

**ASSOCIATED STUDENTS OF THE
UNIVERSITY OF CALIFORNIA
AT SANTA BARBARA**

**REPORT TO THE
SENATE AND MANAGEMENT
JUNE 30, 2018**



104 West Anapamu Street, Suite B | Santa Barbara, CA 93101
Main: (805) 966-1521 | Fax: (805) 963-1780 | www.nhhco.com

William J. Nasif
Steven J. Hicks, Retired
Jeffery P. Harris
Jody Dolan Holehouse
Thomas W. Burk
Robert Swayne Lyons

Lawrence W. Brown
Sarah E. Turner
Thomas A. Olson
Joseph G. Bishop
Rachelle O. Barnier
Elena Mund

March 1, 2019

Senate - Associated Students
of the University of California at Santa Barbara

Dear Senate Members:

Annually, we review with the Senate and management those matters that are required by generally accepted auditing standards to be communicated, as well as other matters we believe would be of interest to the Senate and management. The attached report outlines those areas where we are required to communicate and certain other matters related to the audit of the financial statements of Associated Students of the University of California at Santa Barbara for the year ended June 30, 2018. If you have any questions, please contact me at (805) 966-1521.

Sincerely,

Nasif, Hicks, Harris & Co., LLP

By,

Sarah E. Turner

Table of Contents

Section	Page
I. Scope.....	1
II. Results of the Audit.....	2
III. Required Communications.....	3
IV. Report to Management.....	6

I. Scope

- The matters raised in this report are only those which have come to our attention arising from our audit that we believe need to be brought to the attention of management and the Senate. They are not a comprehensive record of all the matters arising, and in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for the use of management and the Senate and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.
- Because of the inherent limitations of an audit, it is possible that material misstatements of the financial statements resulting from fraud and, to a lesser extent from error, may not have been detected.
- We have considered the Associated Students of the University of California at Santa Barbara's internal control structure in determining the nature, timing and extent of our audit procedures.

II. Results of the Audit

- We have completed our audit of the financial statements of the Associated Students for the year ended June 30, 2018 and issued an unmodified opinion on the financial statements.
- The primary purposes of this report are to present significant findings arising from our audit procedures and to communicate recommended enhancements to the internal control structure which came to our attention during our audit.
- We received full cooperation from management who provided us with complete access to the books and records of the Associated Students. There were no restrictions on the scope of our audit procedures.

III. Required Communications

Matter to be Communicated	Our Response
Auditor's responsibility under Generally Accepted Auditing Standards	
<ul style="list-style-type: none">The auditor should communicate the level of responsibility assumed under Generally Accepted Auditing Standards (GAAS).	<ul style="list-style-type: none">Our audit is designed to obtain reasonable, not absolute, assurance about the financial statements. This was also communicated in our engagement letter dated November 13, 2018.
Significant Accounting Policies and Unusual Transactions	
<ul style="list-style-type: none">The auditor should determine that those charged with governance are informed about the initial selection of and changes in significant accounting policies, including critical accounting policies, as well as the methods used to account for significant unusual transactions and the auditor's judgment about the quality of accounting principles.	<ul style="list-style-type: none">We have reviewed the Associated Students' accounting policies and believe that they are reasonable.
Other Information in Documents Containing Audited Financial Information	
<ul style="list-style-type: none">Those charged with governance should be informed as to the auditor's responsibility for information in a document containing audited financial statements, as well as any procedures performed and the related results.	<ul style="list-style-type: none">We are responsible for the review of other information in all documents containing audited financial statements to ensure their consistency with the financial statements. To our knowledge, no such documents have been issued.
Significant Audit Adjustments	
<ul style="list-style-type: none">All significant adjustments arising from the audit should be communicated to management.	<ul style="list-style-type: none">A listing of all proposed journal entries was previously given and accepted by management.
Management Judgments and Accounting Estimates	
<ul style="list-style-type: none">Those charged with governance should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.	<ul style="list-style-type: none">The following items are the most significant area encountered during our audit which involved substantial levels of management judgment or application of accounting estimates. This estimates is sensitive because of its significance to the financial statements and because of the possibility that future events affecting it may ultimately differ from management's current judgment:<ul style="list-style-type: none">Valuation of marketable securities as of June 30, 2018 and 2017.Accounts receivable allowance.Emergency student loans receivable allowance.Net book value of property and equipment.During our audit of the Associated Students' financial statements for the year ended June 30, 2018, we reviewed the estimates made by management and found the basis for their conclusions to be reasonable. However, estimates could change and actual results could differ from those estimates.

