

VERSAR INC  
Form 11-K  
July 15, 2014

**United States**

**Securities and Exchange Commission**

Washington, D.C. 20549

**FORM 11-K**

**x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2013

or

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 001-09309**

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Versar Employee 401(k) Plan

C/O Versar, Inc.

6850 Versar Center

Springfield, VA

22151

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Versar, Inc.

6850 Versar Center

Springfield, VA

22151

Financial Statements and Reports of Independent Registered Public Accounting Firms

**Versar Employee 401(k) Plan**

December 31, 2013 and 2012

Versar Employee 401(k) Plan

Contents

<u>Reports of Independent Registered Public Accounting Firms</u>	3-4
<b>Financial Statements</b>	
<u>Statements of Net Assets Available for Benefits</u>	5
<u>Statement of Changes in Net Assets Available for Benefits</u>	6
<u>Notes to Financial Statements</u>	7-21
<b><u>Supplemental Information</u></b>	
<u>Schedule H, Line 4i – Schedule of Assets (Held at End of Year)</u>	23
<u>Schedule H, Line 4a – Schedule of Delinquent Participant Contributions</u>	24
<b><u>Signatures</u></b>	25
<b>Consents of Independent Registered Public Accounting Firms</b>	26-27

**Report of Independent Registered Public Accounting Firm**

Plan Administrator

**Versar Employee 401(k) Plan**

Springfield, Virginia

We have audited the accompanying Statement of Net Assets Available for Benefits of **Versar Employee 401(k) Plan** (the “Plan”) as of December 31, 2013, and the related Statement of Changes in Net Assets Available for Benefits for the year then ended. These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2013, and the changes in net assets available for benefits for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, Line 4i – Schedule of Assets (Held at End of Year) as of December 31, 2013, and Schedule H, Line 4a – Schedule of Delinquent Participant Contributions for the year then ended are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan’s management. These supplemental schedules are the responsibility of the Plan’s management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ ARONSON LLC

Rockville, Maryland

July 15, 2014

3

**Report of Independent Registered Public Accounting Firm**

Plan Administrator

Versar Employee 401(k) Plan

We have audited the accompanying statement of net assets available for benefits of Versar Employee 401(k) Plan (the "Plan") as of December 31, 2012. This financial statement is the responsibility of the Plan's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the net assets available for benefits of Versar Employee 401(k) Plan as of December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

McLean, Virginia

July 15, 2014





**Versar Employee 401(k) Plan****Statements of Net Assets Available for Benefits**

December 31,	2013	2012
Assets		
Cash – noninterest bearing	\$79,699	\$5,425
Investments, at fair value	34,779,506	29,679,607
Receivables		
Notes receivable from participants	375,865	309,329
Employer contributions	228,613	202,015
Total receivables	604,478	511,344
Total assets	35,463,683	30,196,376
Liabilities		
Due to broker	79,636	—
Total liabilities	79,636	—
Net Assets Available for Benefits, at Fair Value	35,384,047	30,196,376
Adjustment from fair value to contract value for interest in collective trust fund relating to fully benefit-responsive investment contracts	(37,329 )	(152,670 )
Net Assets Available for Benefits	\$35,346,718	\$30,043,706

**Versar Employee 401(k) Plan**

## Statement of Changes in Net Assets Available for Benefits

Year ended December 31,	2013
Additions to Net Assets	
Contributions:	
Participant contributions	\$2,242,987
Employer contributions	994,858
Rollover contributions	176,142
Total contributions	3,413,987
Investment income	
Interest and dividend income	192,455
Net appreciation in fair value of investments	6,015,920
Total investment income	6,208,375
Interest income on notes receivable from participants	15,917
Other income	109,002
Total Additions	9,747,281
Deductions from Net Assets	
Benefits paid to participants	4,315,404
Administrative expense	128,865
Total Deductions	4,444,269
Net Increase	5,303,012
Net Assets Available for Benefits, beginning of year	30,043,706
Net Assets Available for Benefits, end of year	\$35,346,718

Versar Employee 401(k) Plan

Notes to Financial Statements

*December 31, 2013 and 2012*

#### **NOTE A<sup>3/4</sup>PLAN DESCRIPTION**

The following description of the Versar Employee 401(k) Plan (the Plan) provides only general information. The Plan's investments are held in a nondiscretionary trust by Wells Fargo Bank, N.A. (Wells Fargo or Trustee). Wells Fargo also serves as recordkeeper for the Plan. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

