

**UNIVERSITY ENTERPRISES CORPORATION
AT CSUSB**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2019

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB

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UNIVERSITY ENTERPRISES CORPORATION AT CSUSB

BOARD OF DIRECTORS AS OF JUNE 30, 2019

OFFICERS

Tomás D. Morales, Chief Executive Officer
Sam Sudhakar, Chair
Valerie Zellmer, Vice-Chair
Douglas Freer, Secretary/Treasurer

BOARD MEMBERS

Tomás D. Morales	Director (University President); Board Chief Executive Officer
Sam Sudhakar	Director (Vice President); Board Chair
Valerie Zellmer	Director (Community), Board Vice-Chair
Douglas Freer	Director (Vice President); Board Secretary/Treasurer
Barb Sirotnik	Director (Faculty)
Dorothy Chen-Maynard	Director (Faculty)
Harry Le Grande	Director (Vice President)
Helen Martinez	Director (Student)
Jennifer Sorenson	Director (Staff)
LaNya Lyons	Director (Community)
Prince Ogidikpe	Director (Student)
Robert Nava	Director (Vice President)
Shari McMahon	Director (Vice President)
Taewon Yang	Director (Faculty)
William Stevenson	Director (Community)
William Tooke	Director (Community)
Yusra Serhan	Director (Student)



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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To the Board of Directors of
University Enterprises Corporation at CSUSB
San Bernardino, California

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)
Kirk A. Franks, CPA (Partner Emeritus)

DIRECTORS

Jenny Liu, CPA, MST

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Gardenya Duran, CPA
Brianna Schultz, CPA
Jingjie Wu, CPA
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Jin Gu, CPA, MT
Veronica Hernandez, CPA
Tara R. Thorp, CPA, MSA
Laura Arvizu, CPA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of University Enterprises Corporation at CSUSB (UEC) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities, statement of expenses by natural classification, and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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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 UEC as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the UEC's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of a Matter

As discussed in Note 1 of the financial statements, UEC adopted provisions of Financial Accounting Standards Board Statement ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019, on our consideration of UEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UEC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UEC's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
September 12, 2019

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 2,348,961	\$ 2,305,875
Short-term Investments	7,058,057	8,357,184
Grants Receivable	10,525,592	8,642,571
Due From Related Party	133,781	185,864
Other Receivables	325,075	149,284
Prepaid Expenses	26,652	80,324
Property, Plant and Equipment, Net	5,808,182	2,920,540
Total Assets	\$ 26,226,300	\$ 22,641,642
LIABILITIES		
Accounts Payable	\$ 3,635,687	\$ 1,697,567
Due To Related Party	1,748,199	947,986
Accrued Wages and Benefits	674,734	648,519
Accrued Vacation	487,395	390,481
Other Accrued Liabilities	1,376,069	935,361
Deferred Revenue	3,728,416	4,369,961
Post-employment Medical Benefits	3,419,200	3,611,418
Liabilities for Pension Benefits	1,881,211	2,358,921
Total Liabilities	16,950,911	14,960,214
NET ASSETS		
Without Donor Restrictions		
Undesignated	7,972,656	5,020,768
Board-Designated	1,302,733	2,660,660
Total Without Donor Restrictions	9,275,389	7,681,428
Total Net Assets	9,275,389	7,681,428
Total Liabilities and Net Assets	\$ 26,226,300	\$ 22,641,642

The accompanying notes are an integral part of these financial statements.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
REVENUES				
Commissions	\$ 669,134	\$ -	\$ 669,134	\$ 1,120,867
Grants and Contracts	34,764,479	-	34,764,479	32,590,332
Special Programs	651,103	-	651,103	670,891
Parent Fees	293,399	-	293,399	289,021
Investment Income, Net	125,065	-	125,065	109,318
Gain/(Loss) on Disposal of Asset	(161,183)	-	(161,183)	-
Unrealized Gain (Loss) on Investments	(5,688)	-	(5,688)	6,824
Realized Gain (Loss) on Investments	15,751	-	15,751	2,466
Miscellaneous Income	1,976,448	-	1,976,448	1,179,253
Contract Settlements	-	-	-	468,036
Total Revenues from Operations	38,328,508	-	38,328,508	36,437,008
Transfers from University/Other Auxiliary Organizations	614,979	-	614,979	766,882
Total Revenues	38,943,487	-	38,943,487	37,203,890
EXPENSES				
Program Expenses:				
Commercial Operations	539,719	-	539,719	380,029
Sponsored Programs	35,487,103	-	35,487,103	32,985,449
Campus Programs	1,360,979	-	1,360,979	1,351,059
Management and General	196,051	-	196,051	177,416
Total Program and General Expenses	37,583,852	-	37,583,852	34,893,953
CHANGES IN NET ASSETS FROM PROGRAM ACTIVITIES	1,359,635	-	1,359,635	2,309,937
OTHER ADJUSTMENTS				
Transfers to University/Other Auxiliary Organizations	435,604	-	435,604	371,019
Net Change in Pension Liability Valuation	(477,712)	-	(477,712)	(347,533)
Net Change in OPEB Liability Valuation	(192,218)	-	(192,218)	(924,934)
Total Other Adjustments	(234,326)	-	(234,326)	(901,448)
CHANGES IN NET ASSETS INCLUDING OTHER ADJUSTMENTS	1,593,961	-	1,593,961	3,211,385
NET ASSETS, Beginning of Year	7,681,428	-	7,681,428	4,470,043
NET ASSETS, End of Year	\$ 9,275,389	\$ -	\$ 9,275,389	\$ 7,681,428

