

Spartan Shops, Inc.
**(A California State University Auxiliary
Organization)**

Financial Statements
June 30, 2021

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Independent Auditor's Report

Board of Directors
Spartan Shops, Inc.
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Spartan Shops, Inc. (Spartan Shops) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Spartan Shops' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of the Spartan Shops, Inc. as of June 30, 2021, and the respective changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Spartan Shops adopted Governmental Accounting Standards Board (GASB) Statement 84, *Fiduciary Activities*, as of July 1, 2020. Our opinion was not modified with respect to this matter.

Report on Summarized Comparative Information

We previously audited the Spartan Shops 2020 financial statements, and we expressed an unmodified audit opinion on the business-type activities in our report dated September 16, 2020. In our opinion, the summarized comparative information, for business-type activities, presented herein as of and for the year end June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 10, and the required supplementary information as listed in the table of contents on pages 33 to 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information on pages 35 to 45 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 Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2021, on our consideration of Spartan Shops internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Spartan Shops internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spartan Shops' internal control over financial reporting and compliance.

RSM US LLP

Tacoma, Washington
September 22, 2021

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021

Management's Discussion and Analysis

This section of Spartan Shops, Inc. of San José State University's (Spartan Shops) annual financial statements includes management's discussion and analysis of the financial performance of Spartan Shops' business type activities and the fiduciary activities for the fiscal year ended June 30, 2021. This discussion should be read in conjunction with the financial statements and notes.

Introduction to Spartan Shops, Inc.

Spartan Shops is a not-for-profit campus benefit corporation that was founded in 1956 for the purpose of providing support services to the San José State University (SJSU) campus community. These services include bookstore management, dining services management, and 13 rental units for faculty and staff.

Spartan Shops is comprised of three major divisions:

Bookstore management: Spartan Shops entered into a 15-year agreement with Barnes & Noble College Booksellers to operate Spartan Bookstore through June 30, 2026. Spartan Bookstore offers course materials and related items to our students and campus community.

Dining service management: In September 2018, Spartan Shops entered into an agreement with Chartwells Higher Education (Chartwells), a division of Compass Group USA, Inc., to provide and manage Spartan Shops' food service program on the campus of SJSU for two years under earned management fee basis with an option of two five-year Profit and Loss contract extensions. In October 2019, Spartan Shops amended the agreement to have the management fee basis from July 5, 2018, through June 30, 2021, and the profit and loss basis from July 1, 2021, through June 30, 2033, to the extent the term is renewed. In October 2020, the agreement was amended and remained in force until June 30, 2021, with the option of two seven-year contract extension through June 30, 2035. Chartwells assumed responsibility for the residential meal program incorporated within The Commons, retail food service operations located on the SJSU Main campus, concession services at the Event Center, SJSU South Campus and Hammer Theater, and catering services. As part of the new amended agreement, Chartwells is committed to fund an investment in Spartan Shops' dining service program for a total sum not to exceed \$20,877,066 for a period of 17 years. This investment is recorded as capital assets and deferred revenue and recorded as contributed capital assets using straight-line method over the contract period.

Commercial services: This division includes Real Estate Services provided to SJSU faculty and staff. Spartan Shops' Real Estate division provides 13 off-campus rental housing units at below market rates for SJSU faculty and staff.

Effective July 1, 2020, the Golf Complex operation is managed by the SJSU rather than Spartan Shops.

**Spartan Shops, Inc.
(A California State University Auxiliary Organization)**

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021**

Introduction to the Basic Financial Statements

Spartan Shops' financial statements include business-type activities and fiduciary fund statements. The business-type activities statements include: the statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows. The fiduciary fund statements include the Other Post-Employment Benefit (OPEB) trust fund statement of fiduciary net position and statement of changes in fiduciary net position. These statements are supported by notes to the financial statements and management's discussion and analysis. All sections must be considered together to obtain a complete understanding of the financial picture of Spartan Shops.

Business-type activities statement

Statement of net position: The statement of net position includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, and are reported on an accrual basis as of the statement date.

Statement of revenues, expenses and changes in net position: The statement of revenues, expenses and changes in net position presents the revenues earned and expenses incurred during the year on an accrual basis. Operating revenues and expenses are reported separately from nonoperating revenues and expenses.

Statement of cash flows: The statement of cash flows presents the inflows and outflows of cash for the year and is summarized by operating, noncapital financing, capital and financing, and investing activities. These statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for the year's activities.

Fiduciary statements

Statement of fiduciary net position: The statement of fiduciary net position presents the assets, liabilities and net position on an accrual basis that the Spartan Shops holds in trust for OPEB health care benefits.

Statement of changes in fiduciary net position: The statement of changes in fiduciary net position presents the additions and deductions made during the year on an accrual basis to the OPEB plan.