##### ***General***

The Plan is a defined contribution plan covering substantially all eligible employees of Versar, Inc. (Company or Plan Sponsor) who are age 18 or older except for non resident aliens, employees covered by a collective bargaining agreement and Davis Bacon Act employees. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

##### ***Contributions***

Each year, participants may contribute a minimum of 1 percent up to 50 percent of pre-tax annual compensation, as defined in the Plan. Roth contributions are also permitted. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified plans (rollover). The Plan includes an auto-enrollment provision whereby all newly eligible employees are automatically enrolled in the Plan unless they affirmatively elect not to participate in the Plan. Automatically enrolled participants have their deferral rate set at 3 percent of eligible compensation and their contributions invested in the Wells Fargo AdviceTrack program (see Investment Options below) until changed by the

participant. The Plan's automatic enrollment provisions were amended effective January 1, 2013 to add an auto escalation feature that provides for a 1 percent automatic annual increase up to a maximum of a 6 percent deferral rate.

The Company makes a safe harbor matching contribution equal to 100 percent of the first 3 percent of eligible compensation a participant contributes and 50 percent of the next 2 percent of eligible compensation a participant contributes to the Plan. Employer safe harbor matching contributions are made on a quarterly basis in cash. The Company may make an additional discretionary matching contribution to all eligible participants employed as of the last day of the Plan year. No such discretionary contributions were made for the year ended December 31, 2013.

Contributions are subject to certain Internal Revenue Service (IRS) limitations.

### ***Participant Accounts***

The Plan maintains an account for each participant. Each participant's account is credited with the participant's contributions, allocations of the Company's contributions and Plan earnings and charged with an allocation of Plan losses and administrative expenses. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE A<sup>3/4</sup>PLAN DESCRIPTION—Continued**

***Investment Options***

Participants direct the investment of their contributions and can select from two available options, core investment funds (Core Funds) or the Wells Fargo AdviceTrack program (AdviceTrack). Under the Core Funds option, participants direct their contributions to mutual funds and collective trust funds (CTF) selected by the Company and offered by the Plan. Alternatively, participants can elect to invest 100 percent of their current balance and all future contributions to AdviceTrack. The investment funds available under AdviceTrack include, in general, a different group of mutual funds and CTFs than are available under the Core Funds option and are selected and maintained by Wells Fargo. Wells Fargo monitors the investment performance of the funds and makes changes as deemed appropriate; however, any changes must be consented to by the Plan Sponsor. Wells Fargo has retained an independent financial expert who provides the participant with an investment allocation strategy under AdviceTrack, using personal and financial information provided by the participant, which is then implemented by Wells Fargo. The participant's account is monitored and re-balanced based on investment performance, market conditions and changes in the participant's personal situation. Participants may terminate participation in AdviceTrack at any time and revert to the Core Funds option.

Company common stock is held in the Plan for certain participants who received in-kind employer contributions in prior years. Restrictions of participants' transfers, contributions (purchases) or distributions (sales) are described in Note D.

***Voting Rights***

Each participant is entitled to exercise voting rights attributable to the shares of Versar stock allocated to their account. Participants are sent a proxy by the Trustee for the shares they own and they may vote those shares. The Trustee is not permitted to vote any share for which instructions have not been given by a participant.

***Vesting***

Participants are immediately vested in their contributions and Company contributions plus actual earnings thereon.

***Notes Receivable from Participants***

Plan participants may borrow from their employee contribution and rollover fund accounts a minimum of \$500 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. All loans bear interest at the current prime lending rate of Wells Fargo plus one percent and are secured by the balance in the participant's account. Generally, the loans must be repaid within five years unless the loan was used for the purchase of a primary residence, in which case the term may be up to 10 years. Participants may only have one loan outstanding at any time. Principal and interest is paid ratably through bi-weekly payroll deductions.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE A<sup>3/4</sup>PLAN DESCRIPTION—Continued**

***Payment of Benefits***

On termination of service including death, disability, early or normal retirement, a participant may elect to receive a lump-sum distribution equal to the value of the participant's vested account balance. Distributions of a participant's elective deferral and rollover contribution accounts are made in cash. The matching contribution is distributed in the form in which the employer match is invested (cash and/or Company common stock) at the time of the distribution.