The accompanying notes are an integral part of these financial statements.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	2019				Supporting Activities	
	Program Activities			Total Program Activities	Management and General	Total Expenses
	Commercial Operations	Sponsored Programs	Campus Programs			
Salaries	\$ -	\$ 12,775,542	\$ 837,520	\$ 13,613,062	\$ 671,159	\$ 14,284,221
Employee benefits	-	3,975,320	248,137	4,223,457	389,925	4,613,382
Administrative costs	-	37,185	1,347	38,532	6,729	45,261
Bad debts	-	-	-	-	8,497	8,497
Bank and credit fees	-	269	1,270	1,539	7,925	9,464
Small equipment purchases	3,032	442,372	3,746	449,150	39,444	488,594
Conferences and meetings	-	38,722	44,226	82,948	2,103	85,051
Contract services	18,563	3,734,605	-	3,753,168	77,382	3,830,550
Cost of goods sold	41,090	-	-	41,090	-	41,090
Depreciation	242,391	186,131	54,248	482,770	61,873	544,643
Campus Services Expense	3,000	-	-	3,000	1,817,650	1,820,650
Dues, memberships and subscriptions	859	2,537	-	3,396	9,343	12,739
Food	-	23,802	26,587	50,389	-	50,389
Grant Indirect Costs	-	3,459,724	-	3,459,724	(3,459,724)	-
Honoraria	-	8,714	-	8,714	400	9,114
Information technology costs	18,789	197,322	18,711	234,822	409	235,231
Insurance	-	15,721	7,246	22,967	67,272	90,239
Licenses and permits	5,258	13,588	1,771	20,617	11,770	32,387
Grant Subrecipient Costs	-	2,130,268	-	2,130,268	-	2,130,268
Other expenses	724	759,366	11,294	771,384	115,150	886,534
Postage	-	32	40	72	5,535	5,607
Printing	-	26,316	1,325	27,641	5,165	32,806
Professional development and training	-	87,409	635	88,044	7,523	95,567
Professional fees	325	-	4,074	4,399	47,726	52,125
Public relations	1,564	18,266	669	20,499	1,300	21,799
Rental, equipment and space	78,498	933,903	-	1,012,401	3,484	1,015,885
Repairs	64,088	11,780	-	75,868	28,207	104,075
Stipends, room and board	-	4,295,105	-	4,295,105	-	4,295,105
Supplies	25,773	824,718	91,800	942,291	183,464	1,125,755
Travel	-	1,337,489	345	1,337,834	71,476	1,409,310
Utilities and telephone	35,765	150,897	5,988	192,650	14,864	207,514
Total program and general expenses	\$ 539,719	\$ 35,487,103	\$ 1,360,979	\$ 37,387,801	\$ 196,051	\$ 37,583,852

The accompanying notes are an integral part of these financial statements.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	2018					
	Program Activities			Supporting Activities		
	Commercial Operations	Sponsored Programs	Campus Programs	Total Program Activities	Management and General	Total Expenses
Salaries	\$ -	\$ 11,764,317	\$ 811,530	\$ 12,575,847	\$ 675,618	\$ 13,251,465
Employee Benefits	-	3,406,080	179,066	3,585,146	346,610	3,931,756
Administrative Costs	-	6,459	1,005	7,464	12,909	20,373
Bad Debts	-	-	-	-	275	275
Bank and Credit Fees	-	138	572	710	5,494	6,204
Small Equipment Purchases	21,856	1,026,924	2,712	1,051,492	5,676	1,057,168
Campus Services Expense	-	-	-	0	1,637,457	1,637,457
Conferences and Meetings	-	12,166	32,160	44,326	211	44,537
Contract Services	23,548	3,356,077	11,917	3,391,542	119,397	3,510,939
Cost of Goods Sold	48,151	-	-	48,151	-	48,151
Depreciation	79,545	178,284	54,850	312,679	55,418	368,097
Dues, Memberships and Subscriptions	-	69	1,469	1,538	23,323	24,861
Food	-	22,038	22,831	44,869	-	44,869
Grant Indirect Costs	-	3,263,244	-	3,263,244	(3,263,244)	-
Grant Subrecipient Costs	-	1,599,151	-	1,599,151	-	1,599,151
Honoraria	-	8,651	-	8,651	500	9,151
Information technology costs	40,819	165,706	89,415	295,940	5,470	301,410
Insurance	-	15,312	6,997	22,309	65,461	87,770
Licenses and permits	389	14,770	1,520	16,679	11,420	28,099
Other expenses	1,355	280,506	6,077	287,938	143,067	431,005
Postage	-	2,077	90	2,167	4,619	6,786
Printing	-	52,839	2,254	55,093	2,723	57,816
Professional development and training	-	89,463	-	89,463	11,422	100,885
Professional fees	-	25,000	4,074	29,074	63,792	92,866
Public relations	-	3,200	-	3,200	1,475	4,675
Rental, equipment and space	73,300	937,711	-	1,011,011	3,698	1,014,709
Repairs	48,545	139,019	-	187,564	43,342	230,906
Stipends, room and board	-	4,257,647	-	4,257,647	21,062	4,278,709
Supplies	3,652	1,197,621	117,357	1,318,630	103,134	1,421,764
Travel	-	1,039,094	442	1,039,536	68,741	1,108,277
Utilities and telephone	38,869	121,886	4,721	165,476	8,346	173,822
Total	\$ 380,029	\$ 32,985,449	\$ 1,351,059	\$ 34,716,537	\$ 177,416	\$ 34,893,953

The accompanying notes are an integral part of these financial statements.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,593,961	\$ 3,211,385
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	544,643	368,097
Unrealized (gain) loss on investments	5,688	(6,824)
(Gain) loss on disposal of fixed assets	169,183	-
(Increase) decrease in:		
Grants receivable	(1,883,021)	(2,005,518)
Due from related party	52,083	(85,882)
Other receivables	(183,791)	29,804
Prepaid expenses	53,672	(75,850)
Increase (decrease) in:		
Accounts payable	1,938,120	808,260
Due to related party	800,213	(138,560)
Accrued wages and benefits	26,215	(27,966)
Accrued vacation	96,914	116,128
Other accrued liabilities	440,708	(351,627)
Deferred revenue	(641,545)	(1,199,478)
Post-employment medical benefits	(192,218)	(1,273,733)
Actuarial pension related items	(477,710)	(347,535)
Total adjustments	749,154	(4,190,684)
Net cash provided by (used for) operating activities	2,343,115	(979,299)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments related to the construction of capital assets	290,584	(345,838)
Payments related to the acquisition of capital assets	(3,892,052)	(628,766)
Proceeds from disposal of fixed assets	8,000	-
Purchase/sale of investments	1,293,439	986,379
Net cash provided by (used for) investing activities	(2,300,029)	11,775
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,086	(967,524)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,305,875	3,273,399
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,348,961	\$ 2,305,875

The accompanying notes are an integral part of these financial statements.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The Foundation was created on July 31, 1962 as the San Bernardino-Riverside State College Foundation pursuant to the general Non-Profit Corporation Laws of the State of California. On October 30, 1984, the name of the Corporation was changed to The Foundation for California State University, San Bernardino (The Foundation). On July 1, 2011, the name of the Corporation was changed to University Enterprises Corporation at CSUSB (UEC). At that time all endowment and gift assets, with the exception of charitable remainder trusts set up with the UEC acting as trustee, were transferred to the newly created Philanthropic Foundation. The UEC was organized to promote and assist education, administration and related services of the California State University, San Bernardino. The UEC operates as an auxiliary organization of the California State University, San Bernardino (University) under an operating agreement with the Trustees of the California State University (Trustees) which expires December 31, 2020.

