

**THE UNIVERSITY CORPORATION**  
**REPORT ON FINANCIAL STATEMENTS**  
**and Supplementary Information**  
**June 30, 2014 and 2013**  
**(with Independent Auditors' Report Thereon)**

**THE UNIVERSITY CORPORATION**

**AUDIT REPORT**

**June 30, 2014 and 2013**

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CERTIFIED PUBLIC ACCOUNTANTS  
&  
BUSINESS CONSULTANTS

September 12, 2014

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
The University Corporation  
California State University, Northridge  
Northridge, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The University Corporation, California State University Northridge (the "University Corporation"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 The University Corporation, California State University Northridge as of June 30, 2014 and 2013, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on pages 25 - 32 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### ***Other Reporting Required by Governmental Auditing Standards***

In accordance with Governmental Auditing Standards, we have also issued our report dated September 12, 2014, on our consideration of the University Corporation's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the University Corporation's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

*NSBN LLP*

NSBN LLP  
Beverly Hills, California

**THE UNIVERSITY CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,263,773	\$ 4,832,832
Short-term investments	8,994,842	4,655,488
Grants and contracts receivable	4,516,162	4,689,838
Accounts and notes receivable, net of allowance for doubtful accounts of \$30,137 and \$30,137	367,988	490,561
Current portion of note receivable	2,951	2,779
Inventory	258,078	261,126
Prepaid expenses and deposits	70,474	79,616
<b>Total current assets</b>	<u>18,474,268</u>	<u>15,012,240</u>
<b>Noncurrent assets:</b>		
Note receivable	59,897	62,901
Investments	13,026,120	11,605,334
Endowment investments	3,863,793	3,863,793
Capital assets, net	18,943,862	18,912,927
<b>Total noncurrent assets</b>	<u>35,893,672</u>	<u>34,444,955</u>
<b>Total assets</b>	<u>\$ 54,367,940</u>	<u>\$ 49,457,195</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,618,105	\$ 944,275
Current portion of accrued compensated absences	309,336	311,013
Current portion of postretirement benefit payable	65,120	69,063
Other accrued liabilities	1,493,171	1,660,759
Deposits held in custody for others	2,142,065	1,258,101
Deferred revenue	3,177,833	3,143,665
Current portion of long term debt and capital leases	816,639	780,594
<b>Total current liabilities</b>	<u>9,622,269</u>	<u>8,167,470</u>
<b>Noncurrent liabilities:</b>		
Accrued compensated absences, net of current portion	132,572	133,291
Postretirement benefit payable, net of current portion	2,697,732	1,907,150
Capital lease obligation and related premium, net of current portion	8,522,197	8,919,655
Bonds and mortgages payable, net of current portion	3,679,872	4,099,053
<b>Total noncurrent liabilities</b>	<u>15,032,373</u>	<u>15,059,149</u>
<b>Total liabilities</b>	<u>24,654,642</u>	<u>23,226,619</u>
<b>Net assets:</b>		
Unrestricted	24,100,332	20,626,475
Temporarily restricted	1,749,173	1,740,308
Permanently restricted	3,863,793	3,863,793
<b>Total net assets</b>	<u>29,713,298</u>	<u>26,230,576</u>
<b>Total liabilities and net assets</b>	<u>\$ 54,367,940</u>	<u>\$ 49,457,195</u>

See accompanying independent auditors' report.  
The notes are an integral part of these financial statements.

**THE UNIVERSITY CORPORATION**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended June 30, 2014 and 2013

	2014			2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Revenue and support				
Auxiliary services:				
Food service sales	\$ 15,021,215	\$ -	\$ -	\$ 15,021,215
Bookstore sales and commissions	1,268,019	-	-	1,268,019
Real estate rentals	809,876	-	-	809,876
Total auxiliary services	17,099,110	-	-	17,099,110
Grants and contracts	30,658,430	-	-	30,658,430
Investment income	1,811,499	200,482	-	2,011,981
Other revenue	1,284,631	-	-	1,284,631
Net assets released from restrictions	191,617	(191,617)	-	-
Total revenue and support	51,045,287	8,865	-	51,054,152
<b>EXPENSES</b>				
Auxiliary services:				
Expenses	14,997,356	-	-	14,997,356
Total auxiliary services	14,997,356	-	-	14,997,356
Program services:				
Grants and contracts	27,813,591	-	-	27,813,591
Student grants and scholarships	177,024	-	-	177,024
University projects	1,312,202	-	-	1,312,202
Total program services	29,302,817	-	-	29,302,817
Supporting services:				
General and administrative	2,484,618	-	-	2,484,618
Total operating expenses	46,784,791	-	-	46,784,791
Operating income	4,260,496	8,865	-	4,269,361
<b>NONOPERATING (EXPENSES) REVENUE</b>				
Pension related changes other than net periodic pension costs	(786,639)	-	-	(786,639)
Bond issuance fees	-	-	-	-
Impairment writedown of real estate asset	-	-	-	-
Net nonoperating (expenses) revenues	(786,639)	-	-	(786,639)
<b>CHANGE IN NET ASSETS</b>	3,473,857	8,865	-	3,482,722
<b>NET ASSETS AT BEGINNING OF YEAR, AS ADJUSTED</b>	20,626,475	1,740,308	3,863,793	26,230,576
<b>NET ASSETS AT END OF YEAR</b>	\$ 24,100,332	\$ 1,749,173	\$ 3,863,793	\$ 29,713,298

See accompanying independent auditors' report.  
The notes are an integral part of these financial statements.