Hardship distributions to employees are permitted from the participant's elective deferral account if certain conditions are met. After withdrawal, participants may not make savings or other contributions to the Plan for at least six months after receipt of the hardship distribution.

The Plan also provides for required minimum distributions (RMD) per IRS regulations by April 1 of the calendar year following the later of the calendar year in which the participant reaches age 70 ½ or the calendar year the participant retires. Installment payments are permitted for lifetime RMDs only. In addition, the Plan does permit in-service withdrawals from the participant's elective deferral and safe harbor matching contribution accounts after reaching age 59 ½.

**NOTE B<sup>3/4</sup>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

The financial statements of the Plan have been prepared on the accrual basis of accounting.

*Investment Valuation and Income Recognition*

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note E for discussion of fair value measurements.

Investment contracts held by the Plan, either directly or as an underlying asset of a CTF, must be reported at fair value. However, contract value is the relevant measurement attribute for the portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts, because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in stable return funds (SRF) which are CTFs that hold an investment in another CTF, which invests in fully benefit-responsive investment contracts. The statements of net assets available for benefits present the fair value of the SRFs as well as the adjustment of the funds from fair value to contract value. The statement of changes in net assets available for benefits is prepared on a contract value basis.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) in fair value of investments includes the Plan's gains and losses on investments bought and sold as well as held during the year.



Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE B¾SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Payment of Benefits*

Benefits are recorded when paid.

*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 amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

*Administrative Expenses*

Certain expenses of maintaining the Plan are paid directly by the Company and are excluded from these financial statements. Administrative expenses paid by the Plan include primarily investment related expenses and also include fees related to the administration of notes receivable from participants charged directly to the participant's account. Participants who are invested in AdviceTrack are charged an asset-based fee for program services, such as fund selection and monitoring, of 0.50 percent plus 0.13 percent to reimburse Wells Fargo for actual expenses.

*Notes Receivable from Participants*

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2013 or 2012. If a participant ceases to make loan repayments and the Plan administrator deems the participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE C<sup>3/4</sup>INVESTMENTS**

The following presents investments representing five percent or more of Plan net assets as of December 31, 2013 and 2012.

December 31,	2013	2012
WF Stable Return Fund - N *	\$4,363,771	\$5,414,410
T Rowe Price Blue Chip Growth Fund	3,626,212	2,815,524
WF Enhanced Stock Market Fund	3,618,478	2,515,437
WF Advantage Discovery Fund	2,396,675	1,827,657
TCW Galileo Total Return Bond Fund	1,987,033	2,201,086
Thornburg International Value Fund	1,847,136	1,669,697

\* Represents fair value; contract value as of December 31, 2013 and 2012 is \$4,328,448 and \$5,264,487, respectively.

During 2013, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$6,015,920 as follows:

Mutual funds	\$3,738,625
Employer common stock	290,341
Collective trust funds	1,986,954

\$6,015,920

NOTE D<sup>3</sup>/<sub>4</sub>NONPARTICIPANT-DIRECTED INVESTMENTS

As stated in Note A, certain participants who have received in-kind employer contributions in prior years hold Company common stock as an investment. In addition, all participants may direct funds from Company matching contributions to or from Company common stock without restriction. All Company common stock held in a source other than any Company matching contributions is restricted and may not be directed by the participant.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

NOTE D<sup>3</sup>/<sub>4</sub>NONPARTICIPANT-DIRECTED INVESTMENTS<sup>3</sup>/<sub>4</sub>Continued

Information about the net assets and significant components of the changes in net assets related to all Company common stock is as follows:

	December 31,	
	2013	2012
Net Assets:		
Versar, Inc. common stock	\$ 1,307,790	\$ 1,164,581

	Year Ended December 31, 2013	
Changes in Net Assets:		
Net appreciation	\$ 290,341	
Employer contributions	2,239	
Benefits paid to participants	(95,453	)
Transfers to participant-directed investments	(53,841	)
Administrative expenses	(77	)
	\$ 143,209	

NOTE E<sup>3</sup>/<sub>4</sub>FAIR VALUE MEASUREMENTS

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

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access;

Level 2—Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities inactive markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE E<sup>3/4</sup>FAIR VALUE MEASUREMENTS<sup>3/4</sup>Continued**

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There have been no changes in the methodologies used at December 31, 2013 and 2012.