Major Program Services

The UEC's major program services include:

Commercial Operations, consisting of vending and contract oversight of campus bookstore and dining service operations.

Sponsored Programs, which includes the operation and administration of externally funded sponsored projects in support of the instructional, research and public functions of the University.

Campus Programs, consisting of the operation of the on-campus Child Care Center, Infant Toddler Center, PC Lab, and Alumni Relations.

Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Accordingly, actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES,
(continued)

Basis of Accounting and Presentation

The financial statements of the UEC have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205. Accordingly, information regarding financial position, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UEC and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations, and which may be designated for specific purposes by action of the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities, other than endowment and similar funds, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets; net assets released from restrictions.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES,
(continued)

Cash and Cash Equivalents and Concentrations

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments with a maturity of three months or less from date of purchase. UEC maintains its cash balances in three financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000 per depositor, per insured bank, for each account ownership category. These balances may at times exceed the FDIC limit. As of June 30, 2019, UEC had \$2,348,583 above federally insured limits. However, the financial institutions have secured the deposits by pledging securities in an individual collateral pool, held by a depository, regulated under state law. Accordingly, UEC believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The fair value of investments in securities is based on the quoted market price of the underlying securities. Investments in real estate are stated at acquisition cost. Unrealized gains and losses are included in the change in net assets. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

Prepaid Expenses

Prepaid expenses are advance payments for products or services that will be used in UEC's programs or activities in subsequent periods.

Receivables and Allowances

Other receivables are presented net of an allowance for doubtful accounts. The allowance is based on prior years' experience and management's estimate of collectability. Management estimates that all receivables at June 30, 2019 are fully collectible, and therefore no allowance has been presented.

Property, Plant and Equipment

Property, plant and equipment are carried at cost or, if contributed, at fair market value at the date of contribution. Intangible assets include patents and software. UEC's policy is to capitalize additions and improvements that significantly add to productive capacity or extend the useful life of an asset and are above \$5,000. Repairs and maintenance are charged to operations as incurred. Costs and related allowances for depreciation of property, plant and equipment sold or otherwise retired are eliminated from the accounts and gains or losses on disposition are included in the changes in net assets. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES,
(continued)

Property, Plant and Equipment, (continued)

Property acquired with federal and/or state funds is considered to be owned by UEC while used in the program(s) for which it was purchased or in other future authorized programs. Disposition of such equipment and the ownership of any proceeds there from is subject to federal and state regulations.

Donated Materials, Services and Other Assets

Donated materials and other assets such as stocks, bonds and other long-lived assets are recorded at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. UEC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. UEC reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

As permitted by FASB ASC 958-605-50-1, no amounts have been reflected in the financial statement for donated services. UEC generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist UEC with specific assistance programs. UEC does not track the extent or quantity of donated services by its volunteers, and accordingly, no monetary or nonmonetary information has been disclosed.

Grants and Contracts

UEC records revenue from grants and similar contracts as the conditions of the grant or contract are satisfied.

Concentrations

Receivables at June 30, 2019 include amounts due from students, governmental funding sources, and the California State University, San Bernardino.

Income Taxes

UEC is a Not-for-Profit tax-exempt Corporation organized under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation. The UEC had no obligation for any unrelated business income tax during the year.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES,
(continued)

Income Taxes, (continued)

UEC files informational tax returns in the U.S. federal jurisdictions and the state of California. UEC is no longer subject to U.S. federal and state examinations for years before 2015.

Comparative Totals

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with UEC's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2018 comparative totals have been reclassified to conform to the 2019 reporting format.

Subsequent Events

Management has evaluated subsequent events through September 12, 2019, the date the financial statements were available to be issued.

Implementation of New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. UEC has adjusted the presentation of these financial statements accordingly.

NOTE 2: INVESTMENTS AND FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: INVESTMENTS AND FAIR VALUE MEASUREMENTS, (continued)

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Funds – Money Market Funds are valued at net asset value (NAV) of \$1 per share, and are comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments.

Mutual Funds – Shares of mutual funds are valued at quoted market prices, which represent the net assets value of shares held by UEC at year-end.

Equity Securities – Equity securities are valued at last quoted sales price as of the close of trading at year-end; such securities, not traded on the year-end date, are valued at the last quoted bid price.

Fixed Income Securities – Fixed income securities are valued using the last quoted bid price.

Investment Pool (SWIFT) – The pool investment is reported at fair value as provided by the University System.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although UEC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: INVESTMENTS AND FAIR VALUE MEASUREMENTS, (continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2019 are as follows:

	<u>Total</u>	<u>Fair Value Measurements at June 30, 2019</u>		<u>Not Subject to GASB 72</u>
		<u>Level 1</u>	<u>Level 2</u>	
Short-term investments:				
Money market funds	\$ 617,869	\$ -	\$ 617,869	\$ -
SWIFT investment fund	6,265,112	-	6,220,867	44,245
Mutual funds	72,526	72,526	-	-
Equity securities	102,550	102,550	-	-
Total short-term investments	<u>\$ 7,058,057</u>	<u>\$ 175,076</u>	<u>\$ 6,838,736</u>	<u>\$ 44,245</u>

UEC has pooled investments with the CSU Systemwide Investment Fund Trust (SWIFT). As a result of a 2007 change in Education Code 89721(l) that allowed CSU to self-manage student tuition and fees, CSU created a central banking system and created the SWIFT investment portfolio for the purpose of enhancing centralized cash and investment management. Because the central banking system and SWIFT are inextricably linked, each member in the central banking system is also a member in SWIFT, also referred to collectively as The Bank of CSU. These funds are reported as a short-term investment. The SWIFT consists of investments of cash on an overnight and/or short-term basis, the funds representing the float on funds collected from all eligible sources prior to their use for payment of accounts payable and payroll. Excess cash over and above what is needed to fund short-term payables and payroll are transferred to medium or longer term investments.