**THE UNIVERSITY CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,482,722	\$ 1,922,116
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,647,353	1,615,248
Amortization expense	80,948	79,669
Loss on impairment of real estate	-	307,650
Loss on bond extinguishment	-	124,044
Realized and unrealized (gains) losses on investments and investments held in real estate, net	(1,385,939)	(739,498)
Post retirement benefits	786,639	(356,395)
Provision for bad debts	(43,015)	(12,878)
Changes in operating assets and liabilities:		
Grants and contracts receivable	173,676	(104,233)
Accounts and notes receivable	168,420	(64,282)
Inventory	3,048	(22,155)
Prepaid expenses and deposits	9,142	(21,374)
Accounts payable	673,830	88,966
Accrued liabilities	(169,984)	63,031
Deposits held in custody for others	883,964	237,141
Deferred revenue	34,168	839,856
Net cash provided by operating activities	<u>6,344,972</u>	<u>3,956,906</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(861,542)	(2,722,991)
Issuance of long-term debt and related premium	-	202,159
Net cash used in financing activities	<u>(861,542)</u>	<u>(2,520,832)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(1,678,288)	(1,381,181)
Payments from note receivable	-	1,735,000
Proceeds from sales of investments and investments held in real estate	806,219	8,762,597
Purchase of investments and investments held in real estate	(5,180,420)	(12,104,573)
Net cash (used in) provided by investing activities	<u>(6,052,489)</u>	<u>(2,988,157)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(569,059)	(1,552,083)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>4,832,832</u>	<u>6,384,915</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 4,263,773</u>	<u>\$ 4,832,832</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid during the year	\$ -	\$ -
Interest paid during the year	\$ 514,019	\$ 605,981

See accompanying independent auditors' report.  
The notes are an integral part of these financial statements.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 1 - ORGANIZATION:**

The University Corporation (the Corporation) is a California State University auxiliary organization located on the campus of California State University, Northridge (the University). The Corporation operates the campus bookstore, food services, vending operations, administers various funds and grants, manages certain campus housing projects, and performs other activities related to the University community. The Corporation is also responsible for the licensing of campus facilities, logos, and trademarks via an operating agreement with the campus.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Basis of Presentation**

The Corporation's financial statements are prepared using the accrual basis of accounting. Revenues, gains, expenses, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Corporation.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Corporation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support.

*Permanently restricted net assets* - Net assets that are permanently restricted by donors for investment in perpetuity. Permanently restricted net assets at June 30, 2014, include endowment gifts which are required by donor restrictions to be maintained in perpetuity and only the income from these investments is expendable to support program operations in accordance with donor restrictions.

**B. Cash and Cash Equivalents**

Cash and cash equivalents consist of operating cash, money market funds, as well as U.S. Treasury Bills. The Corporation considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.



**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**C. Grants and Contracts**

Amounts received for federal and state grants are recorded as revenue when expended by the Corporation. Expenditures incurred by the Corporation which have not yet been reimbursed under the terms of the grant agreements are recorded as grants and contracts receivable. Amounts received by the Corporation in advance of expenditures have been reported as a net reduction to grants and contracts accounts receivable in prior years. Amounts received by the Corporation in advance of expenditures are treated as deferred revenue.

**D. Inventory**

Inventories, consisting of food service supplies and a small gift shop, are stated at the lower of cost (first-in, first-out) or market. Inventory balances were \$258,078 and \$261,126 at June 30, 2014 and 2013, respectively.

**E. Investments**

Investments consist primarily of corporate equity securities, various pooled investment funds, and alternative investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the accompanying statement of activities as investment income. Fair values of equity investments are based on quoted market prices.

**F. Capital Assets**

Capital assets are recorded at cost at the date of acquisition if purchased or, if contributed, at fair value on the date of contribution. All assets purchased with a value greater than \$5,000 are capitalized and depreciated. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings	30 years
Building improvements	10 years
Furniture, fixtures and equipment	3 to 7 years
Computers and software	3 years

Repairs and maintenance are charged to expense as incurred.

**G. Deposits Held in Custody for Others**

Funds administered by the Corporation on behalf of University academic and administrative units and other campus organizations are recorded as deposits held in custody for others. It is management's belief that the Corporation is acting as an agent for the transactions of these units. Accordingly, the financial activities of such units have not been recorded in the accompanying statement of activities.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**G. Deposits Held in Custody for Others (continued)**

Total increases and decreases related to agency funds were \$1,178,213 and \$1,103,208 for the years ended June 30, 2014 and 2013. Workshop related increases and decreases totaled \$1,033,640 and \$964,869 for the years ended June 30, 2014 and 2013. Agency and workshops are charged a handling fee of approximately 8%. Income for 2014 was \$150,023 and income for 2013 was \$157,623.

**H. Income Taxes**

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California taxes under corresponding California provisions. As such, the Corporation is not subject to federal or state income taxes. Accordingly, no income tax provision has been recorded.

The Corporation has evaluated its tax positions and the certainty as to whether those tax positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Corporation's continued qualification as a tax-exempt organization and whether there is unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not (>50%) of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

The Corporation files informational tax returns in the U.S. federal jurisdictions and the state of California. With few exceptions, the Corporation is no longer subject to U.S. federal and state examinations by tax authorities for years before 2010 and 2009, respectively.

**I. Concentration of Credit Risk**

The Corporation maintains its cash accounts with numerous major commercial banks and financial institutions. Furthermore, the majority of the Corporation's investment portfolio at June 30, 2014 was held by Northern Trust in various pooled investment funds. From time to time, balances in the Corporation's operating cash accounts exceeded amounts insured by the Federal Deposit Insurance Corporation. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**J. Functional Allocation of Expenses**

Expenses that can be specifically identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management. Program expenses, consisting of program services expenses and expenses related to auxiliary services, less the general and administrative allocation to auxiliary services, totaled \$42,791,658 and \$43,716,691 for the years ended June 30, 2014 and 2013.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**K. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues, expenses, or other changes in net assets during the reporting period. Actual results could differ from these estimates.

**L. Licensing**

The University Corporation manages licensing activity on behalf of the University and receives a 10% management fee. Income was \$84,858 in 2014 and \$113,124 in 2013. Licensing activity is included in the University's financial reports.

**M. Advertising Costs**

Advertising costs are charged to expense as incurred.

**N. Reclassifications**

Certain 2013 financial information has been reclassified to conform to the 2014 presentation. The reclassifications have no impact on the previously reported changes in net assets.

**O. Subsequent Events**

The Corporation has evaluated subsequent events through September 12, 2014, which is the date these financial statements were available to be issued.