*Common Stock:* Valued at the closing price reported on the active market on which the individual securities are traded and are classified within Level 1 of the fair value hierarchy.

*Mutual Funds – Core Funds:* Valued at the daily closing price as reported by the fund. Such mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (“NAV”) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded and are classified within Level 1 of the fair value hierarchy.

*Mutual Funds – AdviceTrack:* Valued at the NAV of units of the AdviceTrack fund as provided by Wells Fargo. The mutual funds offered under AdviceTrack are held in Wells Fargo institutional accounts, in which transactions are effected on behalf of all investors in each AdviceTrack fund on an aggregated basis. Each AdviceTrack mutual fund is a unitized fund and consists primarily of an underlying investment in a specific actively traded open-end mutual fund. A daily NAV is calculated by Wells Fargo based on the fair value of the underlying mutual fund investment held by the fund plus other assets (i.e., cash, accrued income, and due from broker for securities sold) less its liabilities (i.e., accrued expenses and due to broker for securities purchases), and is classified within level 2 of the fair value hierarchy. Daily NAVs are available to Plan administrators and client investors on Wells Fargo’s website and provide sufficient corroborative evidence to ascertain the relationship between each fund’s NAV and the values of the individual underlying holdings.

*Collective Trust Funds:* Valued at fair value measured as the NAV of units of a bank collective trust. The NAV as provided by Wells Fargo is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were the Plan to initiate a full redemption of a CTF, the investment advisor reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner. All CTFs except the SRFs are classified within Level 2 of the fair value hierarchy. SRFs are classified within Level 3 of the fair value hierarchy. With respect to the SRFs held by the Plan, in order to assess the reasonableness of the fair value methodology used, the Versar, Inc. Retirement Plan Committee, with the assistance of an investment advisor, does not independently develop quantifiable unobservable inputs, but rather evaluates a variety of factors including review of the funds' financial statements, economic conditions, industry and market developments, and overall credit ratings. See also Note F for further information on the SRFs. There are no unfunded commitments from participants in the Plan who invest in the CTFs.

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 Plan 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.



## Versar Employee 401(k) Plan

## Notes to Financial Statements—Continued

*December 31, 2013 and 2012***NOTE E<sup>3/4</sup>FAIR VALUE MEASUREMENTS<sup>3/4</sup>Continued**

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
<b>Mutual Funds</b>				
<b>Fixed Income Funds –</b>				
High yield bond	\$—	\$347,270	\$—	\$347,270
Inflation-protected bond	—	358,567	—	358,567
Intermediate bond	1,987,033	1,179,871	—	3,166,904
<b>U.S. Equity Funds –</b>				
Large cap	6,663,501	—	—	6,663,501
Mid cap	3,012,170	—	—	3,012,170
Small cap	1,668,634	—	—	1,668,634
International Equity – Large Cap	3,169,392	988,080	—	4,157,472
Equity – Real Estate	—	280,747	—	280,747
<b>Sub-total mutual funds</b>	<b>16,500,730</b>	<b>3,154,535</b>	<b>—</b>	<b>19,655,265</b>
<b>Collective Trust Funds:</b>				
<b>Fixed Income –</b>				
Intermediate Bond	—	477,540	—	477,540
International Bond	—	446,510	—	446,510
<b>U.S. Equity –</b>				
Large cap	—	6,979,823	—	6,979,823
Small cap	—	628,864	—	628,864
International Equity – Large Cap	—	667,319	—	667,319
Stable Value	—	—	4,616,395	4,616,395

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Sub-total collective trust funds	—	9,200,056	4,616,395	13,816,451
Company Common Stock	1,307,790	—	—	1,307,790
Total assets at fair value	\$ 17,808,520	\$ 12,354,591	\$ 4,616,395	\$ 34,779,506

