependents of eligible retirees will also receive lifetime medical coverage. Expenses under the program for the years ended June 30, 2013 and 2012 were $278,168 and $177,281, respectively.

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:

| | 2013 | 2012 |
|---|---|---|
| Benefit obligation, beginning of year | $ 1,336,436 | $ 768,689 |
| Service cost | 204,208 | 134,708 |
| Interest cost | 57,452 | 46,121 |
| Actuarial gains (losses) | (255,176) | 386,918 |
| Benefit obligation, end of year | $ 1,342,920 | $ 1,336,436 |

| | 2013 | 2012 |
|---|---|---|
| Funded status: | | |
| Unamortized prior service cost | $ 386,460 | $ 412,787 |
| Unrecognized net actuarial gain | (526,976) | (281,619) |
| Accrued benefit cost | 1,483,436 | 1,205,268 |
| Funded status, end of year | $ 1,342,920 | $ 1,336,436 |

| | 2013 | 2012 |
|---|---|---|
| Net periodic benefit cost: | | |
| Service cost | $ 204,208 | $ 134,708 |
| Interest cost | 57,452 | 46,121 |
| Amortization of prior service cost | 26,327 | 26,327 |
| Amortization of net (gain) | (9,819) | (29,875) |
| | $ 278,168 | $ 177,281 |

### Note 5. Accrued Postretirement Benefit Costs (Continued)

No benefits were paid during the years ended June 30, 2013 or 2012.

Weighted-average assumptions used to determine the benefit obligation included a discount rate of 5.00 percent and 4.30 percent and a health care cost trend rate of 6.70 percent and 7.00 percent for the years ended June 30, 2013 and 2012, respectively.

### Note 6. Transactions With Affiliates

The Organization reimburses the University for salaries and other program-related costs for personnel working on contracts, other programs and campus programs. The total amount paid to the University for these services was $4,732,659 and $4,604,583 for the years ended June 30, 2013 and 2012, respectively. Amounts due to the University at June 30, 2013 and 2012 were $290,212 and $456,811, respectively, and are included in due to affiliates. During the year, the Organization received cash of $2,302,541 from students in connection with the American Language & Cultural Institute (ALCI) program, which was immediately remitted to the University.

The University reimburses the Organization for services and programs. The total amount received by the Organization was $719,197 and $984,523 for the years ended June 30, 2013 and 2012, respectively, and is recorded as campus program revenue. Amounts due from the University at June 30, 2013 and 2012 were $87,216 and $4,049, respectively, and are included in due from affiliates.

From time to time, the Organization receives funds for University-related programs, which are subsequently transferred to the University. Amounts held for this purpose as of June 30, 2013 were $262,267 and are included in amounts due to affiliates. There was no balance for this purpose as of June 30, 2012.

On July 1, 2012, the Organization transferred the activities of the ALCI program to the University. Associated with this transfer, the Organization paid expenses in the amount of $859,979 on the University's behalf and is recorded as a transfer of net assets. The ALCI activities continue to operate as a component of the extended learning program at the University.

On June 28, 2013, the Organization loaned the University $250,000 at 3 percent interest payable over seven years through June 30, 2020, in order to help with the budget reductions faced by the University. Interest-only payments of $7,500 are due the first two years, and then principal and interest payments of $54,589 per year are due over the remaining five years.

The Organization, as a lessor, has entered into an operating lease agreement to rent storage space to the University at 435 E. Carmel Street. The monthly rental income is $12,140 through December 31, 2012 and $11,591 from January 1, 2013 through June 30, 2014. Total rental income was $145,680 for each of the years ended June 30, 2013 and 2012. The future minimum rental receipts for the year ending June 30, 2014 are $139,092.

In July 2004, the Organization entered into an agreement with UCorp to provide certain personnel and other operating services. The total amount incurred for these services and costs was $309,645 and $273,960 for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, there was an amount due from UCorp for these services in the amount of $132,518 and $273,960, respectively.

## Note 6. Transactions With Affiliates (Continued)

On July 1, 2010, the Organization entered into a payroll processing agreement with ASI. Under this agreement, all ASI employees became employees of the Organization. During the years ended June 30, 2013 and 2012, the Organization invoiced ASI for $738,627 and $816,268, respectively, for payroll and benefits, administration fees and supplies. As of June 30, 2013 and 2012, the Organization had receivables due from ASI in the amounts of $31,239 and $43,112, respectively, which are included in due from affiliates.

The Organization has an operating agreement with CSUSMF to provide certain administrative services, including cash management processes, gift account administration, and accounting and financial reporting assistance. The Organization receives an administrative fee when CSUSMF funds are expended. The due to affiliate liability represents the status of that relationship as of June 30, 2013 and 2012 in terms of balances held by the Organization that are being managed on behalf of CSUSMF. The balances due to CSUSMF as of June 30, 2013 and 2012 were $7,527,922 and $8,373,994, respectively, which are included in due to affiliates.