**NOTE 3 - INVESTMENTS:**

Investments and endowment investments consist of the following at June 30,

	<u>2014</u>	<u>2013</u>
Level 1:		
Equity funds	\$ 4,350,521	\$ 3,564,835
Equity securities	2,840,649	2,174,114
Fixed-income fund	11,304,149	6,921,134
Other investments	1,375,838	1,173,061
Level 3:		
Alternative investments:		
- Public safety building	5,156,732	5,488,000
- Hedge funds	856,866	803,471
Total	<u>\$ 25,884,755</u>	<u>\$ 20,124,615</u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 3 - INVESTMENTS:** (continued)

These investments are disclosed on the Statements of Financial Position as of June 30,

	<u>2014</u>	<u>2013</u>
Current assets -		
Short-term investments	\$ 8,994,842	\$ 4,655,488
Noncurrent assets -		
Investments	13,026,120	11,605,334
Endowment investments	3,863,793	3,863,793
	<u>\$ 25,884,755</u>	<u>\$ 20,124,615</u>

	<u>Fair Value Measurement Using Significant Unobservable Inputs (Level 3)</u>		
	<u>Public Safety Building</u>	<u>Hedge Funds</u>	<u>Total</u>
July 1, 2013	\$ 5,488,000	\$ 803,471	\$ 6,291,471
Total realized/unrealized gains/(losses)	-	57,650	57,650
Purchase, issuance, and settlements	-	-	-
Administrative, management fees	-	(4,255)	(4,255)
Transfers in/out of Level 3	(331,268)	-	(331,268)
June 30, 2014	<u>\$ 5,156,732</u>	<u>\$ 856,866</u>	<u>\$ 6,013,598</u>

In accordance with generally accepted accounting principles, Levels 1 through 3 have been assigned to the fair value measurement of investments. The fair value level of measurement is determined as follows:

Level 1 – quoted prices in an active market for identical assets.

Level 2 – quoted prices for similar assets and market-corroborated inputs.

Level 3 – the Corporation's own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

The fair value measurement Level 3 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

**Public Safety Building:** Accounting standards permit that certain alternative investments may be measured by the lower of cost or market. The Corporation has an investment in a public safety building that is carried at cost. This investment is a joint venture with the parking authority of the University. The Corporation's share of this investment is two thirds. The fair value of the investment was estimated using recent observable transaction information for a public safety building built in 2008-09 on another California State University campus. Based upon this estimate, the carrying amount of the public safety building was determined to be less than the estimated fair value and the cost is considered an appropriate measure.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 3 - INVESTMENTS: (continued)**

During the fiscal year 2010-11, the Corporation and the administration of California State University, Northridge reached an agreement that the University will repay the University Corporation the remaining balance of \$5,156,732 by June 30, 2025. The payments to the Corporation, totaling \$331,268 from the University for the year ended June 30, 2014, will provide a reasonable return on the investment of approximately 5%. Upon full recovery of this investment, ownership of the public safety building will be transferred to the University.

Hedge Funds: Accounting standards permit the measure of fair value of investments that do not have a quoted market price but calculate net asset value (NAV) per unit. The NAV is calculated based on the valuation of the funds' underlying assets owned by the fund at fair value at the end of the year. The hedge funds invest in a variety of funds including equity hedges, sector, equity neutral, special situations, distressed, global macro, commodity trading, short bias, emerging markets and arbitrage funds. Fund managers may shift investment strategies to manage risk and minimize volatility of the funds. The fair value of the hedge fund investments have been estimated using NAV of the fund shares. Hedge funds investments have no lock-up period and quarterly redemption frequency with a 60 day redemption notice period. There are no unfunded commitments.

There have been no changes in the methodologies used at June 30, 2014 and 2013.

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 the Corporation 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.

Net investment income for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Net realized and unrealized gain (losses) on investments	\$ 1,385,939	\$ 739,498
Interest and dividend income	<u>626,042</u>	<u>477,465</u>
Investment gain (loss)	2,011,981	1,216,963
Investment fees (included in general and administrative expenses)	<u>(155,122)</u>	<u>(216,629)</u>
Net investment gain (loss)	<u>\$ 1,856,859</u>	<u>\$ 1,000,334</u>

The Corporation assesses endowment investments a 2% fee for management of these investments. This fee is shown as a reduction to investment income.

**NOTE 4 - ENDOWMENT:**

The Corporation's endowment consists of approximately 20 individual funds established for a variety of purposes. Its endowment includes both donor- restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 4 - ENDOWMENT: (continued)**

The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Corporation
- (7) The investment policies of the Corporation

Investment Return Objectives, Risk Parameters and Strategies. The funds entrusted to the Corporation will be pooled in an actively managed portfolio, except when precluded by a donor or granting agency. The Corporation will participate in standards within the content of the "Prudent Investor" rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The primary investment objective is to achieve risk-adjusted real returns necessary to preserve and grow capital and to support the long term and short term spending requirements of the Corporation. The Corporation and its Investment Managers must properly balance the following overall objectives:

- (1) Liquidity. The Corporation's investment portfolio will remain satisfactorily liquid to enable it to meet anticipated operating and cash flow requirements, which are to be analyzed continuously.
- (2) Return on Investment. The investment portfolio will be designed to attain a market rate or better rate of return throughout a full economic cycle.
- (3) Preservation of Capital. Sufficient limitations are placed on risks associated with the implementation of the return on investment objective and to protect the portfolio through the diversification of assets and the setting of specific quality standards.

The long term investment pool includes all endowment and certain reserve funds and is invested with a focus on long term growth of capital through asset diversification. The investment target mix for the long term pool will be 25% - 65% equities, 10% - 50% fixed income, 0% - 50% alternative investments – real assets, 0% - 10% alternative investments - hedge funds, 0% - 30% cash. The Corporation prohibits investments that jeopardize the non-profit status of the Corporation or unduly jeopardizes the safety of principal.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 4 - ENDOWMENT: (continued)**

Spending Policy. The Corporation has a policy of appropriating for distribution each year 4% of its prior year ending combined balance of the corpus and growth accounts. The total amount available to spend is comprised of the spending allocation plus any unspent dollars remaining from prior years. A quarterly report is forwarded to all endowment custodians containing the amount of available funds they can spend. All endowment expenditures have to be authorized by the respective endowment custodian.