Summary

The following discussion highlights management's understanding of the key financial aspects of Spartan Shops' financial activities as of and for the fiscal year ended June 30, 2021. Included analyses of current and prior year's activities and balances and a discussion of the reason for the change in the balances from year to year.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021

Business-Type Activities

Condensed Summary of Net Position

The Spartan Shops' condensed summary of net position as of June 30 is as follows:

	2021	2020
Assets:		
Current assets	\$ 6,570,318	\$ 6,000,932
Noncurrent assets	12,270,755	10,335,215
Total assets	<u>18,841,073</u>	<u>16,336,147</u>
Deferred outflows of resources		
Deferred outflows - differences in projected and actual investment experience	2,222	-
Total deferred outflows of resources	<u>2,222</u>	<u>-</u>
Liabilities:		
Current liabilities	3,421,714	4,097,678
Noncurrent liabilities	12,244,185	6,438,596
Total liabilities	<u>15,665,899</u>	<u>10,536,274</u>
Deferred inflows of resources		
Deferred inflows - differences in projected and actual investment experience	-	78,626
Total deferred inflows of resources	<u>-</u>	<u>78,626</u>
Net position:		
Investment in capital assets	3,895,030	5,138,935
Unrestricted (deficit) assets	(717,634)	582,312
Total net position	<u>\$ 3,177,396</u>	<u>\$ 5,721,247</u>

Total assets increased by \$2.5 million from fiscal year 2020 to fiscal year 2021. This is primarily due to additions of capital assets by Chartwell's, Spartan Shops' third-party dining contractor, of \$3.2 million offset by \$1.6 million in depreciation on capital assets. In addition, OPEB assets increased \$398 thousand due to changes in assumption. These increases in assets were offset by a \$322 thousand decrease in receivables and notes receivable due to the mortgages on three faculty homes being paid off.

Total liabilities increased by \$5.1 million from fiscal year 2020 to fiscal year 2021 primarily due to a \$3.3 million net increase in unearned revenue related to contributed capital assets from Chartwells as required by their contract, \$2 million in signing bonus and \$1.5 million in advance commission against the annual investment amortization. Spartan Shops' Paycheck Protection Program (PPP) loan of \$102 thousand was fully forgiven by the U.S. Small Business Association. Accounts payable decreased \$767 thousand from the prior year due to operating subsidies of Chartwells for the current year being for one month versus the three months that were outstanding in fiscal year 2020.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021

Condensed Summary of Net Position (Continued)

Deferred inflows (outflows) of resources: Spartan Shops has deferred outflows of resources from the valuation of OPEB under Governmental Accounting Standards Board No. 75, which will be recognized over a five-year period. The deferred outflows of resources increased by \$2,222 from fiscal year 2020 to fiscal year 2021 due to changes on projected and actual earnings on investments.

Total net position decreased by \$2.5 million from fiscal year 2020 to fiscal year 2021 primarily due to \$1.1 million reduction in operating revenue in the current year due to reduced student population on campus and additional increases in operating subsidies being paid to Chartwells due to operating losses incurred due to keeping dining services open during the pandemic to serve staff and students at the request of the University.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021

Condensed Summary of Revenues, Expenses and Changes in Net Position

Spartan Shops' condensed summary of revenues, expenses and changes in net position for the years ended June 30 is as follows:

	2021	2020
Operating revenues:		
Auxiliary enterprise revenues:		
Golf Complex fees	\$ -	\$ 8,171
Commercial services - rental revenue	251,472	188,665
Total auxiliary enterprise revenues	<u>251,472</u>	<u>196,836</u>
Other operating revenues:		
Commission income - Bookstore and others	295,626	592,774
Contribution - Golf Complex	-	600,757
Other income	171,330	110,910
Unused meal plan revenue	139,460	3,111,791
SJSU service revenue	2,670,000	-
Total other operating revenues	<u>3,276,416</u>	<u>4,416,232</u>
Total operating revenues	<u>3,527,888</u>	<u>4,613,068</u>
Operating expenses:		
Operating	4,809,545	3,966,271
Administrative	1,069,272	999,748
Auxiliary enterprise cost of sales	-	5,458
OPEB (income) expense	(466,927)	2,613
Depreciation and amortization	1,636,335	1,329,260
Transfer to SJSU	15,000	15,000
Total operating expenses	<u>7,063,225</u>	<u>6,318,350</u>
Total operating loss	<u>(3,535,337)</u>	<u>(1,705,282)</u>
Nonoperating revenues (expenses):		
Contributed fixed assets	367,255	348,408
Interest income from notes receivable	250,801	13,559
Investment income	739	28,736
Loss on disposal of fixed assets	(8,405)	(37,360)
Other income	381,096	254,683
Total nonoperating revenues	<u>991,486</u>	<u>608,026</u>
Decrease in net position	<u>(2,543,851)</u>	<u>(1,097,256)</u>
Net position:		
Beginning of year	5,721,247	6,818,503
End of year	<u>\$ 3,177,396</u>	<u>\$ 5,721,247</u>

**Spartan Shops, Inc.
(A California State University Auxiliary Organization)**

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021**

Condensed Summary of Revenues, Expenses and Changes in Net Position (Continued)

Total operating revenue decreased by \$1.1 million from fiscal year 2020 to fiscal year 2021 primarily due to a decrease of \$3.9 million in unused meal plans, bookstore commission, other income and Golf Complex contribution offset by a \$2.67 million increase in service revenue received from SJSU to subsidize the dining service and bookstore operation to stay open during the pandemic, and \$101,830 PPP loan forgiveness. Due to the Golf Complex transition to SJSU at the beginning of the fiscal year, Spartan Shops did not receive the contribution from the Tower Foundation for the fiscal year ended June 30, 2021.