**Supplementary Information**

**University Auxiliary and Research Services Corporation**
Schedule of Net Position
June 30, 2013
(for inclusion in The California State University)

| | | |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 450,438 |
| Short-term investments | | 11,488,444 |
| Accounts receivable, net | | 1,299,673 |
| Leases receivable, current portion | | - |
| Notes receivable, current portion | | - |
| Pledges receivable, net | | - |
| Prepaid expenses and other assets | | 44,658 |
| Total current assets | | 13,283,213 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | | - |
| Accounts receivable, net | | - |
| Leases receivable, net of current portion | | - |
| Notes receivable, net of current portion | | 250,000 |
| Student loans receivable, net | | - |
| Pledges receivable, net | | - |
| Endowment investments | | - |
| Other long-term investments | | - |
| Capital assets, net | | 5,780,559 |
| Other assets | | 61,081 |
| Total noncurrent assets | | 6,091,640 |
| Total assets | | 19,374,853 |
| Deferred outflows of resources: | | |
| Unamortized loss on refunding(s) | | - |
| Total deferred outflows of resources | | - |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | | 8,403,125 |
| Accrued salaries and benefits payable | | 388,640 |
| Accrued compensated absences, current portion | | 293,372 |
| Unearned revenue | | 418,104 |
| Capitalized lease obligations, current portion | | - |
| Long-term debt obligations, current portion | | - |
| Self-insurance claims liability, current portion | | - |
| Depository accounts | | - |
| Other liabilities | | 17,456 |
| Total current liabilities | | 9,520,697 |
| Noncurrent liabilities: | | |
| Accrued compensated absences, net of current portion | | - |
| Unearned revenue | | - |
| Grants refundable | | - |
| Capitalized lease obligations, net of current portion | | - |
| Long-term debt obligations, net of current portion | | - |
| Self-insurance claims liabilities, net of current portion | | - |
| Depository accounts | | - |
| Other postemployment benefits obligation | | 1,483,436 |
| Other liabilities | | - |
| Total noncurrent liabilities | | 1,483,436 |
| Total liabilities | | 11,004,133 |
| Deferred inflows of resources: | | |
| Deferred inflows from SCAs, grants and others | | - |
| Total deferred inflows of resources | | - |

**University Auxiliary and Research Services Corporation**
Schedule of Net Position (Continued)
June 30, 2013
(for inclusion in The California State University)

| | | |
|---|---|---|
| Net Position: | | |
| Net investment in capital assets | $ | 5,780,559 |
| Restricted for: | | |
| Nonexpendable, endowments | | - |
| Expendable: | | |
| Scholarships and fellowships | | - |
| Research | | - |
| Loans | | - |
| Capital projects | | - |
| Debt service | | - |
| Other | | - |
| Unrestricted | | 2,590,161 |
| Total net position | $ | 8,370,720 |

**University Auxiliary and Research Services Corporation**
Schedule of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013
(for inclusion in The California State University)

| | | |
|---|---|---|
| Revenues: | | |
| Operating revenues: | | |
| Student tuition and fees (net of scholarship allowances of $0) | | |
| Grants and contracts, noncapital: | | |
| Federal | $ | 6,273,797 |
| State | | 662,181 |
| Local | | 116,638 |
| Nongovernmental | | 474,444 |
| Sales and services of educational activities | | 1,597,640 |
| Sales and services of auxiliary enterprises (net of scholarship allowances of $0) | | 1,329,665 |
| Other operating revenues | | - |
| Total operating revenues | | 10,454,365 |
| Expenses: | | |
| Operating expenses: | | |
| Instruction | | 1,905,662 |
| Research | | 3,525,674 |
| Public service | | 182,502 |
| Academic support | | 404,410 |
| Student services | | 1,612,509 |
| Institutional support | | 2,921,135 |
| Operation and maintenance of plant | | - |
| Student grants and scholarships | | 94,662 |
| Auxiliary enterprise expenses | | 211,089 |
| Depreciation and amortization | | 494,149 |
| Total operating expenses | | 11,351,792 |
| Operating loss | | (897,427) |
| 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, net | | 6,151 |
| Endowment income | | - |
| Interest expense | | - |
| Other nonoperating expenses | | (859,979) |
| Net nonoperating expenses | | (853,828) |
| Loss before other additions | | (1,751,255) |
| State appropriations, capital | | - |
| Grants and gifts, capital | | - |
| Additions (reductions) to permanent endowments | | - |
| Decrease in net position | | (1,751,255) |
| Net position: | | |
| Net position at beginning of year, as previously reported | | 10,121,975 |
| Restatements | | - |
| Net position at beginning of year, as restated | | 10,121,975 |
| Net position at end of year | $ | 8,370,720 |

# University Auxiliary and Research Services Corporation
## Other Information
## June 30, 2013
## (for inclusion in The California State University)

**1 Restricted cash and cash equivalents at June 30, 2013:**

| | |
|---|---|
| Portion of restricted cash and cash equivalents related to endowments | $ - |
| All other restricted cash and cash equivalents | - |
| Total restricted cash and cash equivalents | $ - |

**2.1 Composition of investments at June 30, 2013:**

| | Current Unrestricted | Current Restricted | Total Current | Noncurrent Unrestricted | Noncurrent Restricted | Total Noncurrent | Total |
|---|---|---|---|---|---|---|---|
| State of California Surplus Money Investment Fund (SMIF) | $ - | - | - | - | - | - | - |
| State of California Local Agency Investment Fund (LAIF) | - | - | - | - | - | - | - |
| Wachovia Short Term Fund | - | - | - | - | - | - | - |
| Wachovia Medium Term Fund | - | - | - | - | - | - | - |
| Wachovia Equity Fund | - | - | - | - | - | - | - |
| CSU Consolidated Investment Pool (includes SWIFT and 0948 SMIF) | - | - | - | - | - | - | - |
| Common Fund - Short Term Fund | - | - | - | - | - | - | - |
| Common Fund - Others | - | - | - | - | - | - | - |
| Debt securities | - | - | - | - | - | - | - |
| Equity securities | 1,296,239 | - | 1,296,239 | - | - | - | 1,296,239 |
| Fixed income securities (Treasury notes, GNMAs) | - | - | - | - | - | - | - |
| Land and other real estate | - | - | - | - | - | - | - |
| Certificates of deposit | 8,251,374 | - | 8,251,374 | - | - | - | 8,251,374 |
| Notes receivable | - | - | - | - | - | - | - |
| Mutual funds | 1,940,831 | - | 1,940,831 | - | - | - | 1,940,831 |
| Money market funds | - | - | - | - | - | - | - |
| Collateralized mortgage obligations: | | | | | | | |
| Inverse floaters | - | - | - | - | - | - | - |
| Interest-only strips | - | - | - | - | - | - | - |
| Agency pass-through | - | - | - | - | - | - | - |
| Partnership interests (includes private pass-through) | - | - | - | - | - | - | - |
| Alternative investments | - | - | - | - | - | - | - |
| Hedge funds | - | - | - | - | - | - | - |
| Other major investments: | | | | | | | |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - |
| Total investments | 11,488,444 | - | 11,488,444 | - | - | - | 11,488,444 |
| Less endowment investments (enter as negative number) | - | - | - | - | - | - | - |
| Total investments | $ 11,488,444 | - | 11,488,444 | - | - | - | 11,488,444 |