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 1,749,173	\$ 3,863,793	\$ 5,612,966
Board-designated endowment funds	<u>4,379,103</u>	<u>-</u>	<u>-</u>	<u>4,379,103</u>
Total funds	\$ <u><u>4,379,103</u></u>	\$ <u><u>1,749,173</u></u>	\$ <u><u>3,863,793</u></u>	\$ <u><u>9,992,069</u></u>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 3,727,507	\$ 1,740,308	\$ 3,863,793	\$ 9,331,608
Investment income	118,543	55,354	122,906	296,803
Net appreciation (depreciation)	310,799	145,128	322,238	778,165
Amounts appropriated for expenditure	(222,890)	(191,617)	-	(414,507)
Transfers	<u>445,144</u>	<u>-</u>	<u>(445,144)</u>	<u>-</u>
Endowment net assets, end of year	\$ <u><u>4,379,103</u></u>	\$ <u><u>1,749,173</u></u>	\$ <u><u>3,863,793</u></u>	\$ <u><u>9,992,069</u></u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 5 - CAPITAL ASSETS:**

Capital assets consist of the following at June 30,

	<u>2014</u>	<u>2013</u>
Capital leases	\$ 12,914,389	\$ 12,914,389
Buildings	11,190,054	10,765,412
Building improvements	6,602,261	6,160,123
Furniture, fixtures, and equipment	4,767,197	4,630,144
Computers and software	1,371,157	1,371,157
Land	1,496,437	1,229,437
Construction in progress	754,127	346,672
Solar observatory	1	1
Total	<u>39,095,623</u>	<u>37,417,335</u>
Less accumulated depreciation	<u>(20,151,761)</u>	<u>(18,504,408)</u>
Net capital assets	<u>\$ 18,943,862</u>	<u>\$ 18,912,927</u>

Depreciation expense totaled \$1,647,353 and \$1,615,248 for the years ended June 30, 2014 and 2013. Real estate properties included in capital assets above consist of two vacant lots near the campus, ten acres of farmland located in Ventura County, and the land portion of the two most recently acquired single family residences.

During the year ended June 30, 2013, the Corporation reviewed the carrying amount of the farmland located in Ventura County. Management determined that there had been a permanent impairment in the land's cost compared with its current fair market value. The Corporation reported a \$307,650 impairment loss, to adjust the land's cost to its present fair market value. As of June 30, 2014 and 2013, the value of this land is \$250,000.

In January 1976, the Corporation received from Aerospace Corporation a gift of a solar observatory situated on the Van Norman Reservoir in the San Fernando Valley. The Corporation recorded this gift as a capital asset at a nominal value of \$1 because of the unique nature of, and limited market for, the facility at the date of gift.

**NOTE 6 - BONDS AND MORTGAGE PAYABLE:**

**System Wide Revenue Bonds (SRB)**

On April 10, 2008, the California State University System issued \$3,020,000 in system wide revenue bonds (SRB) to refund Certificates that were used to finance the acquisition of 28 faculty/staff housing units. Annual principal payments are required as indicated in the table that follows. Interest rates range from 3.50% to 5.00%. The bonds mature in 2026.

There is a net bond premium associated with this bond issuance. The premium of \$99,594 is being amortized over the life of the bonds. The amortization amount was \$5,677 for the years ended June 30, 2014 and 2013.



**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 6 - BONDS AND MORTGAGE PAYABLE: (continued)**

On April 6, 2010, the California State University System issued \$2,310,000 in system wide revenue bonds (SRB) to fund the satellite student union food service (Geronimo's) renovation project. At June 30, 2014, the Corporation has recorded these bonds as bonds payable. Annual principal payments are required as indicated in the table that follows. Interest rates range from 2.00% to 5.00%. The bonds mature in 2019.

There is a net bond premium associated with this new bond issuance. The premium of \$218,620 is being amortized over the life of the bonds. The amortization amount was \$22,812 for the years ended June 30, 2014 and 2013.

**Condominium Mortgage**

In February 2005, the Corporation refinanced mortgage payables worth \$282,000 in order to reduce interest costs. The refinanced mortgage bears interest at 5.125% and is due in 2020.

Future minimum principal payments on bonds and mortgages payable are as follows:

<u>Year</u>	<u>CSU SRB College Court</u>	<u>CSU SRB Geronimo's</u>	<u>Condominium Mortgage</u>	<u>Total</u>
2015	\$ 145,000	\$ 225,000	\$ 20,691	\$ 390,691
2016	150,000	235,000	21,778	406,778
2017	160,000	245,000	22,951	427,951
2018	165,000	255,000	24,172	444,172
2019	175,000	270,000	25,459	470,459
Thereafter	<u>1,475,000</u>	<u>280,000</u>	<u>17,987</u>	<u>1,772,987</u>
Total	\$ <u>2,270,000</u>	\$ <u>1,510,000</u>	\$ <u>133,038</u>	\$ <u>3,913,038</u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 6 - BONDS AND MORTGAGE PAYABLE: (continued)**

Bonds and mortgages payable	\$ 3,913,038
Add: Current portion of bond premium	<u>28,490</u>
	3,941,528
Less: Current portion (included in current portion of long-term debt and capital leases on Statement of Financial Position)	<u>(419,181)</u>
Bonds and mortgages payable, less current portion	3,522,347
Noncurrent portion of bond premium	<u>157,525</u>
Total bonds and mortgages payable	<u><u>\$ 3,679,872</u></u>

Interest expense for all long term debt totaled \$498,032 and \$533,784 for the years ended June 30, 2014 and 2013, respectively.

The Corporation has the following sinking fund requirements on the bonds, mortgages payable including interest:

<u>Year</u>	<u>CSU SRB College Court</u>	<u>CSU SRB Geronimo's</u>	<u>Condominium Mortgage</u>	<u>Total</u>
2015	\$ 249,375	\$ 290,325	\$ 27,117	\$ 566,817
2016	247,725	290,475	27,117	565,317
2017	250,988	290,025	27,117	568,130
2018	249,700	287,975	27,117	564,792
2019	252,025	290,300	27,117	569,442
Thereafter	<u>1,742,925</u>	<u>280,680</u>	<u>18,346</u>	<u>2,041,951</u>
Total	<u><u>\$ 2,992,738</u></u>	<u><u>\$ 1,729,780</u></u>	<u><u>\$ 153,931</u></u>	<u><u>\$ 4,876,449</u></u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 7 - CAPITAL LEASES:**

The University Corporation and the Trustees of the California State University signed a thirty-year capital lease for the Sierra Center Building effective in October 2003. The three-story building incorporates food service units, indoor and outdoor seating, and office spaces. Lease payments are due twice a year, on May 1 and November 1.

On September 14, 2011, the California State University System completed a partial refinancing of the system wide revenue bonds (SRB) connected with the Sierra Center Building capital lease. The face amount of the bonds refinanced was \$2,485,000. Interest rates range from .55% to 5.00%. Bonds with a face value of \$85,000 were defeased as a result of the refinancing.

There is a net bond premium associated with this new bond issuance. The premium of \$338,875 is being amortized over the remaining life of the bonds. The amortization amount was \$26,067 for the years ended June 30 2014 and 2013.

On August 1, 2012, the California State University System completed a refinancing of the remaining 2003 system wide revenue bonds (SRB) connected with the Sierra Center Building capital lease. The face amount of the bonds refinanced was \$3,145,000. Interest rates range from 4.00% to 5.00%. Bonds with a face value of \$150,000 were defeased as a result of the refinancing.