14

## Versar Employee 401(k) Plan

## Notes to Financial Statements—Continued

December 31, 2013 and 2012

**NOTE E<sup>3/4</sup>FAIR VALUE MEASUREMENTS<sup>3/4</sup>Continued**

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
<b>Mutual Funds</b>				
<b>Fixed Income Funds –</b>				
High yield bond	\$—	\$259,454	\$—	\$259,454
Inflation-protected bond	—	281,063	—	281,063
Intermediate bond	2,201,086	854,576	—	3,055,662
International bond	—	349,021	—	349,021
<b>U.S. Equity Funds –</b>				
Large cap	4,473,726	1,036,209	—	5,509,935
Mid cap	2,254,263	—	—	2,254,263
Small cap	1,374,571	—	—	1,374,571
International Equity – Large Cap	2,750,837	584,643	—	3,335,480
Balanced	960,399	—	—	960,399
Equity – Real Estate	—	229,241	—	229,241
<b>Sub-total mutual funds</b>	<b>14,014,882</b>	<b>3,594,207</b>	<b>—</b>	<b>17,609,089</b>
<b>Collective Trust Funds:</b>				
<b>Fixed Income –</b>				
Intermediate Bond	—	373,839	—	373,839
<b>U.S. Equity –</b>				
Large cap	—	3,784,272	—	3,784,272
Small cap	—	416,189	—	416,189
<b>International Equity –</b>				
Large Cap	—	752,929	—	752,929
Stable Value	—	—	5,578,708	5,578,708
<b>Sub-total collective trust funds</b>	<b>—</b>	<b>5,327,229</b>	<b>5,578,708</b>	<b>10,905,937</b>

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Company Common Stock	1,164,581	—	—	1,164,581
Total assets at fair value	\$15,179,463	\$8,921,436	\$5,578,708	\$29,679,607

15

## Versar Employee 401(k) Plan

## Notes to Financial Statements—Continued

*December 31, 2013 and 2012***NOTE E<sup>3/4</sup>FAIR VALUE MEASUREMENTS<sup>3/4</sup>Continued**

The table below sets forth a summary of changes in the fair value of the Plan's level 3 assets for the year ended December 31, 2013:

	WF Stable Return Fund N	WF Stable Return Fund AT	<b>Total Stable Value Funds</b>
Balance, January 1, 2013	\$ 5,414,410	\$ 164,298	\$ 5,578,708
Depreciation – change in adjustment from fair value to contract value	(114,601 )	(740 )	(115,341 )
Realized gains	16,005	313	16,318
Unrealized gains related to instruments still held at the reporting date	57,358	1,938	59,296
Purchases			
Contributions, rollovers and transfers in	1,591,002	137,030	1,728,032
Sales:			
Withdrawals, distributions and transfers out	(2,600,403 )	(50,215 )	(2,650,618 )
Balance, December 31, 2013	\$ 4,363,771	\$ 252,624	\$ 4,616,395

Depreciation – change in adjustment from fair value to contract value represents unrealized depreciation on fully benefit-responsive investment contracts held by the underlying CTF held by the Plan's SRFs and is not included in the statement of changes in net assets available for benefits as the contracts are recorded at contract value for purposes of the net assets available for benefits.

*Transfers between Levels*

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Plan evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended December 31, 2013, there were no transfers in or out of levels 1, 2 or 3.

## Versar Employee 401(k) Plan

## Notes to Financial Statements—Continued

December 31, 2013 and 2012

**NOTE E<sup>3/4</sup>FAIR VALUE MEASUREMENTS<sup>3/4</sup>Continued***Fair Value of Investments in Entities that Use NAV*

In accordance with the fair value measurements and disclosures guidance, the following table presents the category, fair value, redemption frequency, and redemption notice period for Plan investments, the fair values of which are estimated using the NAV per share as of December 31, 2013 and 2012:

	Fair Value 2013	2012	Redemption Frequency	Redemption Notice Period
Collective Trust Funds:				
Fixed Income – Intermediate Bond <sup>(a)</sup>	\$477,540	\$373,839	Daily	Daily
International Bond <sup>(b)</sup>	446,510	—	Daily	Daily
U.S. Equities:				
Large cap <sup>(c)</sup>	6,979,823	3,784,272	Daily	Daily
Small cap <sup>(d)</sup>	628,864	416,189	Daily	Daily
International Equity – Large Cap <sup>(e)</sup>	667,319	752,929	Daily	Daily
Stable Value <sup>(f)</sup>	4,616,395	5,578,708	See Note F	See Note F
Total	\$13,816,451	\$10,905,937		

*Fixed Income – Intermediate Bond:* The investment objective of the fund in this category is to seek total return (a) consisting of current income and capital appreciation. The fund invests primarily in investment-grade debt securities, including U.S. government obligations, corporate bonds and mortgage and asset-backed securities.