**2.2 Investments held by the University under contractual agreements at June 30, 2013:**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Portion of investments in Note 2.1 held by the University under contractual agreements at June 30, 2013 | $ - | - | - | - | - | - | - |

**University Auxiliary and Research Services Corporation**
Other Information
June 30, 2013
(for inclusion in The California State University)

| 2.3 **Restricted current investments at June 30, 2013 related to:** | | Amount |
|---|---|---|
| Add description | $ | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Total restricted current investments at June 30, 2013 | $ | - |

| 2.4 **Restricted noncurrent investments at June 30, 2013 related to:** | | Amount |
|---|---|---|
| Endowment investment | $ | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Add description | | - |
| Total restricted noncurrent investments at June 30, 2013 | $ | - |

# University Auxiliary and Research Services Corporation
## Other Information
## Year Ended June 30, 2013
## (for inclusion in The California State University)

**3.1 Composition of capital assets at June 30, 2013:**

| | Balance June 30, 2012 | Prior Period Adjustments | Reclassifications | Balance June 30, 2012 (restated) | Additions | Reductions | Transfers of Completed CWIP | Balance June 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| Nondepreciable/nonamortizable capital assets: | | | | | | | | |
| Land and land improvements | $ - | - | - | - | - | - | - | - |
| Works of art and historical treasures | - | - | - | - | - | - | - | - |
| Construction work in progress (CWIP) | - | - | - | - | - | - | - | - |
| Intangible assets: | | | | | | | | |
| Rights and easements | - | - | - | - | - | - | - | - |
| Patents, copyrights and trademarks | - | - | - | - | - | - | - | - |
| Internally generated intangible assets in progress | - | - | - | - | - | - | - | - |
| Licenses and permits | - | - | - | - | - | - | - | - |
| Other intangible assets | - | - | - | - | - | - | - | - |
| Total intangible assets | - | - | - | - | - | - | - | - |
| Total nondepreciable/nonamortizable capital assets | - | - | - | - | - | - | - | - |
| Depreciable/amortizable capital assets: | | | | | | | | |
| Buildings and building improvements | 4,102,220 | - | - | 4,102,220 | - | - | - | 4,102,220 |
| Improvements, other than buildings | 1,818,992 | - | - | 1,818,992 | - | - | - | 1,818,992 |
| Infrastructure | - | - | - | - | - | - | - | - |
| Leasehold improvements | 1,737,591 | - | - | 1,737,591 | 30,369 | - | - | 1,767,960 |
| Personal property: | | | | | | | | |
| Equipment | 1,524,124 | - | - | 1,524,124 | - | - | - | 1,524,124 |
| Library books and materials | - | - | - | - | - | - | - | - |
| Intangible assets: | | | | | | | | |
| Software and websites | - | - | - | - | - | - | - | - |
| Rights and easements | - | - | - | - | - | - | - | - |
| Patents, copyright and trademarks | - | - | - | - | - | - | - | - |
| Licenses and permits | - | - | - | - | - | - | - | - |
| Other intangible assets | - | - | - | - | - | - | - | - |
| Total intangible assets | - | - | - | - | - | - | - | - |
| Total depreciable/amortizable capital assets | 9,182,927 | - | - | 9,182,927 | 30,369 | - | - | 9,213,296 |
| Total capital assets | 9,182,927 | - | - | 9,182,927 | 30,369 | - | - | 9,213,296 |
| Less accumulated depreciation/amortization: | | | | | | | | |
| Buildings and building improvements | (167,610) | - | - | (167,610) | (167,608) | - | - | (335,218) |
| Improvements, other than buildings | (137,465) | - | - | (137,465) | (137,464) | - | - | (274,929) |
| Infrastructure | - | - | - | - | - | - | - | - |
| Leasehold improvements | (1,414,700) | - | - | (1,414,700) | (129,977) | - | - | (1,544,677) |
| Personal property: | | | | | | | | |
| Equipment | (1,218,813) | - | - | (1,218,813) | (59,100) | - | - | (1,277,913) |
| Library books and materials | - | - | - | - | - | - | - | - |
| Intangible assets: | | | | | | | | |
| Software and websites | - | - | - | - | - | - | - | - |
| Rights and easements | - | - | - | - | - | - | - | - |
| Patents, copyright and trademarks | - | - | - | - | - | - | - | - |
| Licenses and permits | - | - | - | - | - | - | - | - |
| Other intangible assets | - | - | - | - | - | - | - | - |
| Total intangible assets | - | - | - | - | - | - | - | - |
| Total accumulated depreciation/amortization | (2,938,588) | - | - | (2,938,588) | (494,149) | - | - | (3,432,737) |
| Total capital assets, net | $ 6,244,339 | - | - | 6,244,339 | (463,780) | - | - | 5,780,559 |

# University Auxiliary and Research Services Corporation
## Other Information
## June 30, 2013
## (for inclusion in The California State University)