UEC relies upon information provided by the SWIFT in estimating the fair value position of its holdings in it. UEC's holdings in SWIFT had a value of \$6,265,112 as of June 30, 2019. SWIFT is not subject to a credit quality rating. At June 30, 2019, SWIFT had invested \$155 million in asset and mortgage backed securities. SWIFT also had \$11 million invested in repurchase agreements. The allocated totals for each investment type are derived from the percentage of the UEC's investment balance in relation to the pool's investment balance applied to the pools total balance for each investment category. Details of the SWIFT investment portfolio are shown below.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: INVESTMENTS AND FAIR VALUE MEASUREMENTS, (continued)

	Total	Fair Value Measurements at June 30, 2019		Not Subject to GASB 72
		Level 1	Level 2	
SWIFT Investments				
Asset Backed Securities	\$ 261,560	\$ -	\$ 261,560	\$ -
Certificates of Deposit	259,489	-	259,489	-
Corporate Bonds	1,731,992	-	1,731,992	-
Money Market Funds	44,245	-	-	44,245
Mortgage Backed Securities	346	-	346	-
Municipal Bonds	85,676	-	85,676	-
Repurchase Agreement	17,770	-	17,770	-
US Agency Securities	1,807,751	-	1,807,751	-
US Treasury Securities	2,056,283	-	2,056,283	-
Total SWIFT Investments	<u>\$ 6,265,112</u>	<u>\$ -</u>	<u>\$ 6,220,867</u>	<u>\$ 44,245</u>

A summary of investment income for the year ended June 30, 2019 follows:

	Without Donor Restrictions	With Donor Restrictions
Interest and dividends, net	\$ 125,065	\$ -
Unrealized gain (loss) on investments	(5,688)	-
Realized gain (loss) on investments	15,751	-
 Total investment income	 <u>\$ 135,128</u>	 <u>\$ -</u>

Investment fees for the year ended June 30, 2019 amounted to \$1,147 and are netted against investment income on the Statement of Activities.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2019:

Land	\$ 4,640
Construction in process	158,360
Buildings	6,500,263
Equipment, furniture and fixtures	4,348,715
Leasehold improvements	481,974
Intangible assets	189,057
	<u>11,683,009</u>
Less: accumulated depreciation and amortization	<u>(5,874,827)</u>
Property, plant and equipment, net	<u>\$ 5,808,182</u>

The buildings are located on land leased from the State of California. Because of the relationship between UEC and the University, the building is being depreciated over its estimated useful life rather than the term of the lease which expired December 31, 2017.

Depreciation expense for the year ended June 30, 2019 was \$544,643.

NOTE 4: BOARD-DESIGNATED AND DONOR RESTRICTED NET ASSETS

UEC's governing board has designated, from net assets without donor restrictions of \$9,275,389, net assets for the following purposes as of June 30, 2019:

Board-Designated Net Assets	
Current Operations Reserve	\$ 302,253
Working Capital Reserve	415,469
Unplanned Capital Replacement Reserve	184,620
Undesignated General Reserve	50,391
Sponsored Programs Reserve for Disallowances	350,000
Total Board-Designated Net Assets	<u>\$ 1,302,733</u>

There were no net assets with donor restrictions at June 30, 2019.

NOTE 5: COMMISSIONS

UEC receives a percentage of proceeds derived from Bookstore and Food Services operations as well as vending machines. The contractor of the Bookstore operation provides a guaranteed commission for the life of the contract. The Food Services commission is based on a percentage of gross sales.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN

Plan Description

UEC contributes to the California Public Employees' Retirement System (PERS), a cost-sharing multiple employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. All employees who are current members of PERS or employed for more than six months or accumulate 1,000 hours of paid employment are eligible to participate in PERS. Benefits vest after five years of PERS credited service, usually five years of full-time service. UEC employees who retire at or after age 50 with five years of credited service are entitled to an annual retirement benefit, payable for life, in an amount equal to a percent of pay, on a scale based on age and years of service, of the average monthly pay rate for the highest consecutive 12 months of compensation. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and UEC policies.

Effective January 1, 2013, Public Employees' Pension Reform Act (PEPRA) implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member as per PEPRA.

Funding Policy

UEC employees are required to contribute five percent of their annual covered earnings over \$513. UEC is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. The required employer contribution rate for the year ended June 30, 2019 was 12.209% for the miscellaneous plan and 7.266% for the miscellaneous tier 1 plan (PEPRA). The payroll for employees covered by PERS for the year ended June 30, 2019 was \$7,447,673. Total payroll for the year ended June 30, 2019 amounted to \$12,183,167. Employer contributions for the year ended June 30, 2019 were \$671,113 based on amounts required to be contributed. Total employee contributions for the year ended June 30, 2019 were \$427,203.

The following table presents a reconciliation of net pension liability:

	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Miscellaneous Plan	<u>\$ 28,971,706</u>	<u>\$ 25,646,497</u>	<u>\$ 3,325,209</u>

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN, (continued)

Funding Policy, (continued)

Plan Assets and Funded Status of the plan:

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Funding Actuarial Excess</u>	<u>Funded Ratio AVA</u>
6/30/2018	\$ 28,971,706	\$ 25,646,497	\$ 3,325,209	88.5%

Items not yet recognized as a component of net periodic pension cost during the year are as follows:

	<u>Future Pension Cost Outflows</u>	<u>Future Pension Cost Inflows</u>
Adjustment due to differences in proportions	\$ 851,441	\$ -
Net difference between projected and actual earnings on pension plan		
Investments	16,439	-
Employer contributions made subsequent to measurement date	671,113	-
Difference between contributions and proportionate share of contributions	-	(465,340)
Changes in actuarial assumptions	379,084	(92,905)
Difference between expected and actual experience	127,582	(43,416)
Total	<u>\$ 2,045,659</u>	<u>\$ (601,661)</u>

Net actuarial pension expenses recognized as expenses in the Statement of Activities for the year was \$193,401.

Total liabilities for pension benefits recognized in the statement of financial position:

Net pension liability	\$ 3,325,209
Future pension cost outflows	(2,045,659)
Future pension cost inflows	601,661
Total liabilities for pension benefits	<u>\$ 1,881,211</u>

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN, (continued)

Actuarial Assumptions

	<u>Miscellaneous Plans</u>
Valuation Date	6/30/2017
Measurement Date	6/30/2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Amortization Method	Level of Percent of Payroll
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation Rate	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15%
	Derived using CalPERS' Membership Data for all Funds
Mortality Rate Table (1)	
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

(1) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Change of Assumption

In fiscal year 2019 (measurement date June 30, 2018), the inflation rate was reduced from 2.75 percent to 2.50 percent.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS

UEC has one retiree health plan that offers active and retired employees the option of enrolling in certain HMO or indemnity plans available through the program. UEC currently pays up to \$494 per month for retiree coverage, \$940 per month for coverage with one dependent and \$1,190 for coverage with two or more dependents of retirees. Retiree contributions are to fund the cost of coverage that exceeds these amounts. The accounting for the health care plan anticipates future cost-sharing changes to the written plan that are consistent with UEC's past practice and management's intent to manage plan costs. In particular, UEC's maximum increase in the capped contribution is assumed to be limited to 2.5 percent.