There is a net bond premium associated with this new bond issuance. The premium of \$326,202 is being amortized over the remaining life of the bonds. The amortization amount was \$15,351 and \$14,071 for the years ended June 30, 2014 and 2013.

The University Corporation and the Trustees of the California State University signed an 18 year lease for the Matador Bookstore Complex addition effective March 2007. Lease payments are due twice a year, on May 1 and November 1.

There is a net capital lease premium associated with the Matador Bookstore Complex lease. The premium of \$220,725 is being amortized over the life of the lease. The amortization amount was \$11,040 for the years ended June 30 2014 and 2013.

At June 30, 2014 and 2013, the gross amount of plant and equipment and related accumulated amortization recorded under capital leases were as follows:

	<u>2014</u>	<u>2013</u>
Capital leases	12,914,389	12,914,389
Less accumulated amortization	<u>(7,350,679)</u>	<u>(6,973,731)</u>
	<u>\$ 5,563,710</u>	<u>\$ 5,940,658</u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 7 - CAPITAL LEASES: (continued)**

The following is a summary by year of future minimum rental payments for the capital leases at the Sierra Center Building and Matador Bookstore Complex:

Year	Capital Lease Payments		
	Building	Matador Complex	Total
2015	\$ 395,275	\$ 327,950	\$ 723,225
2016	397,825	329,375	727,200
2017	394,200	324,500	718,700
2018	395,200	329,125	724,325
2019	398,137	333,000	731,137
Thereafter	<u>5,989,650</u>	<u>2,303,875</u>	<u>8,293,525</u>
Total minimum lease payments	7,970,287	3,947,825	11,918,112
Add capital lease premiums	41,418	11,040	52,458
Less amount representing interest (at rates ranging from .55% to 5% for Sierra Center and 4% to 5% for Matador Bookstore Complex)	<u>(2,725,287)</u>	<u>(977,825)</u>	<u>(3,703,112)</u>
Present value of net minimum capital lease payments	5,286,418	2,981,040	8,267,458
Less current installments of obligations under capital leases (included in current portion of long-term debt and capital leases on Statement of Financial Position)	<u>(201,418)</u>	<u>(196,040)</u>	<u>(397,458)</u>
Obligations under capital leases, excluding current installments	5,085,000	2,785,000	7,870,000
Non current portion of capital lease premium	<u>522,552</u>	<u>129,645</u>	<u>652,197</u>
Total long-term capital lease obligation and related premium	<u>\$ 5,607,552</u>	<u>\$ 2,914,645</u>	<u>\$ 8,522,197</u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 8 - POSTRETIREMENT BENEFITS:**

**A. Benefits**

The Corporation has a retiree health plan (the "Plan") that offers retired employees the option of enrolling in certain health plans available through the California Public Employees' Retirement System. The Corporation currently pays 85% of the cost up to a maximum level. The current maximum is \$642 per month for retiree coverage and up to an additional \$576 per month for dependent coverage.

Retirees over age 65 may opt for the Medicare Risk Program. Under this option, the Corporation pays only the Medicare Part B premium. Any cost associated in the future with the Medicare Risk Program will be paid by the retiree. Retiree contributions fund the cost of coverage exceeding these amounts.

For the year ended June 30, 2014, the Corporation's postretirement benefits include the effects of the Affordable Care Act (the Act). The Act provides health care benefits for individuals, who previously, were not eligible for health care. The Corporation's Plan now takes into account the effects of the Act, which resulted in additional participants in the Plan for the year ended June 30, 2014.

**B. Eligibility**

Eligible employees must meet one of the following requirements:

- Age 60 and 20 years of service
- Age 62 and 15 years of service
- Age 65 and 10 years of service

**C. Obligations and Funding Status**

The following table summarizes the Corporation's accrued postretirement benefit cost recorded in accrued liabilities in the accompanying statement of financial position at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Benefit obligation, end of year	\$ 2,762,852	\$ 1,976,213
Employer contributions	74,016	77,232
Participant contributions	-	-
Benefits paid	<u>(74,016)</u>	<u>(77,232)</u>
Net funded (unfunded) status	<u>\$ (2,762,852)</u>	<u>\$ (1,976,213)</u>
Amounts recognized in the statement of financial position consists of:		
Current liabilities	\$ 65,120	\$ 69,063
Noncurrent liabilities	<u>2,697,732</u>	<u>1,907,150</u>
Total	<u>\$ 2,762,852</u>	<u>\$ 1,976,213</u>

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**NOTE 8 - POSTRETIREMENT BENEFITS: (continued)**

**C. Obligations and Funding Status (continued)**

Amounts recognized in the statement of activities consist of:

	<u>2014</u>	<u>2013</u>
Service Cost	\$ 123,980	\$ 144,277
Interest Cost	92,230	102,938
Amortization of Transition Obligation/(Asset)	9,153	9,153
Amortization of Prior Service Cost	100,537	100,537
Amortization of Net (Gain) or Loss	(185,753)	(129,631)
Total	<u>\$ 140,147</u>	<u>\$ 227,274</u>

Other changes in benefit obligations recognized in changes in unrestricted net assets:

	<u>2014</u>	<u>2013</u>
Additional Prior Service Cost for period	\$ -	\$ -
Change to Net (Gain) or Loss for period	644,445	(526,378)
Amortization of Transition Obligation (Asset)	(9,153)	(9,153)
Amortization of Prior Service Cost	(100,537)	(100,537)
Amortization of Net Actuarial (Gain) or Loss	185,753	129,631
Total	<u>\$ 720,508</u>	<u>\$ (506,437)</u>

The assumptions used in the measurement of the Corporation's benefit obligation and net periodic benefit cost of the year ended June 30, are as follows:

	<u>2014</u>	<u>2013</u>
Benefit obligation:		
Discount rate	4.75%	4.50%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Medical trend:		
Initial	7.00%	8.00%
Ultimate	5.00%	5.00%
Number of years to ultimate	3 years	1 year

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 8 - POSTRETIREMENT BENEFITS: (continued)**

**D. Cash Flows**

The Corporation expects to contribute \$65,120 to their postretirement health plan in 2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year</u>	<u>Postretirement Benefits</u>
2015	\$ 65,120
2016	68,606
2017	76,964
2018	86,179
2019	96,551
2020-2024	675,185

The expected benefits are based on the same assumptions used to measure the Corporation's benefit obligation at June 30 and include estimated future employee service.