Total operating expenses increased by \$745 thousand overall from fiscal year 2020 to fiscal year 2021 primary due to an increase of \$3 million in Chartwells' operating subsidy and \$307 thousand in capital assets depreciation and amortization offset by a \$2 million decrease in the Golf Complex labor expenses, facility use fees and OPEB expenses. The total wages, benefits and contract labor decreased by \$967 thousand due to the Golf Complex transition to SJSU. The facility use fee decreased by \$915 thousand due to the new operating agreement with SJSU, which removed the minimum facility payment of \$915 thousand annually. OPEB expenses decreased by \$469 thousand from fiscal year 2020 to fiscal year 2021 due to changes in retiree's coverage assumptions.

Total nonoperating revenue for Spartan Shops increased by \$383 thousand from fiscal year 2020 to fiscal year 2021 primarily due to an increase of \$237 thousand in interest income on notes receivable from the payoff of three home mortgage program loans, and Chartwells' signing bonus amortization of \$124 thousand.

Transfer of assets from affiliated organizations: Spartan Shops contributed \$15 thousand cash funding received from the food service contractor, Chartwells, for departmental scholarship and diversity inclusion programs.

**Spartan Shops, Inc.
(A California State University Auxiliary Organization)**

**Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2021**

Fiduciary Statements

Condensed Statement of Fiduciary Net Position—Other Post Employment Benefit Trust Fund

Total net position decreased by \$97 thousand from fiscal year 2020 to fiscal year 2021 primarily due to net payment of retirees benefits cost, administrative expenses and the receipt of investment earnings. The plan's impact on the net position on the measurement date can be summarized as follows:

	<u>2021</u>	<u>2020</u>
Assets	\$ 2,532,913	\$ 2,634,025
Liabilities	97,380	101,065
Net position	<u>\$ 2,435,533</u>	<u>\$ 2,532,960</u>

Condensed Statement of Changes in Fiduciary Net Position—Other Post Employment Benefit Trust Fund

Change in the fiduciary net position decreased by \$36 thousand from fiscal year 2020 to fiscal year 2021 primarily due to the decrease in investment earnings from the trust.

Additions	\$ 44,016	\$ 87,671
Deductions	141,443	149,400
Change in net fiduciary net position	<u>(97,427)</u>	<u>(61,728)</u>
Fiduciary net position - beginning	<u>2,532,960</u>	<u>2,594,688</u>
Fiduciary net position - ending	<u>\$ 2,435,533</u>	<u>\$ 2,532,960</u>

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Statement of Net Position—Business-Type Activities
June 30, 2021
(With Comparative Totals for June 30, 2020)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,094,873	\$ 1,123,029
Short-term investments (Note 3)	5,345,931	4,459,383
Receivables	120,351	401,540
Inventories	-	348
Prepaid expenses	9,163	16,632
Total current assets	6,570,318	6,000,932
Noncurrent assets:		
Other Post-Employment Benefits (OPEB) asset (Note 10)	988,152	589,457
Notes receivable, net (Note 5)	189,985	230,558
Capital assets, net (Note 4)	11,092,618	9,515,200
Total noncurrent assets	12,270,755	10,335,215
Total assets	18,841,073	16,336,147
Deferred outflows of resources:		
Deferred outflows: differences between projected and actual investment experience (Note 10)	2,222	-
Liabilities and Net Position		
Current liabilities:		
Accounts payable	2,288,292	3,055,714
Accrued salaries and benefits payable	11,409	24,942
Accrued compensated absences	4,445	17,021
Notes payable (Note 6)	-	101,830
Unearned revenue, current portion (Note 11)	847,533	674,166
Other liabilities	270,035	224,005
Total current liabilities	3,421,714	4,097,678
Noncurrent liabilities:		
Unearned revenue, net of current portion (Note 11)	12,244,185	6,438,596
Total noncurrent liabilities	12,244,185	6,438,596
Total liabilities	15,665,899	10,536,274
Deferred inflows of resources:		
Deferred inflows: differences between projected and actual investment experience (Note 10)	-	78,626
Commitments and contingencies (Note 7,8,10, and 15)		
Net position:		
Net investment in capital assets	3,895,030	5,138,935
Unrestricted (deficit)	(717,634)	582,312
Total net position	\$ 3,177,396	\$ 5,721,247

See notes to financial statements.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Statement of Revenues, Expenses and Changes in Net Position—Business-Type Activities
Year Ended June 30, 2021
(With Comparative Totals for June 30, 2020)