UEC no longer offers retiree medical benefits to employees hired after September 11, 2009.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS, (continued)

The following is a summary of change in accumulated post-employment benefit obligation, change in plan assets, and funded status of the plan.

	June 30, 2019
<i>Change in accumulated post-employment benefit obligation (APBO)</i>	
APBO at beginning of year	\$ 5,501,756
Service cost (excluding expenses)	57,859
Interest cost	204,646
Actuarial (gain) loss	174,118
Benefits paid	(185,690)
APBO at end of year	5,752,689
 <i>Change in plan assets</i>	
Fair value of assets at beginning of year	1,890,338
Net return on plan assets less plan expenses	93,151
Employer contribution	535,690
Benefits paid	(185,690)
Fair value of plan assets at end of year	2,333,489
 <i>Funded status - unfunded net OPEB liability</i>	 \$ 3,419,200
 <i>Amounts recognized in the statement of financial position position consist of:</i>	
Current liabilities	225,298
Noncurrent liabilities	3,193,902
Total recognized on Statement of Financial Position	\$ 3,419,200
 <i>Components of net periodic post-employment benefit cost (NPPBC)</i>	
Service cost (including expenses)	\$ 57,859
Interest cost	204,646
Expected return on plan assets	(117,920)
Amortization of net (gain) loss	(277,071)
Net periodic post-employment benefit cost	(132,486)
 <i>Other changes in plan assets and benefit obligations</i>	
Net actuarial (gain) loss	198,887
Amortization of net gain/(loss)	277,071
Total recognized	475,958
 Total recognized in change in net assets	 \$ 343,472

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS, (continued)

The assumptions used in the measurement of UEC's benefit obligation and net periodic post-employment benefit cost included a 3.40 percent weighted-average discount rate as of and for the year ended June 30, 2019. The 3.40 percent discount rate represented a 0.50 percent decrease from the 4.10 percent weighted-average discount rate used for as of and for the year ended June 30, 2018.

Medical plan premiums and CalPERS minimum employer contributions are assumed to increase at rates shown in the following table:

<u>Year</u>	<u>Rate</u>
2020	5.00%
2021+	4.50%

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one percent increase in the assumed healthcare trend rates would have the following effects:

	<u>Increase</u>	<u>Increase</u>
Accumulated post-employment benefit obligation	\$ 951,404	16.54%

A one percent decrease in the assumed healthcare trend rates would have the following effects:

	<u>Decrease</u>	<u>Decrease</u>
Accumulated post-employment benefit obligation	\$ 755,276	13.13%

The Plan is funded on a pay-as-you-go basis; the expected contribution for the following year is the same as the expected future benefit payments for such year. UEC paid \$202,558 during the year ended June 30, 2019, for current benefit costs.

The expected benefits to be paid are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 225,298
2021	243,864
2022	249,158
2023	247,698
2024	261,206
2025-2029	1,325,429

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8: RELATED PARTIES AND ECONOMIC DEPENDENCY

As discussed in Note 1, UEC operates under an agreement with the Trustees as an auxiliary organization of the University. Accordingly, essentially all revenues and realization of certain assets, are dependent upon the continuation of this agreement. UEC leases space for its bookstore operations, the Center for Developmental Activities, and the land for UEC's offices for nominal rent from the State of California. U.S. generally accepted accounting principles require that contribution revenue and rent expense be recorded for the difference between a fair market rent and the amount actually charged under these leases. However, UEC has not determined a fair market rent and, accordingly, these amounts are not recorded in the financial statements.

A schedule of related party transactions between UEC, University, and other auxiliary organizations are as follows:

As of June 30, 2019	CSUSB	Associated Students, Inc.	Philanthropic Foundation	Santos Manuel Student Union	Total
<u>Revenues</u>					
Payments received from Univ/Aux for services, space, and programs	\$ 1,959,698	\$ 153,882	\$ 310,656	\$ -	\$ 2,424,236
<u>Expenses</u>					
Payments to Univ/Aux for salaries of personnel working on contracts, grants, and other programs	3,236,459	-	15,234	21,022	3,272,715
Payments to Univ/Aux for other than salaries of personnel	4,175,374	-	94,108	159,800	4,429,282
<u>(Due to) Due from</u>					
Accounts Receivable due from Univ/Aux	128,131	-	5,650	-	133,781
Accounts Payable due to Univ/Aux	(1,726,726)	-	(3,600)	(17,873)	(1,748,199)
<u>Transfers (net)</u>	106,402	-	(285,777)	-	(179,375)

NOTE 9: AVAILABLE RESOURCES AND LIQUIDITY

UEC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. UEC has various sources of liquidity at its disposal, including cash and cash equivalents, short-term debt and equity securities, and receivables due within the next 12 months.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, UEC considers all expenditures related to its ongoing activities of commercial operations, campus programs, and sponsored programs, as well as the general and administrative services undertaken to support those activities to be general expenditures.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9: AVAILABLE RESOURCES AND LIQUIDITY, (continued)

In addition to financial assets available to meet general expenditures over the next 12 months, UEC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of UEC's cash and shows positive cash generated by operations for fiscal year 2019.

As of June 30, 2018 and 2019, the following tables show the total financial assets held by UEC and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date.

Financial Assets:	2019	2018
Cash and Cash Equivalents	\$ 2,348,961	\$ 2,305,875
Investments Convertible to Cash in the Next 12 Months	7,058,057	8,357,184
Grants Receivable	10,525,592	8,642,571
Due From Related Party	133,781	185,864
Other Receivables	325,075	149,284
Other Long-Term Assets	5,834,834	3,000,864
Total	\$ 26,226,300	\$ 22,641,642

Financial Assets Available to Meet General Expenditures

Over the Next 12 Months:	2019	2018
Cash and Cash Equivalents	\$ 2,348,961	\$ 2,305,875
Investments Convertible to Cash in the Next 12 Months	7,058,057	8,357,184
Grants Receivable	10,525,592	8,642,571
Due From Related Party	133,781	185,864
Other Receivables	325,075	149,284
Total	\$ 20,391,466	\$ 19,640,778

NOTE 10: RESTATEMENT OF FINANCIAL STATEMENTS

The beginning net assets at July 1, 2018, for Net Assets With Donor Restrictions was restated to properly reflect a donated asset that was placed in service in 2011. The total restatement resulted in \$276,633 being reclassified from Net Assets With Donor Restrictions to Net Assets Without Donor Restrictions.