(b)

*Fixed Income – International Bond:* The investment objective of the fund in this category is to seek total return consisting of income and capital appreciation. Under normal circumstances, the fund invests primarily in foreign debt securities, including obligations of governments, corporate entities, or supranational agencies, denominated in various currencies.

*U.S. Equities – Large Cap:* The investment objectives of the funds in this category are long term capital growth or appreciation. These funds invest primarily in equity securities of large U.S. companies and includes funds which (c) own a diversified portfolio of established companies which produce superior and sustainable earnings growth as well as a fund which focuses on stocks of companies that it believes are undervalued compared to their perceived worth (value companies).

*U.S. Equities – Small Cap:* The investment objective of the fund in this category is long-term growth of capital by (d) primarily investing in a diversified portfolio of U.S. small cap equity securities with characteristics similar to those of the Russell 2000 Index.

*International Equity – Large Cap:* The investment objectives of the funds in this category are long-term capital growth or appreciation. The fund invests in stocks of international companies that fall within the market (e) capitalization of the MSCI EAFE Index. For 2012, one fund primarily invested in securities of issuers from countries outside the U.S. but may invest in U.S. issuers, have significant exposure to emerging markets, and may invest in U.S. and foreign debt securities.



Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE E<sup>3/4</sup>FAIR VALUE MEASUREMENTS<sup>3/4</sup>Continued**

*Stable Value:* The investment objective of the SRFs is safety of principal while providing a higher rate of return than shorter maturity investments, such as money market funds or certificate of deposit. In order to meet this (f) objective, the funds invest in another CTF that primarily invests in investment contracts, including traditional guaranteed investment contracts and security-backed contracts issued by insurance companies and other financial institutions.

**NOTE F—STABLE RETURN FUNDS**

The Plan has assets invested in two SRFs, Wells Fargo Stable Return Fund N and Wells Fargo Stable Return Fund AT, both of which have invested all of their assets in the Wells Fargo Stable Return Fund G (WF Fund G), a CTF sponsored by Wells Fargo. The daily value of the SRFs' investment is based on the underlying daily value reported by the WF Fund G. The NAV of the WF Fund G is calculated daily and net investment income is not distributed but reinvested and the NAV adjusted accordingly. The SRFs allow for daily liquidity with no additional days' notice required for redemption.

All withdrawals and transfers from the SRFs are payable at contract value. Contract value represents contributions made to the SRFs plus earnings less participant withdrawals and administrative expenses. Participant-directed transfers from the SRFs are permitted to non-competing funds, subject to a 90-day equity wash provision. However, Wells Fargo reserves the right to require a 12-month notification for any Plan Sponsor initiated withdrawal request.

Certain events may limit the ability of the Plan to transact at contract value with the SRFs' issuer. Such events include the following:

- Material amendment to WF Fund G's structure or administration;
- Changes to participating plans' competing investment options including elimination of the equity wash provisions;
- Complete or partial termination of WF Fund G, including merger with another fund;
- Failure of WF Fund G to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA;
- Redemption of all or a portion of the interests in the SRFs held by a participating plan at the direction of the participating plan sponsor including group layoffs, early retirement incentive programs, closing or sale of a subsidiary, bankruptcy or insolvency of the plan sponsor, merger of the plan with another plan, or the plan sponsor's establishment of another tax qualified defined contribution plan;
- Any change in law, regulation, ruling, administrative or judicial position, or accounting requirement, applicable to WF Fund G or participating plans;
- Delivery of any communication to plan participants designed to influence a participant not to invest in the SRFs.

The contract value of the investment in the SRFs as of December 31, 2013 and 2012 was \$4,579,066 and \$5,426,038, respectively. The crediting interest rates for the SRFs are derived from the underlying investments in the WF Fund G which consist of both (1) guaranteed investment contracts at fixed rates and (2) security-backed contracts with variable interest rates reset on a quarterly basis and a minimum interest rate of zero percent. For the year ended December, 31, 2013 and 2012, the average yield based on actual earnings was 1.36% and 0.94%, respectively. For the years ended December 31, 2013 and 2012, the interest rate credited to participants was 1.52% and 1.95%, respectively.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE F—STABLE RETURN FUNDS<sup>3/4</sup>Continued**

Plan management believes the occurrence of events and circumstances that would cause the SRFs to transact at less than contract value is not probable.