	2021	2020
Operating revenues:		
Auxiliary enterprise revenues:		
Golf Complex fees	\$ -	\$ 8,171
Commercial services - rental revenue	251,472	188,665
Total auxiliary enterprise revenues	251,472	196,836
Other operating revenues:		
Commission income - Bookstore and others	295,626	592,774
Contributions - Golf Complex	-	600,757
Other income	171,330	110,910
Unused meal plan revenue	139,460	3,111,791
SJSU service revenue (Note 2)	2,670,000	-
Total other operating revenues	3,276,416	4,416,232
Total operating revenues	3,527,888	4,613,068
Operating expenses:		
Operating	4,809,545	3,966,271
Administrative	1,069,272	999,748
Auxiliary enterprise cost of sales	-	5,458
OPEB (benefit) expense	(466,927)	2,613
Depreciation and amortization	1,636,335	1,329,260
Transfer to SJSU	15,000	15,000
Total operating expenses	7,063,225	6,318,350
Total operating loss	(3,535,337)	(1,705,282)
Nonoperating revenue (expenses):		
Contributed capital assets	367,255	348,408
Interest income from notes receivable	250,801	13,559
Investment income	739	28,736
Interest expense	-	-
Loss on disposal of capital assets	(8,405)	(37,360)
Other income	381,096	254,683
Total nonoperating revenues	991,486	608,026
Decrease in net position	(2,543,851)	(1,097,256)
Net position, beginning of year	5,721,247	6,818,503
Net position, end of year	\$ 3,177,396	\$ 5,721,247

See notes to financial statements.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Statement of Cash Flows—Business-Type Activities
Year Ended June 30, 2021
(With Comparative Totals for June 30, 2020)

	2021	2020
Cash flows from operating activities:		
Cash received from sales	\$ 443,579	\$ 1,301,908
Payments to suppliers	(6,584,966)	(3,686,538)
Payments to employees	(60,890)	(403,227)
Other receipts	6,674,586	4,666,232
Net cash provided by operating activities	472,309	1,878,375
Cash flows from noncapital financing:		
Proceeds from notes payable	-	101,830
Other income	38,730	41,046
Net cash provided in noncapital financing	38,730	142,876
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,948)	(221,118)
Proceeds from the sale of capital assets	57,447	-
Net cash provided by (used in) capital and related financing activities	55,499	(221,118)
Cash flows from investing activities:		
Purchases of investments	(723,655)	(2,875,238)
Sales of investments	238,650	3,328,636
Additions to the CSU Investment Pool	(9,899,357)	(19,908,836)
Withdrawals from the CSU Investment Pool	9,497,814	16,954,093
Investment income	739	28,736
Payments received on notes receivable	291,115	-
Net cash used in investing activities	(594,694)	(2,472,609)
Net decrease in cash and cash equivalents	(28,156)	(672,476)
Cash and cash equivalents:		
Beginning of year	1,123,029	1,795,505
End of year	\$ 1,094,873	\$ 1,123,029

(Continued)

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Statement of Cash Flows—Business-Type Activities (Continued)
Year Ended June 30, 2021
(With Comparative Totals for June 30, 2020)

	2021	2020
Reconciliation of net operating income to net cash provided by operating activities:		
Operating loss	(3,535,337)	(1,705,282)
Paycheck Protection Program loan forgiveness	(101,830)	-
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,636,335	1,329,260
Bad debt expense	260	339
Change in assets and liabilities:		
Receivables	192,107	1,105,072
Inventories	348	163
OPEB Assets	(398,695)	23,589
Prepaid expenses	7,469	14,192
Unearned revenue	3,500,000	250,000
Accounts payable	(767,422)	941,430
Other liabilities - accrued payroll and compensated absences	19,922	(22,947)
Deferred inflows/outflows - OPEB liability	(80,848)	(57,441)
Net cash provided by operating activities	\$ 472,309	\$ 1,878,375
	-	-
Noncash investing activities:		
Contributed capital assets	\$ 3,277,658	\$ 1,005,810
Imputed interest on notes receivable	\$ 61,057	\$ 13,559
Loss on disposal of fixed assets	\$ 8,405	\$ 37,360

See notes to financial statements.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Statement of Fiduciary Net Position—Other Post Employment Benefit Trust Fund
June 30, 2021

	2021
Assets	
Short term investments	\$ 2,524,607
Accounts receivable	8,306
Total assets	<u>2,532,913</u>
Liabilities and Net Position	
Liabilities:	
Accounts payable	89,074
Other liabilities	8,306
Total liabilities	<u>97,380</u>
Net position:	
Restricted:	
Post employment benefits other than pensions	<u>2,435,533</u>
Total net position	<u>\$ 2,435,533</u>

See notes to financial statements.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Statement of Changes in Fiduciary Net Position—Other Employee Benefit Trust Fund
Year Ended June 30, 2021

	2021
Additions:	
Contributions:	
Members	\$ 40,867
Investment earnings:	
Interest, dividends and other	3,149
Total additions	<u>44,016</u>
Deductions:	
Medical premiums for retirees	129,627
Administrative expense	11,816
Total deductions	<u>141,443</u>
Net decrease in fiduciary net position	(97,427)
Net position, beginning of year	<u>2,532,960</u>
Net position, end of year	<u><u>\$ 2,435,533</u></u>

See notes to financial statements.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Notes to Financial Statements

Note 1. Nature of the Organization

Spartan Shops, Inc. (Spartan Shops) was incorporated in 1956. Spartan Shops serves as an auxiliary organization and is a component unit of San José State University (the University or SJSU) to provide and manage the campus bookstore, dining services and certain real estate properties. Spartan Shops has an agreement with Barnes & Noble College Booksellers (Barnes & Noble) for the daily operation of the Spartan Bookstore and with Chartwells Higher Education (Chartwells) to provide all dining services to the SJSU campus. The management of the Golf Complex was transferred to the SJSU effective July 1, 2020. Spartan Shops holds and administers assets for the organization's Other Post-Employment Benefits (OPEB) plan in a fiduciary fund.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The accompanying financial statements have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). For purposes of financial reporting, Spartan Shops is considered a special purpose government.