**NOTE 9 - EMPLOYEE RETIREMENT PLAN:**

The employee retirement plan, administered through The Principal Financial Group is a defined contribution plan that received a favorable determination from the Internal Revenue Service in 1994. All eligible employees that complete over 1,000 hours of service in the plan year, complete two consecutive years of employment, and are age 21 are eligible for the plan. The Corporation contributes up to 10% of the employees' salary. Under the terms of the plan, the Corporation and its eligible employees make contributions which the Corporation deposits monthly with a trustee. Contributions payable at June 30, 2014 and 2013 totaled \$43,763 and \$39,775, respectively. Pension expense for June 30, 2014 and 2013 totaled \$481,235 and \$466,805, respectively.

The Corporation also provides postretirement health care benefits to retired employees. These benefits and their respective costs are described in Note 8.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES:**

The Corporation participates in a number of federal, state, and local grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Corporation expects such amounts, if any, to be immaterial to the Corporation's financial statements.

**THE UNIVERSITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**NOTE 11 - RELATED PARTY TRANSACTIONS:**

The Corporation and the University are closely interrelated financially and operationally. Goods and services related to the personnel office, plant services, and graduation-related services are provided by the University and reimbursed by the Corporation throughout the year. The Corporation leases certain premises from the University.

At June 30, 2014 included in accounts receivable were \$107,471 due from various departments of the University and the California State University, Northridge Foundation, \$32,897, North Campus Development Corporation, \$1,866 and the University Student Union, \$25,370. These amounts are primarily related to catering services, payroll, rent, and licensing activities.

At June 30, 2013 included in accounts receivable were \$174,906 due from various departments of the University and the California State University, Northridge Foundation, \$32,897, North Campus Development Corporation, \$3,930 and the University Student Union, \$22,275. These amounts are primarily related to catering services, payroll, rent, and licensing activities.

Included in accounts payable at June 30, 2014 and 2013 were \$415,955 and \$262,541 due to the University, \$23,420 and \$28,300 due to Associated Students, and \$6,179 and \$6,019 due to the University Student Union.

Amounts received from and paid to the University were \$8,911,797 and \$4,955,473, respectively for 2014 and were \$6,800,621 and \$4,537,838, respectively, for 2013. Amounts received from the University were for copy included utilities and maintenance, Human Resource services, student scholarships, workshops and conferences, licensing, support for University projects, and grants and contracts activities including reimbursement of professor salaries in connection with federal grants.

In 2014, amounts received from other University auxiliary organizations were \$170,480. Amounts received relate to catering services, food service management fees and payroll services. In 2014, the Corporation paid \$189,840 to the University Student Union for commissions earned on food service sales, \$160,281 to the California State University, Northridge Foundation, and \$86,110 to Associated Students.

In 2013, amounts received from other University auxiliary organizations were \$221,847. Amounts received relate to catering services, food service management fees and payroll services. In 2013, the Corporation paid \$157,041 to the University Student Union for commissions earned on food service sales, \$141,529 to the California State University, Northridge Foundation, and \$88,695 to Associated Students.

**NOTE 12 - PRIOR PERIOD ADJUSTMENT:**

An error resulting in an overstatement of previously reported Deposits Held for Others was discovered during the current year. Accordingly, an adjustment of \$499,159 was made as of July 1, 2012 to decrease Deposits Held for Others. A corresponding entry was made to increase Net Assets previously reported. The 2013 related disclosures have been restated on the financial statements; however, these amounts were not material.





CERTIFIED PUBLIC ACCOUNTANTS  
&  
BUSINESS CONSULTANTS

September 12, 2014

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

To The Board of Directors  
The University Corporation  
California State University, Northridge  
Northridge, 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 The University Corporation, California State University, Northridge (a California State University Auxiliary Organization) (the Corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2014.

**Internal Control Over Financial Reporting**

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

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



NSBN LLP  
Beverly Hills, California

**SUPPLEMENTARY INFORMATION**

**THE UNIVERSITY CORPORATION**  
Schedule of Net Position  
June 30, 2014  
(for inclusion in the California State University)

**Assets:**

<b>Current assets:</b>	
Cash and cash equivalents	\$ 4,263,773
Short-term investments	8,994,842
Accounts receivable, net	4,884,150
Leases receivable, current portion	—
Notes receivable, current portion	2,951
Pledges receivable, net	—
Prepaid expenses and other assets	328,552
<b>Total current assets</b>	<b>18,474,268</b>
<b>Noncurrent assets:</b>	
Restricted cash and cash equivalents	—
Accounts receivable, net	—
Leases receivable, net of current portion	—
Notes receivable, net of current portion	59,897
Student loans receivable, net	—
Pledges receivable, net	—
Endowment investments	3,863,793
Other long-term investments	13,026,120
Capital assets, net	18,943,862
Other assets	—
<b>Total noncurrent assets</b>	<b>35,893,672</b>
<b>Total assets</b>	<b>54,367,940</b>
<b>Deferred outflows of resources:</b>	
Unamortized loss on refunding(s)	—
<b>Total deferred outflows of resources</b>	<b>—</b>

**Liabilities:**

<b>Current liabilities:</b>	
Accounts payable	1,618,105
Accrued salaries and benefits payable	1,493,171
Accrued compensated absences— current portion	309,336
Unearned revenue	3,177,833
Capitalized lease obligations – current portion	397,458
Long-term debt obligations – current portion	419,181
Claims Liability for losses and LAE - current portion	—
Depository accounts	2,142,065
Other liabilities	65,120
<b>Total current liabilities</b>	<b>9,622,269</b>
<b>Noncurrent liabilities:</b>	
Accrued compensated absences, net of current portion	132,572
Unearned revenue	—
Grants refundable	—
Capitalized lease obligations, net of current portion	8,522,197
Long-term debt obligations, net of current portion	3,679,872
Claims Liability for losses and LAE, net of current portion	—
Depository accounts	—
Other postemployment benefits obligation	2,697,732
Other liabilities	—
<b>Total noncurrent liabilities</b>	<b>15,032,373</b>
<b>Total liabilities</b>	<b>24,654,642</b>
<b>Deferred inflows of resources:</b>	
Deferred inflows from SCAs, grants, and others	—
<b>Total deferred inflows of resources</b>	<b>—</b>

**Net Position:**

Net investment in capital assets	5,925,154
<b>Restricted for:</b>	
Nonexpendable – endowments	3,863,793
<b>Expendable:</b>	
Scholarships and fellowships	—
Research	1,749,173
Loans	—
Capital projects	—
Debt service	—
Other	—
<b>Unrestricted</b>	<b>18,175,178</b>
<b>Total net position</b>	<b>\$ 29,713,298</b>

See accompanying independent auditors' report.