**NOTE G<sup>3/4</sup>RELATED PARTY AND PARTY-IN-INTEREST TRANSACTIONS**

Certain investment options available to participants are shares of CTFs and AdviceTrack mutual funds managed by Wells Fargo, the Trustee and record-keeper. Therefore, transactions with these investments qualify as party-in-interest transactions and are exempt from the prohibited transaction rules of ERISA.

The Plan holds an investment in the Company common stock, and transactions with this investment qualify as part-in-interest and related party transactions. The Plan held 270,764 and 301,705 shares of the Company common stock as of December 31, 2013 and 2012, respectively.

During 2011, the Company failed to remit to the Plan certain employee contributions and loan payments totaling \$463,936 within the period prescribed by Department of Labor regulations. These delinquent remittances are considered nonexempt party-in-interest transactions. The Company made corrective contributions to the Plan in 2014 to compensate affected participants for lost earnings on the delinquent remittances.

Fees paid by the Plan for investment management and other services to Wells Fargo amounted to \$62,353 for the year ended December 31, 2013. Fees paid to Wells Fargo through revenue sharing amounted to \$24,626 for the year ended December 31, 2013.

#### NOTE H¼PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

#### NOTE I¼TAX STATUS

The underlying non-standardized prototype plan has received an opinion letter from the IRS dated March 31, 2008 stating that the form of the Plan is qualified under Section 401 of the Internal Revenue Code (IRC), and therefore, the related trust is tax exempt. The Plan Sponsor has determined that it is eligible to and has chosen to rely on the current IRS prototype plan opinion letter. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Plan has been amended since receiving the opinion letter. The Plan Sponsor has indicated that it will take the necessary steps, if any, to maintain the tax-qualified status of the Plan.

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE I¾TAX STATUS¾Continued**

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan Sponsor has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2010.

**NOTE J¾RISKS AND UNCERTAINTIES**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

**NOTE K<sup>3/4</sup>RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

December 31,	2013	2012
Net assets available for benefits per the financial statements	\$35,346,718	\$30,043,706
Add: Adjustment from contract value to fair value for collective trust fund investment in the SRFs	—	152,670
Less: Employer contributions receivable	(228,613 )	(202,015 )
Rounding	2	—
Net assets available for benefits per Form 5500	\$35,118,107	\$29,994,361

The following is a reconciliation of changes in net assets per the financial statements to the Form 5500 for the year ended December 31, 2013:

Net increase in net assets per financial statements	\$5,303,012
Change in employer contributions receivable	(26,598 )
Adjustment from contract value to fair value for the collective trust fund investment in the SRFs at December 31, 2012	(152,670 )
Rounding	2
Net increase in net assets and transfers in per Form 5500	\$5,123,746

Versar Employee 401(k) Plan

Notes to Financial Statements—Continued

*December 31, 2013 and 2012*

**NOTE L—OPERATIONAL COMPLIANCE**

In 2014, it was determined the Plan was not operating in compliance with certain provisions set forth in the Plan document with respect to post severance compensation during 2013. The Company is in the process of preparing a request for consideration under the IRS Voluntary Correction Program of the Employee Plans Compliance Resolution System to correct the effect of the Company's practice regarding post severance compensation. Company practices were corrected once the inconsistency was identified. The Company is also in the process of amending the Plan documents to clarify the treatment of post severance compensation. The Company will take any necessary corrective action recommended by the IRS to maintain the tax qualified status of the Plan. The outcome of this matter cannot presently be determined but may include the need for the Company to make adjustments to participant's accounts for these ineligible contributions.

**NOTE M—SUBSEQUENT EVENTS**

On September 3, 2013, the Company purchased all of the issued and outstanding shares of Geo-Marine, Inc. (GMI). GMI sponsored a defined contribution plan, Geo-Marine, Inc. Savings and Retirement Plan (GMI Savings Plan) for its employees. The GMI Savings Plan's net assets of \$8,604,953 were merged into the Versar Employee 401(k) Plan in February 2014.