III. Required Communications

Matter to be Communicated	Our Response
Disagreements with Management	
<ul style="list-style-type: none">Disagreements with management, whether or not satisfactorily resolved, about matters that could be significant to the entity's financial statements or the auditor's report should be communicated to those charged with governance.	<ul style="list-style-type: none">No such disagreements occurred.
Consultation with Other Accountants	
<ul style="list-style-type: none">When the auditor is aware that management has consulted with other accountants about significant accounting or auditing matters, the auditor's views about the subject of the consultation should be communicated to those charged with governance.	<ul style="list-style-type: none">We are not aware of any consultations with other independent accountants on any significant accounting or auditing matters.
Major Issues Discussed with Management Prior to Retention	
<ul style="list-style-type: none">Any major issues that were discussed with management in connection with our annual retention should be communicated to those charged with governance.	<ul style="list-style-type: none">No such issues were encountered.
Difficulties Encountered in Performing the Audit	
<ul style="list-style-type: none">Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of those charged with governance.	<ul style="list-style-type: none">No such difficulties were encountered.
Deficiencies in Internal Control	
<ul style="list-style-type: none">Those charged with governance should be advised of any material weaknesses or significant deficiencies in the design or operation of the internal control structure coming to the auditor's attention during the audit.	<ul style="list-style-type: none">Refer to Section IV. Report to Management for internal control observations.
Material Uncertainties Related to Events and Conditions, Specifically Going Concern Issues	
<ul style="list-style-type: none">The auditor should communicate any doubt regarding the entity's ability to continue as a going concern, and any other material uncertainties.	<ul style="list-style-type: none">No material uncertainties were identified.

III. Required Communications

Matter to be Communicated	Our Response
Fraud and Illegal Acts	
<ul style="list-style-type: none">Those charged with governance should be adequately informed of any fraud or illegal acts noted.	<ul style="list-style-type: none">During the course of our audit of the financial statements for the year ended June 30, 2018, we did not become aware of any fraud or illegal acts.An auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected. Because of the characteristic of fraud, particularly those involving concealment and falsified documentation including forgery, a properly planned audit may not detect a material misstatement. Further, the determination of whether an act is illegal is usually beyond the auditor's professional competence. The auditor's training and experience should ordinarily provide a reasonable basis for awareness that some client acts coming to their attention in the performance of the audit might be illegal. The further removed an illegal act is from events and transactions specifically reflected in the financial statements, the less likely the auditor is to become aware of the act or recognize the possible illegality.
Independence	
<ul style="list-style-type: none">Those charged with governance should be informed of any relationships that in our professional judgment may reasonably be thought to bear on our independence.	<ul style="list-style-type: none">To the best of our knowledge, there are no circumstances or relationships between the Associated Students and Nasif, Hicks, Harris & Co., LLP that would impair our independence in reporting on the financial statements.We are independent accountants within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Accountants.
Other Material Written Communications	
<ul style="list-style-type: none">Those charged with governance should be informed of other material written communications between the auditor and management.	<ul style="list-style-type: none">In addition to this report, the following are other material written communications between Nasif, Hicks, Harris & Co., LLP and the Associated Students during 2018:<ul style="list-style-type: none">Engagement letter for the audit of the Associated Students for the year ended June 30, 2018 dated November 13, 2018.Management representation letter dated March 1, 2019.Independent Auditors' Report for the Audited Financial Statements for the year ended June 30, 2018 dated March 1, 2019.

IV. Report to Management

In planning and performing our audit of the financial statements of the Associated Students of the University of California at Santa Barbara (the "Organization") for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of significant 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. We consider the following deficiencies in the Company's internal control to be significant deficiencies:

Emergency Student Loans Receivable

The method management currently uses to account for emergency student loans is not in accordance with accounting principles generally accepted in the United States of America. We proposed significant adjustments related to the emergency student loans in order to report emergency student loans receivable under an acceptable method.

Under the current method, management records an expense when loans are issued and revenue when payments are received. Emergency student loans issued should be recorded in an emergency student loans receivable subledger and posted to an emergency student loans receivable account on the statement of financial position. Payments received should reduce the respective students' balances in the subledger and the total receivable balance on the statement of financial position. The subledger should be maintained and reconciled monthly or quarterly to the receivable balance on the statement of financial position. The executive director should review the reconciliation on monthly or quarterly basis.

MANAGEMENT RESPONSE

When AS sends the Emergency Student Loan charges to the student's BARC account, the BARC office is taking responsibility for the receivable. AS is reimbursed by the BARC office for all of the loans that are sent. This reimbursement will be done on a quarterly basis.

IV. Report to Management

In November and May of each year, the BARC office writes off any unpaid loans that are over 120 days old. I discussed their process with Erick McCurdy, the Manager of the BARC office, and he told me that they follow all GAAP, generally accepted accounting principles. Once loans are written off, they are no longer considered receivables by the BARC office. They don't have any collection efforts other than the hold that is placed on the student's account and a report to the California Franchise Tax Board. Some funds are collected on this bad debt and are reimbursed to AS on the general ledger account for student loans.

Accounts Payable

Management does not utilize the accounts payable function in the organization's accounting system to record and report outstanding amounts due to vendors at any given point in time. The accounts payable function should be utilized in order to produce accounts payable aging reports for management to periodically review, and report the accounts payable balance accurately in the financial statements, without the need to record a related adjusting journal entry.