**3.2 Detail of depreciation and amortization expense for the year ended June 30, 2013:**

| | | |
|---|---|---|
| Depreciation and amortization expense related to capital assets | $ | 494,149 |
| Amortization expense related to other assets | | - |
| Total depreciation and amortization | $ | 494,149 |

**4 Long-term liabilities activity schedule:**

| | Balance June 30, 2012 | Prior Period Adjustments | Reclassifications | Balance June 30, 2012 (restated) | Additions | Reductions | Balance June 30, 2013 | Current Portion |
|---|---|---|---|---|---|---|---|---|
| Accrued compensated absences | $ 211,090 | - | - | 211,090 | 293,372 | (211,090) | 293,372 | 293,372 |
| Capitalized lease obligations: | | | | | | | | |
| Gross balance | - | - | - | - | - | - | - | - |
| Unamortized premium / (discount) on capitalized lease obligations | - | - | - | - | - | - | - | - |
| Total capitalized lease obligations | - | - | - | - | - | - | - | - |
| Long-term debt obligations: | | | | | | | | |
| Revenue Bonds | - | - | - | - | - | - | - | - |
| Other bonds (non-Revenue Bonds) | - | - | - | - | - | - | - | - |
| Commercial Paper | - | - | - | - | - | - | - | - |
| Note Payable related to SRB | - | - | - | - | - | - | - | - |
| Other: | | | | | | | | |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Add description | - | - | - | - | - | - | - | - |
| Total long-term debt obligations | - | - | - | - | - | - | - | - |
| Unamortized bond premium / (discount) | - | - | - | - | - | - | - | |
| Unamortized loss on refunding | - | - | - | - | - | - | - | |
| Total long-term debt obligations, net | - | - | - | - | - | - | - | - |
| Total long-term liabilities | $ 211,090 | - | - | 211,090 | 293,372 | (211,090) | 293,372 | 293,372 |

**University Auxiliary and Research Services Corporation**
Other Information
June 30, 2013
(for inclusion in The California State University)

**5 Future minimum lease payments - capital lease obligations:**

| | Principal | Interest | Principal and Interest |
|---|---|---|---|
| Year ending June 30: | | | |
| 2014 | $ - | - | - |
| 2015 | - | - | - |
| 2016 | - | - | - |
| 2017 | - | - | - |
| 2018 | - | - | - |
| 2019 - 2023 | - | - | - |
| 2024 - 2028 | - | - | - |
| 2029 - 2033 | - | - | - |
| 2034 - 2038 | - | - | - |
| 2039 - 2043 | - | - | - |
| 2044 - 2048 | - | - | - |
| 2049 - 2053 | - | - | - |
| 2054 - 2058 | - | - | - |
| 2059 - 2063 | - | - | - |
| Total minimum lease payments | | | - |
| Less amounts representing interest | | | - |
| Present value of future minimum lease payments | | | - |
| Less: current portion | | | - |
| Capitalized lease obligation, net of current portion | | | $ - |

# University Auxiliary and Research Services Corporation
## Other Information
## June 30, 2013
## (for inclusion in The California State University)

**6 Long-term debt obligation schedule**

| Year ending June 30 | Revenue Bonds | | | All Other Long-Term Debt Obligations | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal and Interest | Principal | Interest | Principal and Interest | Principal | Interest |
| 2014 | $ - | - | - | - | - | - | - | - |
| 2015 | - | - | - | - | - | - | - | - |
| 2016 | - | - | - | - | - | - | - | - |
| 2017 | - | - | - | - | - | - | - | - |
| 2018 | - | - | - | - | - | - | - | - |
| 2019 - 2023 | - | - | - | - | - | - | - | - |
| 2024 - 2028 | - | - | - | - | - | - | - | - |
| 2029 - 2033 | - | - | - | - | - | - | - | - |
| 2034 - 2038 | - | - | - | - | - | - | - | - |
| 2039 - 2043 | - | - | - | - | - | - | - | - |
| 2044 - 2048 | - | - | - | - | - | - | - | - |
| 2049 - 2053 | - | - | - | - | - | - | - | - |
| 2054 - 2058 | - | - | - | - | - | - | - | - |
| 2059 - 2063 | - | - | - | - | - | - | - | - |
| Total | $ - | - | - | - | - | - | - | - |

# University Auxiliary and Research Services Corporation
Other Information
June 30, 2013
(for inclusion in The California State University)

7 **Calculation of net position**

| | Auxiliary Organizations | | Total |
|---|---|---|---|
| | GASB | FASB | Auxiliaries |
| **7.1 Calculation of net position - Net investment in capital assets** | | | |
| Capital assets, net of accumulated depreciation | $ - | 5,780,559 | 5,780,559 |
| Capitalized lease obligations, current portion | - | - | - |
| Capitalized lease obligations, net of current portion | - | - | - |
| Long-term debt obligations, current portion | - | - | - |
| Long-term debt obligations, net of current portion | - | - | - |
| Portion of outstanding debt that is unspent at year-end | - | - | - |
| Other adjustments: (please list) | | | |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Net position - net investment in capital asset | $ - | 5,780,559 | 5,780,559 |
| **7.2 Calculation of net position - Restricted for nonexpendable - endowments** | | | |
| Portion of restricted cash and cash equivalents related to endowments | $ - | - | - |
| Endowment investments | - | - | - |
| Other adjustments: (please list) | | | |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Add description | - | - | - |
| Net position - Restricted for nonexpendable - endowments per SNP | $ - | - | - |

# University Auxiliary and Research Services Corporation
Other Information
Year Ended June 30, 2013
(for inclusion in The California State University)