Spartan Shops considers assets to be current, which can be reasonably expected as part of its normal business operations, to be converted to cash and available for liquidation of current liabilities within 12 months of the statement of net position date. Liabilities that are considered to be current can be reasonably expected as part of its normal business operation to be liquidated within 12 months of the statement of net position. All other assets and liabilities are considered to be noncurrent.

Classification of operating and nonoperating revenue and expense is based on if the transaction or activity is directly related to the Spartan Shops' primary functions. Certain other transactions are reported as nonoperating revenues and expenses such as interest income, unrealized and realized gain or losses, interest expenses, gains or losses on disposal of capital assets, and miscellaneous income and expenses.

Net position: The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Investment in capital assets: Capital assets, net of accumulated depreciation and outstanding debt or liabilities attributable to the acquisition, construction, or improvement of those assets. Spartan Shops' investment in capital assets includes the food service investment unearned revenue as the amount relates to capital improvements capitalized.

Restricted - nonexpendable: The component of net position that is subject to externally imposed conditions that Spartan Shops retains them in perpetuity. Net assets in this category consist of endowments. There were no restricted nonexpendable components of net position as of June 30, 2021.

Restricted - expendable: The component of net position subject to externally imposed conditions that can be fulfilled by the actions of Spartan Shops or by the passage of time. There were no restricted expendable components of net position as of June 30, 2021.

Unrestricted: All other categories of net position. In addition, the unrestricted component of net position may be designated by the board of directors of Spartan Shops.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, fair value of investments and post-employment benefit obligation.

Cash and cash equivalents: For the purposes of the statement of cash flows, Spartan Shops considers all highly liquid debt instruments purchased with an original maturity from the date of purchase of three months or less to be cash equivalents.

Investments: Investments are carried at fair market value, as determined by quoted market prices, with realized and unrealized gains and losses included on the statement of revenues, expenses and changes in net position as investment income. Dividend and interest income are accrued when earned. Investments in the CSU Investment Pool are carried at amortized cost.

Receivables: Receivables are stated at net realizable value. Spartan Shops recognizes bad debt expenses at the time the account is deemed worthless by analyzing the creditworthiness of the customers. No allowance for doubtful accounts was recorded as of June 30, 2021, as Spartan Shops' receivables are considered fully collectible due to the trusted payment sources such as campus partners, government, merchant services, benefit and contracted vendors.

Inventories: All inventory items are recorded at the lower of cost, determined by the first-in, first-out method, or market. Spartan Shops has no inventories for the fiscal year ended June 30, 2021.

Capital assets and depreciation: Spartan Shops' policy is to capitalize all asset additions greater than \$5,000. Capital assets, including intangible assets, are recorded at cost when purchased and at fair value, on the date donated, when donated. Real estate costs have been allocated to individual building units based on a specific-identification method. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to 30 years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of useful life of the related asset or the term of the lease, which ranges from five to 15 years. The University is committed to purchasing Spartan Shops' leasehold improvement assets, at full book value, should the lease or operating agreement not be extended. Spartan Shops classifies computer software as intangible assets, which are depreciated using the straight-line method over the estimated useful life of five years. As part of the agreement with Chartwells, Spartan Shops retains title to items funded by Chartwells' capital improvement and pre-opening/transition expenses. Spartan Shops records these authorized investment additions as equipment, leasehold improvements and construction work in progress as capital assets and food service investment unearned revenue. This contribution of these capital improvements is recorded as deferred revenue and recorded as revenue over the term of the contract period.

Depreciation and amortization expense was \$1,636,335 for the year ended June 30, 2021.

Impairment of long-lived assets: Spartan Shops accounts for impairment of long-lived assets in accordance with GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Under this statement, management reviews events or changes in circumstances such as physical damage, economic factors, technological changes or other signs of obsolescence that would cause a significant decline in service and a circumstance outside the normal life cycle of the asset. During the year ended June 30, 2021, no impairment loss was recorded.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred outflows and deferred inflows: Deferred outflows and deferred inflows of resources related to the effects of changes in assumptions, differences in actual and expected return on plan assets and changes in experience on Spartan Shops' post-employment benefit plan and are to be recognized in future periods to post-employment benefit plan expense.

Accrued compensated absences: Spartan Shops accrues vacation benefits for eligible employees at various rates depending on length of service. Employees are paid for unused vacation time at the end of employment. At June 30, 2021, Spartan Shops had a balance of \$4,445 in compensated absences. Spartan Shops classified this balance as current as amounts used each year approximate this amount.

Revenue recognition: Bookstore commission and dining service subsidy revenue are exchange transactions and are recorded at the end of each month based on contracted percentages of sales or operating income/expense operation as reported by third-party contactors. Rental revenue is recorded monthly at the end of each month based on the lease contract with the tenant. Unused meal plan revenue is a voluntary nonexchange transaction and is recorded when Spartan Shops has legal claim on the funds, which is at the end of the fiscal year when the unused meals are forfeited.