SUPPLEMENTARY INFORMATION

University Enterprises Corporation at CSUSB
Schedule of Net Position
June 30, 2019
(for inclusion in the California State University)

Assets:		
Current assets:		
Cash and cash equivalents	\$	2,348,961
Short-term investments		7,058,057
Accounts receivable, net		10,984,448
Capital lease receivable, current portion		—
Notes receivable, current portion		—
Pledges receivable, net		—
Prepaid expenses and other current assets		26,652
Total current assets		<u>20,418,118</u>
Noncurrent assets:		
Restricted cash and cash equivalents		—
Accounts receivable, net		—
Capital lease receivable, net of current portion		—
Notes receivable, net of current portion		—
Student loans receivable, net		—
Pledges receivable, net		—
Endowment investments		—
Other long-term investments		—
Capital assets, net		5,808,182
Other assets		—
Total noncurrent assets		<u>5,808,182</u>
Total assets		<u>26,226,300</u>
Deferred outflows of resources:		
Unamortized loss on debt refunding		—
Net pension liability		2,045,659
Net OPEB liability		—
Others		—
Total deferred outflows of resources		<u>2,045,659</u>
Liabilities:		
Current liabilities:		
Accounts payable		5,383,886
Accrued salaries and benefits		674,734
Accrued compensated absences, current portion		243,697
Unearned revenues		3,728,416
Capital lease obligations, current portion		—
Long-term debt obligations, current portion		—
Claims liability for losses and loss adjustment expenses, current portion		—
Depository accounts		—
Other liabilities		1,376,069
Total current liabilities		<u>11,406,802</u>
Noncurrent liabilities:		
Accrued compensated absences, net of current portion		243,698
Unearned revenues		—
Grants refundable		—
Capital lease obligations, net of current portion		—
Long-term debt obligations, net of current portion		—
Claims liability for losses and loss adjustment expenses, net of current portion		—
Depository accounts		—
Net other postemployment benefits liability		3,419,200
Net pension liability		3,325,209
Other liabilities		—
Total noncurrent liabilities		<u>6,988,107</u>
Total liabilities		<u>18,394,909</u>
Deferred inflows of resources:		
Service concession arrangements		—
Net pension liability		601,661
Net OPEB liability		—
Unamortized gain on debt refunding		—
Nonexchange transactions		—
Others		—
Total deferred inflows of resources		<u>601,661</u>
Net Position:		
Net investment in capital assets		5,808,182
Restricted for:		—
Nonexpendable – endowments		—
Expendable:		—
Scholarships and fellowships		—
Research		—
Loans		—
Capital projects		—
Debt service		—
Others		—
Unrestricted		3,467,207
Total net position		<u>\$ 9,275,389</u>

See the accompanying independent's auditor's report.

University Enterprises Corporation at CSUSB
Schedule of Revenues, Expenses, and Changes in Net Position
June 30, 2019
(for inclusion in the California State University)

Revenues:

Operating revenues:

Student tuition and fees, gross	\$	—
Scholarship allowances (enter as negative)		—
Grants and contracts, noncapital:		
Federal		19,965,581
State		11,856,439
Local		2,431,305
Nongovernmental		511,154
Sales and services of educational activities		—
Sales and services of auxiliary enterprises, gross		—
Scholarship allowances (enter as negative)		—
Other operating revenues		3,605,835
Total operating revenues		<u>38,370,314</u>

Expenses:

Operating expenses:

Instruction		201,943
Research		17,305,647
Public service		6,157,351
Academic support		180,036
Student services		7,964,159
Institutional support		32,112
Operation and maintenance of plant		—
Student grants and scholarships		—
Auxiliary enterprise expenses		5,197,961
Depreciation and amortization		544,643
Total operating expenses		<u>37,583,852</u>
Operating income (loss)		<u>786,462</u>

Nonoperating revenues (expenses):

State appropriations, noncapital		—
Federal financial aid grants, noncapital		—
State financial aid grants, noncapital		—
Local financial aid grants, noncapital		—
Nongovernmental and other financial aid grants, noncapital		—
Other federal nonoperating grants, noncapital		—
Gifts, noncapital		—
Investment income (loss), net		(41,806)
Endowment income (loss), net		—
Interest expense		—
Other nonoperating revenues (expenses) - excl. interagency transfers		849,305
Other nonoperating revenues (expenses) - interagency transfers		—
Net nonoperating revenues (expenses)		<u>807,499</u>
Income (loss) before other revenues (expenses)		1,593,961
State appropriations, capital		—
Grants and gifts, capital		—
Additions (reductions) to permanent endowments		—
Increase (decrease) in net position		1,593,961

Net position:

Net position at beginning of year, as previously reported		7,681,428
Restatements		—
Net position at beginning of year, as restated		7,681,428
Net position at end of year		<u>\$ 9,275,389</u>

See the accompanying independent's auditor's report.

University Enterprises Corporation at CSUSB
Other Information
June 30, 2019
(for inclusion in the California State University)

1 Cash and cash equivalents:

Portion of restricted cash and cash equivalents related to endowment	\$	-
All other restricted cash and cash equivalent		-
Noncurrent restricted cash and cash equivalents		-
Current cash and cash equivalent:		2,348,961
Total		<u><u>2,348,961</u></u>