**8 Transactions with related entities**

| | Amount |
|---|---|
| Payments to University for salaries of University personnel working on contracts, grants and other programs | $ 824,529 |
| Payments to University for other than salaries of University personnel | 6,210,671 |
| Payments received from University for services, space and programs | 719,197 |
| Gifts-in-kind to the University from Auxiliary Organizations | - |
| Gifts (cash or assets) to the University from recognized Auxiliary Organizations | - |
| Accounts (payable to) University (enter as negative number) | (290,212) |
| Other amounts (payable to) University (enter as negative number) | - |
| Accounts receivable from University | 87,216 |
| Other amounts receivable from University | 250,000 |

**9 Other Postemployment Benefits Obligation (OPEB)**

| | |
|---|---|
| Annual required contribution (ARC) | $ 278,168 |
| Contributions during the year | - |
| Increase in net OPEB obligation (NOO) | 278,168 |
| NOO - beginning of year | 1,205,268 |
| NOO - end of year | $ 1,483,436 |

# University Auxiliary and Research Services Corporation
Other Information
June 30, 2013
(for inclusion in The California State University)

**10 Pollution remediation liabilities under GASB Statement No. 49:**

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

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

| | Net Position Class | Amount Dr. (Cr.) |
|---|---|---|
| Net position as of June 30, 2012, as previously reported | | $ 10,121,975 |
| Prior period adjustments: | | |
| 1 (list description of each adjustment) | | - |
| 2 (list description of each adjustment) | | - |
| 3 (list description of each adjustment) | | - |
| 4 (list description of each adjustment) | | - |
| 5 (list description of each adjustment) | | - |
| 6 (list description of each adjustment) | | - |
| 7 (list description of each adjustment) | | - |
| 8 (list description of each adjustment) | | - |
| 9 (list description of each adjustment) | | - |
| 10 (list description of each adjustment) | | - |
| Net position as of June 30, 2012, as restated | | $ 10,121,975 |

## University Auxiliary and Research Services Corporation
Other Information
June 30, 2013
(for inclusion in The California State University)

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

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

# University Auxiliary and Research Services Corporation

Compliance Report
Year Ended June 30, 2013

McGladrey

Assurance • Tax • Consulting

**Contents**


| | |
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## University Auxiliary and Research Services Corporation

## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2013

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Catalog of Federal Domestic Assistance Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| Research and Development Cluster: | | | |
| National Institutes of Health | | | |
| Direct Programs: | | | |
| Allergy, Immunology and Transplantation Research | 93.855 | N/A | $ 85,854 |
| Biomedical Research and Research Training | 93.859 | N/A | 971,535 |
| Mental Health Research Career/Scientist Development | 93.281 | N/A | 16,010 |
| Diabetes, Digestive and Kidney Diseases Extramural Research | 93.847 | N/A | 170,583 |
| | | | 1,243,982 |
| Passed through Endocrine Society: | | | |
| Biomedical Research and Research Training | 93.859 | IT36GM095349, IT36GM095349-01 | 29,064 |
| Passed through from La Jolla Institute for Allergy and Immunology: | | | |
| Allergy, Immunology and Transplantation Research | 93.855 | 5R01A1070902-04 | 28,070 |
| **Total National Institutes of Health** | | | 1,301,116 |
| U.S. Department of Energy | | | |
| Direct Program: | | | |
| Office of Science Financial Assistance Program | 81.049 | N/A | 79,336 |
| | | | 79,336 |
| National Archives and Records Administration | | | |
| Direct Program: | | | |
| National Historical Publications and Records Grants | 89.003 | N/A | 61,902 |
| | | | 61,902 |
| U.S. Department of Health and Human Services | | | |
| Direct Program: | | | |
| Family and Community Violence Prevention Program | 93.910 | N/A | 42,740 |
| | | | 42,740 |
| National Science Foundation | | | |
| Direct Programs: | | | |
| Computer and Information Science and Engineering | 47.070 | N/A | 157,322 |
| Social, Behavioral and Economic Sciences | 47.075 | N/A | 19,774 |
| Education and Human Resources | 47.076 | N/A | 627,085 |
| International Science and Engineering | 47.079 | N/A | 47,753 |
| Cyberinfrastructure | 47.080 | N/A | 155,191 |
| | | | 1,007,125 |
| Passed through from University of San Diego: | | | |
| Education and Human Resources | 47.076 | DUE 1239797 | 180,474 |
| Polar Programs | 47.078 | ANT-1043435 | 57,085 |
| | | | 237,559 |
| Passed through from San Diego State University: | | | |
| Education Human Resources | 47.076 | DUE 1044172 | 10,350 |
| **Total National Science Foundation** | | | 1,255,034 |

(Continued)

## University Auxiliary and Research Services Corporation

## Schedule of Expenditures of Federal Awards (Continued)
## Year Ended June 30, 2013

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Catalog of Federal Domestic Assistance Number | Pass-Through Entity Identifying Number | | Federal Expenditures |
|---|---|---|---|---|
| U.S. Department of Agriculture, Forest Service | | | | |
| Direct Program: | | | | |
| Hispanic Serving Institutions Education Grants | 10.223 | N/A | | $ 97,260 |
| | | | | 97,260 |
| Environmental Protection Agency Office of Water | | | | |
| Passed through from San José State University: | | | | |
| Water Pollution Control State, Interstate and Tribal Program Support | 66.419 | 198910092, SWRCB 11-074-270 | | 106,695 |
| | | | | 106,695 |
| National Aeronautics and Space Administration | | | | |
| Passed through from University of California, San Diego: | | | | |
| Science Program | 43.001 | NNX11AF24G | | 51,878 |
| | | | | 51,878 |
| Department of Housing and Urban Development | | | | |
| Passed through from the City of San Diego: | | | | |
| Healthy Homes and Lead Hazard Control Programs | 14.901 | FR5300N17 | | 10,000 |
| **Total Research and Development Cluster** | | | * | 3,005,961 |
| TRIO Cluster: | | | | |
| U.S. Department of Education | | | | |
| Direct Programs: | | | | |
| TRIO Cluster: | | | | |
| TRIO – Student Support Services | 84.042 | N/A | | 292,680 |
| TRIO – Talent Search | 84.044 | N/A | | 234,095 |
| TRIO – Upward Bound | 84.047 | N/A | | 266,647 |
| **Total TRIO Cluster** | | | * | 793,422 |
| National Institutes of Health | | | | |
| Direct Programs: | | | | |
| Allergy, Immunology and Transplantation Research | 93.855 | N/A | | 32,182 |
| Biomedical Research and Research Training | 93.859 | N/A | * | 1,332,418 |
| | | | | 1,364,600 |