**THE UNIVERSITY CORPORATION**  
Schedule of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2014  
(for inclusion in the California State University)

Revenues:

Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$ _____)	\$ —
Grants and contracts, noncapital:	
Federal	27,110,441
State	1,351,253
Local	406,362
Nongovernmental	1,790,374
Sales and services of educational activities	—
Sales and services of auxiliary enterprises (net of scholarship allowances of \$ _____)	17,099,110
Other operating revenues	1,284,631
<b>Total operating revenues</b>	<b>49,042,171</b>

Expenses:

Operating expenses:	
Instruction	—
Research	28,256,008
Public service	—
Academic support	—
Student services	—
Institutional support	869,785
Operation and maintenance of plant	—
Student grants and scholarships	177,024
Auxiliary enterprise expenses	15,336,589
Depreciation and amortization	1,647,353
<b>Total operating expenses</b>	<b>46,286,759</b>
<b>Operating income (loss)</b>	<b>2,755,412</b>

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	1,566,837
Endowment income (loss), net	445,144
Interest Expenses	(498,032)
Other nonoperating revenues (expenses)	(786,639)
<b>Net nonoperating revenues (expenses)</b>	<b>727,310</b>

**Income (loss) before other additions** **3,482,722**

State appropriations, capital	—
Grants and gifts, capital	—
Additions (reductions) to permanent endowments	—
<b>Increase (decrease) in net position</b>	<b>3,482,722</b>

Net position:

Net position at beginning of year, as previously reported	25,788,159
Restatements	442,417
Net position at beginning of year, as restated	26,230,576
<b>Net position at end of year</b>	<b>\$ 29,713,298</b>

See accompanying independent auditors' report.



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3.1 Composition of capital assets at June 30, 20CY:

	Balance June 30, 2013	Prior period Adjustments	Reclassifications	Balance June 30, 2013 (restated)	Additions	Reductions	Transfers of Completed CWIP	Balance June 30, 2014
<b>Nondepreciable/nonamortizable capital assets:</b>								
Land and land improvements	\$ 1,239,437	\$ -	\$ -	\$ 1,239,437	\$ -	\$ -	\$ 267,000	\$ 1,496,437
Works of art and historical treasures	346,672	-	-	346,672	1,638,197	-	(1,230,741)	754,128
Construction work in progress (CWIP)	-	-	-	-	-	-	-	-
<b>Intangible assets:</b>								
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-
Internally generated intangible assets in progress	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
<b>Total intangible assets</b>	<b>1,576,109</b>	<b>-</b>	<b>-</b>	<b>1,576,109</b>	<b>1,638,197</b>	<b>-</b>	<b>(963,741)</b>	<b>2,250,565</b>
<b>Total nondepreciable/nonamortizable capital assets</b>	<b>1,576,109</b>	<b>-</b>	<b>-</b>	<b>1,576,109</b>	<b>1,638,197</b>	<b>-</b>	<b>(963,741)</b>	<b>2,250,565</b>
<b>Depreciable/amortizable capital assets:</b>								
Buildings and building improvements	29,839,924	-	-	29,839,924	6,918	-	\$59,791	30,706,703
Improvements, other than buildings	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-	-	-
Personal property:								
Equipment	6,001,302	-	-	6,001,302	33,103	-	103,950	6,138,355
Library books and materials	-	-	-	-	-	-	-	-
<b>Intangible assets:</b>								
Software and websites	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
<b>Total depreciable/amortizable capital assets</b>	<b>35,841,226</b>	<b>-</b>	<b>-</b>	<b>35,841,226</b>	<b>40,091</b>	<b>-</b>	<b>963,741</b>	<b>36,845,058</b>
<b>Total capital assets</b>	<b>37,417,335</b>	<b>-</b>	<b>-</b>	<b>37,417,335</b>	<b>1,678,288</b>	<b>-</b>	<b>-</b>	<b>39,095,623</b>
<b>Less accumulated depreciation/amortization:</b>								
Buildings and building improvements	(13,379,946)	-	-	(13,379,946)	(1,245,619)	-	-	(14,615,565)
Improvements, other than buildings	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-	-	-
Personal property:								
Equipment	(5,174,462)	-	-	(5,174,462)	(561,734)	-	-	(5,736,196)
Library books and materials	-	-	-	-	-	-	-	-
<b>Intangible assets:</b>								
Software and websites	-	-	-	-	-	-	-	-
Rights and easements	-	-	-	-	-	-	-	-
Patents, copyright and trademarks	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Other intangible assets:	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
Add description	-	-	-	-	-	-	-	-
<b>Total accumulated depreciation/amortization</b>	<b>(18,554,408)</b>	<b>-</b>	<b>-</b>	<b>(18,554,408)</b>	<b>(1,847,353)</b>	<b>-</b>	<b>-</b>	<b>(20,131,761)</b>
<b>Total capital assets, net</b>	<b>18,912,927</b>	<b>-</b>	<b>-</b>	<b>18,912,927</b>	<b>30,935</b>	<b>-</b>	<b>-</b>	<b>18,943,862</b>

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3.2 Detail of depreciation and amortization expense for the year ended June 30, 2014:

Depreciation and amortization expense related to capital assets	\$ 1,647,353
Amortization expense related to other assets	—
Total depreciation and amortization	\$ 1,647,353