SJSU's service revenue was a one-time subsidy received from SJSU in 2021 due to the campus contracting with the auxiliary to keep the dining and bookstore services open despite the reduced student population on campus. Revenue was earned at the time the dining and bookstore services were performed.

Deferred revenue consists of an upfront of capital investment from Barnes & Noble, signing bonus received from Chartwells at the beginning of the contract period, partnership bonus received from Chartwells on the second year of the contract, advanced commissions and second signing bonus received from Chartwells on the third year of the contract, and Chartwells contributed capital investment through the term of the contract. The deferred revenue is being recognized as other nonoperating revenue over the life of the contract based on each investment and bonus start date. In addition, Chartwells' capital investment is disbursed by Chartwells and amortized on a straight-line basis from the date the projects start through the end of the contract term. Spartan Shops records contributed capital assets revenue according to the amortization schedule.

Tax-exempt status and income taxes: Spartan Shops is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Spartan Shops has also been recognized by the California Franchise Tax Board as an organization that is exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Spartan Shops' management 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 Spartan Shops continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions will more likely than not be sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. Spartan Shops' Forms 990, Return of Organization Exempt from Income Tax, for each of the tax years ended June 30, 2020, 2019 and 2018, are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Reclassifications: Certain amounts in the 2020 comparative totals have been reclassified to conform with the 2021 reporting format, with no impact on the decrease in net position previously reported.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Comparative totals: The financial statements include certain prior-year summarized comparative information but not comparative information for the footnotes. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Spartan Shops' financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Accounting pronouncement adopted in the current year: In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for Spartan Shops beginning on July 1, 2020. The statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present statement of fiduciary net position and a statement of changes in fiduciary net position. This statement describes four fiduciary fund that should be reported if applicable: (1) pension trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in trust fund or equivalent arrangement that meets specific criteria. Spartan Shops adopted this standard effective July 1, 2021, as it determined that assets held for its OPEB plan met the definition of a fiduciary activity and thus this activity was reported in the statement of fiduciary net position as of June 30, 2021, and statement of change in fiduciary net position for the year ended June 30, 2021. Net position of the OPEB plan upon adoption on July 1, 2020, was \$2,532,960.

Accounting pronouncement in future years: In July 2017, the GASB issued Statement No. 87, *Leases*, effective for Spartan Shops beginning on July 1, 2021. This statement requires the recognition of certain lease assets and liabilities that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this statement, the lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Spartan Shops is evaluating the effect GASB 87 will have on its financial statements.

Note 3. Deposits, Investments and Fair Value

Spartan Shops categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are quoted prices in active markets for similar assets; Level 3 inputs are significant unobservable inputs.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 3. Deposits, Investments and Fair Value (Continued)

Spartan Shops has the following recurring fair value measurements in its business-type and fiduciary fund statements as of June 30, 2021:

Business-type activities:

Investment type:

CSU Investment Pool	\$ 3,356,286
Money market funds	1,124,558
Mutual funds	865,087
Total investments	<u>\$ 5,345,931</u>

Fiduciary fund:

Investment type:

Money market funds	\$ 2,524,607
Total investments	<u>\$ 2,524,607</u>

Money market funds and mutual funds in business-type activities and fiduciary funds are valued using quoted market prices of identical assets and are classified at Level 1 investments. Funds invested in the CSU Investment Pool are recorded at amortized cost and thus are not required to be categorized in the fair value hierarchy table.

Business-Type Activities:

Investment policy: The Spartan Shops investment policy sets forth the guidelines for the investments of Spartan Shops. Spartan Shops' two primary sources of funds for investment are its working capital fund and the capital outlay fund. The working capital fund shall be invested in short-term investments and the capital outlay fund can be invested in liquid but longer-term investments. The performance benchmark of the capital outlay fund will be equal to the Lehman Bros. intermediate bond index.

Interest rate risk: Interest rate risk is the risk changes in the market interest rate that will adversely affect the fair value of an investment. In accordance with the policy, Spartan Shops manages the risk of market value fluctuations due to overall changes in general levels of interest rates by limiting the average maturity of investments within the portfolios. Spartan Shops had no investments with interest rate risk at June 30, 2021.

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Spartan Shops' investment policy permits investments in certificates of deposit, U.S. Government obligations, U.S. Government bonds, corporate bonds, publicly traded investments, SJSU investment funds, SJSU Foundation investment funds, other investments that meet security, liquidity and yield requirements as approved by the finance committee and mutual funds.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, Spartan Shops will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. To minimize this risk, Spartan Shops has identified investments that they have determined to have a low risk of failure by the counterparty. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities.

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Notes to Financial Statements

Note 3. Deposits, Investments and Fair Value (Continued)

Custodial credit risk disclosures do not apply to indirect investment in securities through the use of mutual funds and government investment pools.

Custodial credit risk for deposits is the risk that Spartan Shops will not be able to recover its deposits in the event of a failure of a depository institution. In the ordinary course of Spartan Shops' operations, deposit balances in checking accounts can exceed the Federal Deposit Insurance Corporation insured limit of \$250,000. At June 30, 2021, \$723,267 of the entity's bank balances exceed the federally insured amount.