(Continued)

## University Auxiliary and Research Services Corporation

## Schedule of Expenditures of Federal Awards (Continued)
## Year Ended June 30, 2013

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Catalog of Federal Domestic Assistance Number | Pass-Through Entity Identifying Number | | Federal Expenditures |
|---|---|---|---|---|
| U.S. Department of Education | | | | |
| Direct Programs: | | | | |
| Child Care Access Means Parents in School | 84.335 | N/A | | $ 57,135 |
| English Language Acquisition State Grants | 84.365 | N/A | * | 313,229 |
| Migrant Education – College Assistance Migrant Program | 84.149 | N/A | * | 388,232 |
| | | | | 758,596 |
| Passed through from California Department of Education: | | | | |
| Improving Teacher Quality State Grant | 84.367 | CN110113, CN120273 | | 31,793 |
| Passed through from National Writing Project: | | | | |
| Improving Teacher Quality State Grant | 84.367 | S367D120015 | | 14,462 |
| Passed through from Palomar College: | | | | |
| Higher Education Institutional Aid | 84.031 | P031S100109 | | 171,520 |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | P334A110234 | | 4,105 |
| | | | | 175,625 |
| Passed through from San Diego County Office of Education: | | | | |
| Fund for the Improvement of Education | 84.215 | U215X090454 | | 7,944 |
| **Total U.S. Department of Education** | | | | 988,420 |
| National Science Foundation | | | | |
| Direct Programs: | | | | |
| Education Human Resources | 47.076 | N/A | | 36,067 |
| Passed through University Enterprises: | | | | |
| Education Human Resources | 47.076 | HRD-0802628 | | 23,149 |
| Passed through Physics Teacher Education: | | | | |
| Mathematical and Physical Sciences | 47.049 | PHY-0808790 | | 21,947 |
| Passed through from Miami Dade College: | | | | |
| Computer and Information Science and Engineering | 47.070 | CNS-0940575 | | 36,242 |
| **Total National Science Foundation** | | | | 117,405 |
| Learn and Serve America Higher Education | | | | |
| Passed through from California State University Office of the Chancellor: | | | | |
| Service Learning Program | 94.005 | 10LHPCA001 | | 3,989 |
| **Total Learn and Serve America Higher Education** | | | | 3,989 |
| **Total Expenditures of Federal Awards** | | | | $ 6,273,797 |

* Denotes Major Program
N/A - Not Applicable

See Notes to Schedule of Expenditures of Federal Awards.

**University Auxiliary and Research Services Corporation**

**Notes to Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2013**

## Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of University Auxiliary and Research Services Corporation (the Organization) under programs of the federal government for the year ended June 30, 2013. The information in the Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the Organization.

## Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

McGladrey

## Independent Auditor's 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*

Board of Directors
University Auxiliary and Research
Services Corporation
San Marcos, CA

We have audited, 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, the financial statements of University Auxiliary and Research Services Corporation (the Organization) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 any 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 the Organization'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*.



Member of the RSM International network of independent accounting, tax and consulting firms.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

San Diego, CA
September 24, 2013

McGladrey

**Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Directors
University Auxiliary and Research
Services Corporation
San Marcos, CA

**Report on Compliance for Each Major Federal Program**

We have audited University Auxiliary and Research Services Corporation's (the Organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the Summary of Auditor's 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 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 the Organization'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 the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Organization 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, 2013.



Member of the RSM International network of independent accounting, tax and consulting firms.

**Report on Internal Control Over Compliance**

Management of the Organization 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 the Organization's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine our 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 OMB Circular A-133, 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 the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Organization as of and for the year ended June 30, 2013, and have issued our report thereon dated September 24, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

San Diego, CA
September 24, 2013

**University Auxiliary and Research Services Corporation**

**Schedule of Findings and Questioned Costs**
**Year Ended June 30, 2013**

## I. Summary of Independent Auditor's Results

### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

| | | | |
|---|---|---|---|
| • Material weakness(es) identified? | ____ Yes | _X_ No | |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | ____ Yes | _X_ | None Reported |
| Noncompliance material to financial statements noted? | ____ Yes | _X_ No | |

### Federal Awards

Internal control over major programs:

| | | | |
|---|---|---|---|
| • Material weakness(es) identified? | ____ Yes | _X_ No | |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | ____ Yes | _X_ No | |

Type of auditor's report issued on compliance for major programs: Unmodified

| | | | |
|---|---|---|---|
| • Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | ____ Yes | _X_ No | |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| Various | Research and Development Cluster |
| 93.859 | Biomedical Research and Research Training |
| Various | TRIO Cluster |
| 84.149 | Migrant Education – College Assistance Migrant Program |
| 84.365 | English Language Acquisition State Grants |

| | | | |
|---|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 300,000 | | |
| Auditee qualified as low-risk auditee? | ____ Yes | _X_ No | |

## II. Financial Statement Findings

### A. Significant Deficiencies

No matters were reported.

### B. Compliance Findings

No matters were reported.

## III. Findings and Questioned Costs for Federal Awards

### A. Significant Deficiencies

No matters were reported.

### B. Compliance Findings

No matters were reported.