MANAGEMENT RESPONSE

Regular monthly bills for AS are paid monthly when they are received. This is a small portion of our payables. The majority of the bills that AS pays are for student sponsored events and programs. The different AS entities and OSL student organizations are responsible for turning in paperwork to pay bills and reimburse students for expenses they have incurred. We will continue to work with our students to process payment requests for their programs and use purchase orders for reoccurring charges. AS is a learning environment for students to put on programs and events as well as to process payment for them.

One challenge we face with amounts owed to the other University Departments is getting the invoice in a timely manner. An event that occurs in May or June may not be billed to us until July or August. We strive to have purchase orders in place for all outstanding amounts so that we can see what is potentially owed, but this doesn't happen 100% of the time. Many of the charges from University Departments are billed to individual AS BARC accounts. Each account shows the aging of charges and are reviewed by the Accounts Payable staff person.

Associated Students has hired a Director for Internal Operations. This position will be responsible for evaluating our processes, internal controls and regulatory compliance. This additional management will be especially valuable in addressing all of these concerns.

OTHER MATTERS

Political Activities

Senate must be aware of legal requirements placed upon the Organization as a non-profit, tax-exempt organization. The following court cases have addressed these issues:

- *Smith v. Regents of the University of California*
- *Rosenberger v. the University of Virginia*
- *Board of Regents of the University of Wisconsin System v. Southworth*

IV. Report to Management

The Organization could jeopardize its tax-exempt status through:

- Campaigning, even in a limited way, for a particular candidate
- Substantial lobbying or other efforts to influence legislation

Such tax-exempt status could be violated if the expenditure of funds toward the above stated activities were considered substantial or if an appropriate election is not made on a Federal Form 990, if applicable. The Internal Revenue Service announced plans to more closely scrutinize tax-exempt organizations for political activity. The Executive Director should continue to review plans for any of the Organization's sponsored candidate debates or forums to ensure that the programs do not constitute campaigning.

MANAGEMENT RESPONSE

Our Finance and Business Committee receives training on the proper use of student fees including rules for campaigning and lobbying. The expenditure of student fees is scrutinized through our requisition process involving authorized signers, signature approval by our financial officers and the final signature of our Executive Director. The Executive Director, Senior Managers and Advisors will continue to advise on and monitor events sponsored by Associated Students.

Unrelated Business Tax

The Organization's income is generally exempt from Federal income tax. However, Internal Revenue Code Section 511 imposes income taxes on unrelated business income. Unrelated business income is income generated from activities not related to an organization's exempt function. Margin loans also create unrelated business income.

Most of the Organization's income is arguably exempt from unrelated business tax. For instance, income from Publication sales is related to the Organization's exempt function because the notes and publications serve students. Arguably, Bike Shop income is also probably exempt because the Bike Shop exists primarily for the convenience of students.

MANAGEMENT RESPONSE

The Executive Director and/or their designee, will continue to monitor new contracts and business ventures as needed. This will ensure that all new business ventures are created to serve student needs thereby remaining exempt from unrelated business income tax. To that same end, student government helps to establish and monitor existing and new business ventures through its Office of the Controller (reporting to the Student Senate). This acts as an additional assurance that all business services exist for the primary benefit of students. At the current time, we do not carry any margin loans.

IV. Report to Management

FUTURE YEARS

Changes to Generally Accepted Accounting Principles

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that established a comprehensive framework for addressing revenue recognition issues, referred to as the revenue standard. This new standard is effective for years beginning after December 15, 2018 (first year applicable will be the year ending June 30, 2020) with early implementation allowed. This standard implements a new five step revenue recognition process that will replace the existing revenue guidance. The new steps include identifying the contract between the customer and the company, identifying the performance obligations in the contract, determining the transaction price, allocating the price to the different performance obligations and recognizing revenue when the entity satisfies the performance obligations. The revenue standard will affect when and how revenue is initially recorded, including additional balance sheet accounts contract assets and contract liabilities.

In August 2016, the FASB issued an ASU that, among other changes, requires all not-for-profit entities present the relationship between functional expenses (such as major classes of program services and supporting activities) and natural expenses (such as salaries, rent, electricity, supplies, interest, and depreciation). This new standard is effective for years beginning after December 15, 2017 (first year applicable will be the year ending June 30, 2019) with early implementation allowed. An analysis of expenses by both function and natural classification will be required on a separate statement, on the face of the statement of activities and changes in net assets, or in the footnotes. While a separate statement of functional expenses is not required, it may be the most effective presentation option for the Organization given the number of the Organization's programs. Additional disclosures will also be required regarding specific methodologies used to allocate costs amount program and support functions

Industry specific implementation guidance has not yet been provided by FASB or the AICPA, but the full text of the updated standards can be found at the FASB's website. However, we recommend the Organization begin a process to plan for implementation of the new standards. Our office is available to assist with any questions or implementation guidance.

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



Nasif, Hicks, Harris & Co., LLP