**Supplemental Information**



**Versar Employee 401(k) Plan**

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)

EIN: 54-0852979

Plan 002

DECEMBER 31, 2013

(b) Identity of Issue, Borrower, Lessor or (a) Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value	(d) Cost	(e) Current Value
* VERSAR, INC., COMMON STOCK ***	Employer common stock	\$669,154	<b>\$1,307,790</b>
* WF STABLE RETURN FUND - AT	Collective Trust Fund	**	252,624
* WF CORE BOND FUND	Collective Trust Fund	**	477,540
* WF ENHANCED STOCK MARKET FUND	Collective Trust Fund	**	3,618,478
* WF MFS VALUE FUND	Collective Trust Fund	**	1,518,711
* WF MULTI-MANAGER SMALL CAP FUND	Collective Trust Fund	**	628,864
* WF STABLE RETURN FUND - N	Collective Trust Fund	**	4,363,771
* WF THORNBURG INTL FUND	Collective Trust Fund	**	667,319
* WF TRP INST LARGE CAP GROWTH MGD FUND	Collective Trust Fund	**	400,044
* WF TRP INST EQ INC MGD FUND	Collective Trust Fund	**	844,350
* WFA INTERNATIONAL BOND FUND	Collective Trust Fund	**	446,510
* WF LARGE CAP GROWTH FUND	Collective Trust Fund	**	598,240
Subtotal - Pooled, Common and Collective funds			<b>13,816,451</b>
ACADIAN EMERGING MARKETS EQUITY FUND	Mutual fund	**	221,070
ALGER SMALL CAP GROWTH FUND	Mutual fund	**	1,290,834
ALLIANZ NFJ SMALL CAP VAL FUND	Mutual fund	**	377,800
AMER CENTURY EQUITY INCOME FUND	Mutual fund	**	998,607
GOLDMAN SACHS MID CAP VALUE FUND	Mutual fund	**	615,495
HARBOR INTERNATIONAL FUND	Mutual fund	**	767,010
INVESCO EQUITY & INC FUND	Mutual fund	**	1,169,081
MFS VALUE FUND	Mutual fund	**	869,601
PIMCO HIGH YIELD FUND	Mutual fund	**	347,270
PIMCO REAL RETURN FUND	Mutual fund	**	358,567
PIMCO TOTAL RETURN FUND	Mutual fund	**	1,179,871
T ROWE PRICE BLUE CHIP GROWTH FUND	Mutual fund	**	3,626,212
T ROWE PRICE REAL ESTATE FUND	Mutual fund	**	280,747
TCW GALILEO TOTAL RETURN BOND FUND	Mutual fund	**	1,987,033
TEMPLETON FOREIGN FUND	Mutual fund	**	1,322,256
THORNBURG INTERNATIONAL VALUE FUND	Mutual fund	**	1,847,136
* WF ADVANTAGE DISCOVERY FUND	Mutual fund	**	2,396,675

Subtotal - Mutual funds		<b>19,655,265</b>
Investments, at fair value		<b>34,779,506</b>
* Participant Loans	interest ranging from 4.25%–5.75% and repayment terms ranging 1 to 10 years	<b>375,865</b>
<b>Total</b>		<b>\$ 35,155,371</b>

\* Party-in-interest

\*\* Historical cost data is not required to be presented, as investments are participant directed.

**Versar, Inc., Employee 401(k) Plan**

Schedule H, Line 4a – Schedule of Delinquent Participant Contributions

For the year ended December 31, 2013

EIN: 54-0852979

Plan 002

Participant Contributions Transferred Late to Plan Check Here if Late Participant Loan Repayments are Included: X	Total That Constitute Non-Exempt Prohibited Transactions		Total Fully Corrected Under VFCP and PTE 2002-51
	Contributions Not Corrected	Contributions Corrected Outside of VFCP	Contributions Pending Correction in VFCP
\$ 463,936	(1) \$ 463,936	\$ -	\$ -

(1) Delinquent contributions for plan year 2011 corrected in 2014

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: Versar, Incorporated

Versar Employee 401k Plan

By:

/s/ Cynthia Downes                      July 15, 2014  
**Cynthia Downes**  
Executive Vice President and  
Chief Financial Officer