**University Auxiliary and Research Services Corporation**

**Summary Schedule of Prior Year Audit Findings**
**Year Ended June 30, 2013**

**Findings and Questioned Costs reported during the year ended June 30, 2012 were as follows:**

**For Financial Statements—Significant Deficiencies:**

**2012-01: Revenue Recognition**

**Criteria:** According to the Revenue Recognition Topic of the FASB ASC, revenues of an entity during a period are generally measured by the exchange values of the assets (goods or services) or liabilities involved, and recognition involves consideration of two factors: (1) being realized or realizable; and (2) being earned.

**Condition:** The Organization does not have proper controls in place to identify revenue recognition criteria for its diverse revenue streams. As a result, we noted the following during our audit:

**Context:**

a. The Organization recorded certain transactions that grossed-up revenue and expense, which should have been recorded as "net" transactions. The Organization recorded certain transactions that netted revenue and expense, which should have been recorded as "gross" revenue or expense.

b. The Organization did not properly defer revenues at the end of the fiscal year for two programs that collect registration fees for various noncredit courses offered during the following fiscal year.

c. The Organization recorded a duplicate transaction related to fees from an affiliated organization, which resulted in excess revenue and receivable amounts.

**Effect:** The instances of errors noted above resulted in the following:

a. The net adjustment of these classification errors was an adjustment to increase revenue and increase expense by approximately $446,000.

b. An adjustment was recorded to decrease revenue and increase deferred revenue liability by approximately $112,000.

c. An adjustment was recorded to decrease revenue and decrease receivables by approximately $197,000.

We consider the above errors related to revenue recognition to be significant deficiencies in internal control over financial reporting.

**Cause:** Lack of proper controls, supervision and review over revenue recognition.

**Recommendation:** We recommend the Organization design and establish internal controls to identify the appropriate revenue recognition criteria for each revenue stream.

**Management's response:** The Organization provides payroll services to another campus auxiliary organization in which total payroll costs are reimbursed to the Organization by the campus auxiliary. Since all auxiliary reporting is consolidated at the campus level, management believed it was best to net the total payroll cost reimbursement as an offset to the total payroll expense on the Organization's books since the revenues and costs associated with the payroll transactions also appear on the other campus auxiliary's statement of activities. After discussion with the auditors, management agreed the amounts should have been recorded as gross amounts on the Organization's statements and that the consolidation would take place at the campus level. Management will develop a process to confer with its auditors during the year in regard to proper recording of such transactions.

Management needs to improve its processes to review all revenue transactions near the end of the fiscal year to ensure all deferred revenue items are properly identified and recorded as liabilities instead of revenues.

**Status:** Corrective action was taken.

**2012-02: Allocation of Internal Project Expenses**

**Criteria:** According to the Accounts Receivable Topic of the FASB ASC, accounts receivable are defined as claims against customers and others that arise from selling goods, providing services or advancing funds.

**Condition:** The Organization does not have proper controls in place to review receivables and to facilitate the recording of expense allocations among projects.

**Context:** The Organization reduced its expenses and recorded a receivable for internal project expenses when it should have just allocated and recorded those expenses directly to the projects.

**Effect:** The error resulted in a recorded current year adjustment to decrease receivables and increase expense approximately $127,000. We consider the error to be a significant deficiency in internal control over financial reporting.

**Cause:** Lack of proper controls over expense allocation.

**Recommendation:** We recommend the Organization design and establish internal controls to facilitate the allocation of expenses to internal projects.

**Management's response:** Management will establish internal controls to facilitate the proper recording of cost reimbursements and charges to/from other campus auxiliaries related to accounting and other administrative services that are provided by the Organization.

**Status:** Corrective action was taken.

**For Federal Awards—Compliance Finding:**

**2012-03: Timely Submission of Data Collection Form**

**Criteria:** According to OMB Circular A-133 Section 320 (Report Submission), the data collection form should be submitted on the earlier of 30 days following the receipt of the auditor's report or nine months after the end of the audit period.

**Condition:** The Organization does not have proper controls in place to identify and comply with reporting criteria of the OMB.

**Context:** The Organization filed the data collection form on June 28, 2012, while the audit report was issued on September 21, 2011.

**Effect:** Unknown.

**Cause:** Lack of proper controls over reporting criteria.

**Recommendation:** We recommend the Organization design and establish internal controls to identify and comply with reporting deadlines.

**Management's response:** Management will develop internal controls, which include receipt of proper confirmation from its audit services provider that compliance reporting, such as the Data Collection Form, has been submitted on a timely basis.

**Status:** Corrective action was taken.

# ATTACHMENT E

Revision to Signature Page of
Delegation of Authority Policy

| | |
|---|---|
| **Account Transactions** | |
| Bank and Investment Account Transfers, Withdrawals, Deposits<br><br>***Two signatures required on transfers/withdrawals*** | Grant Hubbard<br>Dora Knoblock<br>Greg Svatora |
| **Contractual Documents** | |
| Agreements or contracts, including property conveyances, service agreements, leases, licenses in the ordinary course of business of UARSC | Grant Hubbard<br>Dora Knoblock<br>Greg Svatora |
| **Expenditure Request/Authorization** | |
| Procurement documentation, including check requests, requisitions, purchase orders in the ordinary course of business of UARSC | Deborah Davis<br>Grant Hubbard<br>Dora Knoblock<br>Greg Svatora |
| | Michelle Hinojosa ~~Selma McDermid~~ |
| Under $500 | Jan Cushman |
| Under $1,000 | Annemarie Broderson |
| Under $1,000 | Patti Kastner |
| Under $1,000 | Michelle Meeks |
| **Negotiable Instruments – Under $5,000** | |
| Commercial checks, sight drafts, other negotiable instruments | Deborah Davis<br>Michelle Hinojosa<br>Grant Hubbard<br>Dora Knoblock<br>Greg Svatora |
| **Negotiable Instruments – More than $5,000** | |
| Commercial checks, sight drafts, other negotiable instruments<br><br>***Two signatures required on checks over $5,000*** | Deborah Davis<br>Michelle Hinojosa<br>Grant Hubbard<br>Dora Knoblock<br>Greg Svatora |
| **Other** | |
| Any transactions outside the ordinary course of business of UARSC will be presented to the Finance and Operations Committee for review and determination of whether Board action is required. | |

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
of Eastern Illinois University

# DELEGATION OF AUTHORITY

## Background and Purpose

The University Auxiliary and Research Services Corporation is engaged in a variety of transactions that require prudent control over the authorization to execute documents that obligate the Corporation or which otherwise confirm financial or contractual transactions.