2.1 Composition of investments:

	Current	Noncurrent	Total
Money market funds	\$ 617,869	\$ -	617,869
Repurchase agreements	-	-	-
Certificates of deposit	-	-	-
U.S. agency securities	-	-	-
U.S. treasury securities	-	-	-
Municipal bonds	-	-	-
Corporate bonds	-	-	-
Asset backed securities	-	-	-
Mortgage backed securities	-	-	-
Commercial paper	-	-	-
Mutual funds	72,526	-	72,526
Exchange traded funds	-	-	-
Equity securities	102,550	-	102,550
Alternative investments	-	-	-
Private equity (including limited partnerships)	-	-	-
Hedge funds	-	-	-
Managed futures	-	-	-
Real estate investments (including REITs)	-	-	-
Commodities	-	-	-
Derivatives	-	-	-
Other alternative investment type	-	-	-
Other external investment pools (excluding SWIFT)	-	-	-
Other investments	6,265,112	-	6,265,112
State of California Local Agency Investment Fund (LAIF)	-	-	-
State of California Surplus Money Investment Fund (SMIF)	-	-	-
Total investments	<u>7,058,057</u>	<u>-</u>	<u>7,058,057</u>
Less endowment investments (enter as negative number)	-	-	-
Total investments, net of endowments	<u><u>\$ 7,058,057</u></u>	<u><u>-</u></u>	<u><u>7,058,057</u></u>

2.2 Fair value hierarchy in investments:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Money market funds	\$ 617,869	\$ -	\$ 617,869	\$ -	-
Repurchase agreements	-	-	-	-	-
Certificates of deposit	-	-	-	-	-
U.S. agency securities	-	-	-	-	-
U.S. treasury securities	-	-	-	-	-
Municipal bonds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Asset backed securities	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-
Commercial paper	-	-	-	-	-
Mutual funds	72,526	72,526	-	-	-
Exchange traded funds	-	-	-	-	-
Equity securities	102,550	102,550	-	-	-
Alternative investments	-	-	-	-	-
Private equity (including limited partnerships)	-	-	-	-	-
Hedge funds	-	-	-	-	-
Managed futures	-	-	-	-	-
Real estate investments (including REITs)	-	-	-	-	-
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Other alternative investment type	-	-	-	-	-
Other external investment pools (excluding SWIFT)	-	-	-	-	-
Other investments	6,265,112	-	6,220,867	-	44,245
State of California Local Agency Investment Fund (LAIF)	-	-	-	-	-
State of California Surplus Money Investment Fund (SMIF)	-	-	-	-	-
Total investments	<u><u>\$ 7,058,057</u></u>	<u><u>175,076</u></u>	<u><u>6,838,736</u></u>	<u><u>-</u></u>	<u><u>44,245</u></u>

See the accompanying independent's auditor's report.

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2.3 Investments held by the University under contractual agreements:

	Current	Noncurrent	Total
Investments held by the University under contractual agreements (e.g CSU Consolidate SWIFT Inv pool):	\$ 6,265,112	\$ -	\$ 6,265,112

3.1 Composition of capital assets:

	Balance June 30, 2018	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2018 (Restated)	Additions	Retirements	Transfer of completed CWIP	Balance June 30, 2019
Non-depreciable/Non-amortizable capital assets:									
Land and land improvement:	\$ 4,640	-	-	-	\$ 4,640	-	-	-	\$ 4,640
Works of art and historical treasure:	-	-	-	-	-	-	-	-	-
Construction work in progress (CWIP):	448,944	-	-	-	448,944	3,175,402	-	(3,465,986)	158,360
Intangible assets:									
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Intangible assets in progress (PWIP)	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	453,584	-	-	-	453,584	3,175,402	-	(3,465,986)	163,000
Depreciable/Amortizable capital assets:									
Buildings and building improvement	3,936,573	-	-	-	3,936,573	-	-	2,563,690	6,500,263
Improvements, other than building:	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	494,775	-	-	-	494,775	13,301	(34,025)	7,923	481,974
Personal property:									
Equipment	3,739,577	-	-	-	3,739,577	423,539	(708,774)	894,373	4,348,715
Library books and material:	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	72,804	-	-	-	72,804	-	-	-	72,804
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	116,253	-	-	-	116,253	-	-	-	116,253
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	189,057	-	-	-	189,057	-	-	-	189,057
Total depreciable/amortizable capital assets	8,359,982	-	-	-	8,359,982	436,840	(742,799)	3,465,986	11,520,009
Total capital assets	8,813,566	-	-	-	8,813,566	3,612,242	(742,799)	-	11,683,009
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)									
Buildings and building improvement	(2,662,899)	-	-	-	(2,662,899)	(136,107)	-	-	(2,799,006)
Improvements, other than building:	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	(431,779)	-	-	-	(431,779)	(10,132)	23,251	-	(418,660)
Personal property:									
Equipment	(2,609,291)	-	-	-	(2,609,291)	(398,404.00)	539,591	-	(2,468,104)
Library books and material:	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	(72,804)	-	-	-	(72,804)	-	-	-	(72,804)
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	(116,253)	-	-	-	(116,253)	-	-	-	(116,253)
Licenses and permits	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	(189,057)	-	-	-	(189,057)	-	-	-	(189,057)
Total accumulated depreciation/amortization	(5,893,026)	-	-	-	(5,893,026)	(544,643)	562,842	-	(5,874,827)
Total capital assets, net	\$ 2,920,540	-	-	-	2,920,540	3,067,599	(179,957)	-	5,808,182

See the accompanying independent's auditor's report.

University Enterprises Corporation at CSUSB
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3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital asset	\$ 544,643
Amortization expense related to other asset	-
Total depreciation and amortization	<u>\$ 544,643</u>

4 Long-term liabilities:

	Balance June 30, 2018	Prior Period Adjustments/Reclas sifications	Balance June 30, 2018 (Restated)	Additions	Reductions	Balance June 30, 2019	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 390,481	\$ -	\$ 390,481	\$ 660,565	\$ (563,651)	\$ 487,395	\$ 243,697	\$ 243,698
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations:								
Gross balance	-	-	-	-	-	-	-	-
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations	-	-	-	-	-	-	-	-
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	-	-	-	-	-	-	-	-
4.2 Commercial paper	-	-	-	-	-	-	-	-
4.3 Notes payable (SRB related)	-	-	-	-	-	-	-	-
4.4 Others:	-	-	-	-	-	-	-	-
Total others	-	-	-	-	-	-	-	-
Sub-total long-term debt	-	-	-	-	-	-	-	-
4.5 Unamortized net bond premium/(discount)	-	-	-	-	-	-	-	-
Total long-term debt obligations	-	-	-	-	-	-	-	-
Total long-term liabilities	<u>\$ 390,481</u>	<u>-</u>	<u>390,481</u>	<u>660,565</u>	<u>(563,651)</u>	<u>487,395</u>	<u>243,697</u>	<u>243,698</u>

5 Capital lease obligations schedule:

Year ending June 30:	Capital lease obligations related to SRB			All other capital lease obligations			Total capital lease obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
2020			-			-	-	-	-
2021			-			-	-	-	-
2022			-			-	-	-	-
2023			-			-	-	-	-
2024			-			-	-	-	-
2025 - 2029			-			-	-	-	-
2030 - 2034			-			-	-	-	-
2035 - 2039			-			-	-	-	-
2040 - 2044			-			-	-	-	-
2045 - 2049			-			-	-	-	-
Thereafter			-			-	-	-	-
Total minimum lease payments	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less: amounts representing interest									-
Present value of future minimum lease payments									-
Unamortized net premium/(discount)									-
Total capital lease obligations									-
Less: current portion									-
Capital lease obligations, net of current portion									<u>\$ -</u>

See the accompanying independent's auditor's report.