Fiduciary Activities:

Investment policy: The board of directors of Spartan Shops approved the OPEB assets to be invested in money market funds for the year ended June 30, 2021.

Note 4. Capital Assets

Capital assets consist of the following at June 30:

	2020	Additions	CIP Transfers	Retirements and Other	2021
Capital assets not being depreciated:					
Land	\$ 2,310,000	\$ -	\$ -	\$ -	\$ 2,310,000
Construction in progress	88,966	1,008,747	(72,036)	-	1,025,677
Total capital assets not being depreciated	2,398,966	1,008,747	(72,036)	-	3,335,677
Capital assets being depreciated:					
Buildings	1,763,726	-	-	-	1,763,726
Leasehold improvements	4,075,794	1,752,896	61,491	-	5,890,181
Equipment, furniture and fixtures	7,909,455	515,536	10,545	(525,017)	7,910,519
Intangible assets	143,610	2,427	-	(26,000)	120,037
Total capital assets being depreciated	13,892,585	2,270,859	72,036	(551,017)	15,684,463
Total capital assets	16,291,551	3,279,606	-	(551,017)	19,020,140
Less accumulated depreciation:					
Buildings	(1,095,237)	(62,288)	-	-	(1,157,525)
Leasehold improvements	(903,494)	(490,149)	-	-	(1,393,643)
Equipment, furniture and fixtures	(4,647,356)	(1,075,679)	-	463,562	(5,259,473)
Intangible assets	(130,264)	(8,219)	-	21,602	(116,881)
Total accumulated depreciation	(6,776,351)	(1,636,335)	-	485,164	(7,927,522)
Net capital assets being depreciated	7,116,234	634,524	72,036	(65,853)	7,756,941
Net capital assets	\$ 9,515,200	\$ 1,643,271	\$ -	\$ (65,853)	\$ 11,092,618

Spartan Shops, Inc.
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Notes to Financial Statements

Note 5. Notes Receivable

Effective August 20, 2007, Spartan Shops entered into a memorandum of understanding with the city of San José (the City) to provide a homebuyer program (the Program) for the University in order to attract and retain University faculty and staff. The City and Spartan Shops each committed \$500,000 on an annual basis to fund loans under the Program. The City underwrites and funds all loans and then provides Spartan Shops with an invoice for its portion of funded loans. Each loan was limited to \$60,000 and was typically recorded as a second mortgage. Effective February 2009, each loan was limited to \$50,000. The loans are due to the City in 30 or 45 years, or upon transfer of title, whichever comes first. Effective June 2008, all loans issued are for a term of 45 years to match the 45-year term of the state-mandated affordability restriction. The loans are noninterest-bearing. To be eligible for the Program, properties must be located within the City's municipal boundaries. There is a 45-year affordability restriction, which requires that either the property be sold only to an income-qualified household or the City and Spartan Shops share in any net increase in equity that accrues between the date of the original purchase and the date of sale. This sharing of equity is based on the proportionate share of the equity increase at the time the property is sold by the homeowner, prior to the maturing of the note receivable. Any such equity shares of gain or loss, as well as any loan defaults, would be shared by the City and Spartan Shops in proportion to their funding of the loans.

As of June 30, 2021, there were 7 loans funded by the City. At June 30, 2021, the Spartan Shops receivable portion was \$420,000 less a present value discount of \$225,144. Spartan Shops used the weekly conventional mortgage rates, which were ranged from 4.78% to 6.68% from the Federal Reserve when the notes were issued to calculate the present value of the notes. An allowance for doubtful account of \$4,871 was recorded assuming 2.5% default rate of a loan. Spartan Shops recorded bad debt expense of \$259 in fiscal year 2021. Due to the difficult budget realities for the University and the City, both entities have agreed to suspend funding of loans under the Program until the parties agree to extend the Program for future years.

Notes receivable consist of the following as of June 30, 2021:

Notes receivable	\$ 420,000
Less discount on notes receivable	<u>(225,144)</u>
Total notes receivable	194,856
Less allowance for doubtful accounts	<u>(4,871)</u>
Total notes receivable, net	<u>\$ 189,985</u>

As of June 30, 2021, the amount of principal of notes receivable for future fiscal years is as follows:

	<u>Principal</u>
Years ending June 30:	
2022	\$ -
2023	-
2024	-
2025	-
2026	-
2027-2055	<u>420,000</u>
	<u>\$ 420,000</u>

Spartan Shops, Inc.
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Notes to Financial Statements

Note 6. Note Payable

Spartan Shops applied for the Paycheck Protection Program loan from California Bank and Trust and received a disbursement of \$101,830 on April 17, 2020. Spartan Shops received forgiveness of the full loan amount from the U.S. Small Business Administration and its lender California Bank and Trust on May 4, 2021. Spartan Shops recorded this loan forgiveness as other operating income for the year ended June 30, 2021.