4 Long-term liabilities activity schedule:

	Balance June 30, 2013	Prior period adjustments	Reclassifications	Balance June 30, 2013 (restated)	Additions	Reductions	Balance June 30, 2014	Current portion	Long-term portion
Accrued compensated absences	\$ 444,304	—	—	\$ 444,304	\$ 390,984	\$ (393,340)	\$ 441,908	\$ 309,336	\$ 132,572
Capitalized lease obligations:									
Grant balance	8,345,000	—	—	8,345,000	—	(330,000)	8,215,000	345,000	7,870,000
Unamortized premium / (discount) on capitalized lease obligations	757,113	—	—	757,113	—	(32,451)	704,635	32,451	652,197
Total capitalized lease obligations	9,202,113	—	—	9,202,113	—	(362,451)	8,919,635	397,451	8,322,197
Long-term debt obligations									
Revenue Bonds	4,130,000	—	—	4,130,000	—	(350,000)	3,780,000	370,000	3,410,000
Other bonds (non-Revenue Bonds)	—	—	—	—	—	—	—	—	—
Commercial Paper	—	—	—	—	—	—	—	—	—
Note Payable related to SRB	—	—	—	—	—	—	—	—	—
Other:									
Mortgage:	152,644	—	—	152,644	—	(19,646)	133,038	20,691	112,347
Add description	—	—	—	—	—	—	—	—	—
Add description	—	—	—	—	—	—	—	—	—
Add description	—	—	—	—	—	—	—	—	—
Add description	—	—	—	—	—	—	—	—	—
Total long-term debt obligations	4,282,644	—	—	4,282,644	—	(369,646)	3,913,038	390,691	3,522,347
Unamortized bond premium / (discount)	214,505	—	—	214,505	—	(28,490)	186,015	28,490	157,525
Total long-term debt obligations, net	4,497,149	—	—	4,497,149	—	(398,136)	4,099,033	419,181	3,679,872
Total long-term liabilities	\$ 14,243,606	\$ —	\$ —	\$ 14,243,606	\$ 390,984	\$ (1,173,924)	\$ 13,460,616	\$ 1,125,973	\$ 12,334,641

5 Future minimum lease payments - capital lease obligations:

Year ending June 30:	Principal	Interest	Principal and Interest
2015	\$ 345,000	\$ 378,225	\$ 723,225
2016	363,000	342,360	705,360
2017	373,000	341,700	714,700
2018	374,335	324,335	714,335
2019	435,000	306,137	741,137
2020 - 2024	2,430,000	1,197,350	3,627,350
2025 - 2029	2,656,000	586,100	3,242,100
2030 - 2034	1,805,000	204,675	2,009,675
2035 - 2039	—	—	—
2040 - 2044	—	—	—
2045 - 2049	—	—	—
2050 - 2054	—	—	—
2055 - 2059	—	—	—
2060 - 2064	—	—	—
Total minimum lease payments			11,918,112
Less amount representing interest			(1,703,112)
Present value of future minimum lease payments			8,215,000
Less: current portion			(345,000)
Capitalized lease obligations, net of current portion			\$ 7,870,000

See accompanying independent auditors' report.



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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 and Interest	
2015	\$ 370,000	\$ 169,700	\$ 539,700	\$ 20,691	\$ 6,426	\$ 27,117	\$ 176,126	
2016	385,000	153,200	538,200	21,778	5,339	27,317	158,539	
2017	405,000	136,013	541,013	22,951	4,166	27,317	140,179	
2018	420,000	117,675	537,675	24,172	1,943	27,117	120,610	
2019	445,000	97,235	542,235	25,459	1,828	27,117	106,842	
2020 - 2024	1,240,000	250,650	1,490,650	17,987	339	18,346	251,000	
2025 - 2029	475,000	24,125	499,125	-	-	-	131,596	
2030 - 2034	-	-	-	-	-	-	24,125	
2035 - 2039	-	-	-	-	-	-	-	
2040 - 2044	-	-	-	-	-	-	-	
2045 - 2049	-	-	-	-	-	-	-	
2050 - 2054	-	-	-	-	-	-	-	
2055 - 2059	-	-	-	-	-	-	-	
2060 - 2064	-	-	-	-	-	-	-	
Total	\$ 3,780,000	\$ 948,688	\$ 4,728,688	\$ 131,038	\$ 20,893	\$ 153,931	\$ 969,581	
							\$ 4,882,619	

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	\$ -	\$ 18,943,862	\$ 18,943,862
Capitalized lease obligations - current portion	-	(797,458)	(797,458)
Capitalized lease obligations - net of current portion	-	(5,522,197)	(5,522,197)
Long-term debt obligations - current portion	-	(419,181)	(419,181)
Long-term debt obligations - net of current portion	-	(3,679,372)	(3,679,372)
Portion of outstanding debt that is unspent at year-end	-	-	-
Other adjustments: (please list)	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Net position - net investment in capital asset	\$ -	\$ 5,925,154	\$ 5,925,154

7.2 Calculation of net position - Restricted for nonexpendable - endowments

Portion of restricted cash and cash equivalents related to endowments	\$ -	\$ -	\$ -
Endowment investments	-	3,463,793	3,463,793
Other adjustments: (please list)	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Add description	-	-	-
Net position - Restricted for nonexpendable - endowments per SNP	\$ -	\$ 3,463,793	\$ 3,463,793

See accompanying independent auditors' report.

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8	Transactions with Related Entities	Amount
	Payments to University for salaries of University personnel working on contracts, grants, and other programs	2,314,063
	Payments to University for other than salaries of University personnel	2,741,408
	Payments received from University for services, space, and programs	8,911,797
	Gifts-in-kind to the University from directly presented component units	—
	Gifts (cash or assets) to the University from directly presented component units	—
	Accounts (payable to) University from directly presented component units	(411,935)
	Other amount (payable to) University (enter as negative number)	—
	Amount receivable from University	107,471
	Other amounts receivable from University	—

9	Other Postemployment Benefit Obligations (OPEB)	
	Annual required contribution (ARC)	\$ 864,598
	Contributions during the year	(74,016)
	Increase (decrease) in net OPEB obligation (NOO)	790,582
	NOO - beginning of year	1,907,150
	NOO - end of year	2,697,732

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	—
	Total pollution remediation liabilities	—
	Less: current portion	—
	Pollution remediation liabilities, net of current portion	—

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1) 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, 2013, as previously reported	
Prior period adjustments:	
1 Overstatement of previously reported Deposits Held for Others	\$ 25,788,159
2 (first description of each adjustment)	442,417
3 (first description of each adjustment)	-
4 (first description of each adjustment)	-
5 (first description of each adjustment)	-
6 (first description of each adjustment)	-
7 (first description of each adjustment)	-
8 (first description of each adjustment)	-
9 (first description of each adjustment)	-
10 (first description of each adjustment)	-
Net position as of June 30, 2013, as restated	\$ 76,210,576

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

	Debit	Credit
Net position class: Unrestricted Net Assets		
1 (breakdown of adjusting journal entry)	\$ 442,417	\$ 442,417
Deposits Held in Custody for Others		
Unrestricted Net Assets		
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)	\$ -	\$ -

See accompanying independent auditors' report.