University Enterprises Corporation at CSUSB
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6 Long-term debt obligations schedule:

	Auxiliary revenue bonds (non-SRB related)			All other long-term debt obligations			Total long-term debt obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2020			-			-	-	-	-
2021			-			-	-	-	-
2022			-			-	-	-	-
2023			-			-	-	-	-
2024			-			-	-	-	-
2025 - 2029			-			-	-	-	-
2030 - 2034			-			-	-	-	-
2035 - 2039			-			-	-	-	-
2040 - 2044			-			-	-	-	-
2045 - 2049			-			-	-	-	-
Thereafter			-			-	-	-	-
Total minimum payments	\$ -	-	-	-	-	-	-	-	-
Less: amounts representing interest									-
Present value of future minimum payments									-
Unamortized net premium/(discount)									-
Total long-term debt obligations									-
Less: current portion									-
Long-term debt obligations, net of current portion									\$ -

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 3,236,459
Payments to University for other than salaries of University personnel	\$ 4,175,374
Payments received from University for services, space, and program	\$ 1,959,698
Gifts-in-kind to the University from discretely presented component unit	\$ -
Gifts (cash or assets) to the University from discretely presented component unit	
Accounts (payable to) University (enter as negative number)	\$ (1,726,726)
Other amounts (payable to) University (enter as negative number)	\$ -
Accounts receivable from University (enter as positive number)	\$ 128,131
Other amounts receivable from University (enter as positive number)	\$ -

8 Restatements/Prior period adjustments:

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

	Debit/(Credit)
Transaction #1	
The beginning net assets at July 1, 2018, for Net Assets With Donor Restrictions was restated to properly reflect a donated asset that was placed in service in 2011. The total restatement resulted in \$276,633 being reclassified from Net Assets With Donor Restrictions to Net Assets Without Donor Restrictions.	
Net Position, Restricted for Other	276,633
Net Position, Unrestricted	(276,633)
Transaction #2	
Enter transaction descriptor	

University Enterprises Corporation at CSUSB
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9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	\$ 74,568	\$ 7,547				\$ 119,828	\$ -	\$ 201,943
Research	6,763,506	2,168,549				8,373,592	-	17,305,647
Public service	2,804,569	777,477				2,575,303	-	6,157,349
Academic support	77,858	24,351				77,827	-	180,036
Student services	3,049,942	997,002				3,917,216	-	7,964,160
Institutional support	5,099	394				26,620	-	32,113
Operation and maintenance of plant								-
Student grants and scholarships								-
Auxiliary enterprise expenses	1,508,679	638,062				3,051,220		5,197,961
Depreciation and amortization							544,643	544,643
Total operating expenses	\$ 14,284,221	4,613,382	-	-	-	18,141,606	544,643	37,583,852

10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources

Deferred outflows - unamortized loss on refunding(s)	\$ -
Deferred outflows - net pension liability	2,045,659
Deferred outflows - net OPEB liability	-
Deferred outflows - others:	-

Total deferred outflows - other: -
Total deferred outflows of resources **\$ 2,045,659**

2. Deferred Inflows of Resources

Deferred inflows - service concession arrangement	\$ -
Deferred inflows - net pension liability	601,661
Deferred inflows - net OPEB liability	-
Deferred inflows - unamortized gain on debt refunding(s)	-
Deferred inflows - nonexchange transaction	-
Deferred inflows - others	-

Total deferred inflows - other: -
Total deferred inflows of resources **\$ 601,661**



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**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**

Independent Auditor's Report

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To the Board of Directors of
University Enterprises Corporation at CSUSB
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University Enterprises Corporation at CSUSB (the UEC) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, statement of expenses by natural classification and statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UEC'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 UEC's internal control. Accordingly, we do not express an opinion on the effectiveness of the UEC'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings and Responses* as item 2019-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether UEC'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*.

UEC's Response to Findings

UEC's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* plan. UEC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 UEC'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.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
September 12, 2019

**University Enterprises Corporation at CSUSB
Schedule of Findings and Responses
For the Year Ended June 30, 2019**

2019-1 Segregation of Duties

Conditions and Criteria

During our audit of the University Enterprises Corporation, we noted a lack of segregation of duties in the newly integrated Accounting Services department process. In the current audit year, the Accounting function within the University's Finance and Administration Services division began an organizational restructuring in which the former Auxiliary Accounting department was consolidated with the former University General Accounting department to form the new Accounting Services department. The reorganization was implemented to improve service delivery and continuity, reduce operational redundancies, eliminate unnecessary administrative functions, and strengthen communication between functions.

During the consolidation of the two departments, the proper segregation of duties for accounting staff was not maintained and several key functions of the accounts payable and payroll processes are able to be completed by the same individuals. Proper segregation of duties dictates that the function of recording, authorization, custody and execution are not dominated by one individual. An adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. Adequately segregated duties helps to reduce the possibility of fraud and defalcations from occurring and to ensure the integrity of the information provided by the Accounting Services department's financial reporting system.

Auditor's Recommendation

As stated above, an adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. However, we realize that this is due to the reorganization of the Auxiliary's Accounting department and turnover of key personnel. Unless the University's Finance and Administration department performs a detailed review of the roles and responsibilities of each staff member and segregate their duties appropriately, there may be no practical corrective action possible for this inherent weakness. We believe it is important for management and the Board of Directors to be aware that whenever there is a lack of segregation of duties, the system is far more susceptible to errors or other irregularities, either intentional or unintentional, not being discovered.

Management's Response

As of June 30, 2019, the reorganization was still in process. Management is currently reviewing the roles and responsibilities of each staff as well as developing the appropriate processes and procedures for the new Accounting Services department to ensure that proper segregation of duties is in place.