This statement lists the document types and corresponding signatories required thereon to authorize the transaction associated with each type of document.

## Policy

The Executive Director is authorized to establish written management guidelines consistent with and in implementation of this policy statement, including delegation of authority granted through this policy.

Those with delegated authority may re-delegate in writing to officers, employees or agents of the Corporation, with the approval of the Executive Director and the Board Chairman.

Attached is a description of document types and corresponding authorized signatures.

The undersigned Secretary hereby certifies that the foregoing is a full, true and correct copy of the policy of the Board of Directors of the University Auxiliary and Research Services Corporation duly made at a regular Board meeting on March 26, 2009.

Dora Knoblock
Dora Knoblock, Secretary

03-26-09
Date

Policy Revision Date: 03/26/09
Issue Date: 10/15/01

# ATTACHMENT F

New Board Member Nominations

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

# PROPOSED ADDITIONAL BOARD MEMBER NOMINATIONS FOR 2013/2014

| | |
|---|---|
| **Brandon Losey** | Reappointment<br>~~Student~~ Alumni Member<br>(partial 2-year term, February 27, 2014 through September 2015) |
| **Dawnmarie Myers** | New Appointment<br>Student Member<br>(partial 1-year term, February 27, 2014 through September 2014) |
| **Dimitris Magemeneas** | New Appointment<br>Community Member<br>(partial 3 -year term, February 27, 2014 through September 2016) |

Additional Nominations for 13/14 to be approved
At the Regular Meeting of the
Board of Directors on 11/14/13

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

# Proposed Revision to BOARD TERMS 2013/2014

| | |
|---|---|
| **Terms expiring September 2014** | **Community Member(s)**<br>Ann Bersi *(termed out)*<br><br>**Faculty Member**<br>Camille Schuster<br><br>**Student Member**<br>Brandon Losey (*partial term will end 12/19/13*)<br><br>**Student Member**<br>Dawnmarie Myers *(partial 1-year term beginning 02/27/13)* |
| **Terms expiring September 2015** | **Community Member(s)**<br>David Chang<br>Tres Conrique *(termed out)*<br>Ernest Zomalt *(termed out)*<br><br>**Alumni Member**<br>Brandon Losey *(partial 2-year term beginning 02/27/13)* |
| **Terms expiring September 2016** | **Community Member(s)**<br>Susan Schnepf<br>Sharon Whitehurst-Payne<br>Dimitris Magemeneas *(partial 3-year term beginning 02/27/13)* |
| **Designated Members (voting)** | University President or Designee,<br>Vice President for Academic Affairs,<br>Vice President for Finance & Administrative Services |

Proposed Additional Nominations for 13/14 to be approved at the Regular Meeting of the Board of Directors on 11/14/13

# ATTACHMENT G

Proposed Revision to
Committee Membership 2013/2014

UNIVERSITY
AUXILIARY AND RESEARCH SERVICES
CORPORATION
at California State University San Marcos

# PROPOSED REVISION BOARD COMMITTEES 2013/2014

**EXECUTIVE COMPENSATION COMMITTEE**
Karen Haynes
Ann Bersi, *Chair*

**NOMINATING AND GOVERNANCE COMMITTEE**
Ann Bersi, *Chair*
Ernie Zomalt, *Vice Chair*

***UARSC Staff (non-voting):***
Dora Knoblock

**FINANCE AND OPERATIONS COMMITTEE**
Ann Bersi, *Chair*
Tres Conrique, *Vice Chair*
Linda Hawk
Sharon Whitehurst-Payne

**UARSC Staff (non-voting):**
Dora Knoblock
Greg Svatora

**SPONSORED PROJECTS COMMITTEE**
Ann Bersi, *Chair*
Matt Ceppi
Camille Schuster
**Non-UARSC Board Members (voting):**
Chuck DeLeone *(Faculty Representative)*
Gerardo Gonzalez, *Vice Chair (AVP for Research)*
*Deborah Kristan (Associate Professor, Biology)*
Dora Knoblock *(Executive Director, UARSC)*

**UARSC Staff (non-voting):**
Grant Hubbard

**JOINT AUDIT COMMITTEE of CSUSM Auxiliaries:**
UARSC, Associated Students, Inc., CSUSM Foundation, San Marcos University Corporation
*Chair Vacancy*

***UARSC Board Members (voting)***
David Chang
Brandon Losey
***Non-UARSC Board Members (voting):***
Roger Arnold, *San Marcos University Corporation*
Cipriano Vargas, *ASI*
Vacancy, *CSUSM Foundation*

*Membership for Joint Audit Committee (JAC) through 12/31/13 or until new separate auxiliary audit committees are staffed and approved; After new committees are established, JAC will consist of the UARSC and ASI auxiliaries only. Each auxiliary will approve its membership representatives for the committee.*

Approved at the Annual Meeting of the Board of Directors on 9/5/13; Revision to be approved at the 11/14/13 meeting of the Board of Directors