Note 7. Lease Commitments

Spartan Shops entered into an operating and lease agreement with the SJSU from July 1, 2020, through June 30, 2025, to provide campus bookstore and food service for students, faculty and staff of the University at one or more campus locations as directed by the University. The lease covers the premises which include Spartan Bookstore, Residential Dining Commons, Student Union Food Facilities, MacQuarrie Retail and Administration Spaces, Student Residential Market, South Campus and CEFCU Stadium Catering and Concession Services, and Other Commercial Spaces as determined by the Campus. Under the lease agreement, Spartan Shops and the Campus will negotiate the facility use fee on an annual basis after the reconciliation of year-end revenue. Should adverse economic conditions occur, which could jeopardize the profitability of Spartan Shops, both parties will confer and take appropriate actions to restore Spartan Shops' fiscal health while allowing the SJSU to meet its requirements and obligations. There are no future minimum lease payments. For the year ended June 30, 2021, Spartan Shops recorded rent expense of \$38,880.

Note 8. Self-Insured Workers' Compensation Plan

Spartan Shops participated in a self-insured workers' compensation plan with certain other California State University Auxiliary Organizations that was established as a separate entity risk pool to manage workers' compensation claims and risks. The plan was called the California State University Risk Management Authority (CSURMA), a Joint Powers Authority (JPA), to form the Auxiliary Organizations Risk Management Alliance (AORMA) Workers' Compensation Coverage Program. AORMA Workers' Compensation Coverage Program members share risk among themselves. The workers' compensation program has been integrated with the CSURMA program, with assets and risk handled separately through the AORMA Workers' Compensation Coverage Program.

CSURMA-AORMA has assumed liability for all historical AO-COMP claims and, with the permission of the state of California, all claims will be managed and paid for through the JPA. Effective January 1, 2015 CSURMA-AORMA joined the Public Risk Innovation, Solution, and Management (PRISM), (previously named CSAC Excess Insurance Authority) Excess Workers Compensation Program. PRISM is responsible for all covered losses within the self-insured retention layer, which results in reducing AORMA's outstanding liabilities. The pooled retention for each claim was increased from \$500,000 to \$750,000 effective July 1, 2017. Members of CSURMA-AORMA and the JPA are jointly and severally liable; currently, the program is fully funded and has sufficient funds to cover all costs.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 8. Self-Insured Workers' Compensation Plan (Continued)

Premiums allocated to Spartan Shops are based on applying individual class code rates determined by an independent actuary to Spartan Shops' payroll and modified by further application of Spartan Shops' experience modification (ex-mod) factor. The ex-mod is calculated using Spartan Shops' loss history and payroll from the three prior policy years. The premium includes an estimate of the amount for incurred, but yet not reported claims. At June 30, 2021, Spartan Shops has no liability reserves accrued, as there are no unfunded workers' compensation claims as of that date. Although considerable variability is inherent in such estimates, Spartan Shops believes its premiums are reasonably adequate to cover future claims. Funds in excess of those needed to maintain a conservative funding of liabilities are returned to members on an annual basis. Spartan Shops received a refund distribution of \$14,903 for the year ended June 30, 2021.

At June 30, 2021, there were 51 members in the CSURMA–AORMA workers' compensation program. The workers' compensation individual classification codes have been revised to better fit the auxiliary members' exposures and this change may affect premiums in future years.

Note 9. Related-Party Transactions

Spartan Shops' board of directors consists of six voting members. The majority of the voting members of Spartan Shops are appointed by the president of the University.

Spartan Shops leases certain properties from the University, a related party (see Note 7). Amounts payable to and from the University and related organizations are recorded on the statement of net position as accounts payable. Payables due to related parties were as follows as of June 30, 2021:

Payable to SJSU	\$ 1,763,456
Payable to Student Union	12,054
Total related-party accounts payable	<u>\$ 1,775,510</u>

Spartan Shops contributed the \$15,000 cash funding received from the food service contractor, Chartwells to the scholarship and diversity inclusion programs for the year ended June 30, 2021.

Note 10. Employee Benefits and Compensation Plan

Retirement plan: Spartan Shops has an established defined contribution pension plan (the Plan) funded through employer contributions. Regular benefited salaried and hourly employees become eligible participants in the Plan following the completion of specified age and service requirements. The Plan provides for discretionary matching contributions of up to 3% of the participant's compensation. Participants are not fully vested in the employer matching until completion of five years of service and an employee must be employed with Spartan Shops for a minimum of two years in order to be vested at all. Spartan Shops' contributions to the Plan were \$2,077 during the year ended June 30, 2021. There is one participant in the pension plan as of June 30, 2021.

Post-retirement health care benefits:

Plan description: In 2018, Spartan Shops entered into a shared services agreement with the University. The University covered the OPEB plan for the University staff who handled the finance and business services for Spartan Shops and Spartan Shops reimbursed the University for such cost. For the year ended June 30, 2021, these reimbursements were \$100,225.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 10. Employee Benefits and Compensation Plan (Continued)

Plan assets are held in an institutional trust with Principal Trust. As of June 30, 2021, the fair value measurements of the plan assets were \$2,524,607 in money market funds, which are categorized a Level 1 inputs. Spartan Shops accrued benefit reimbursement of \$89,074 for retiree benefits paid for the year ended June 30, 2021.

Benefits: Spartan Shops provides eligible retired participants with certain post-retirement health benefits as a single-employer plan. Eligible retirees include participants hired prior to June 30, 1992, who have attained age 59 1/2 and who have at least five years of service at the time of retirement from Spartan Shops. Those participants hired after June 30, 1992, are eligible to retire at the age of 59 1/2 with at least 10 years of service. As of September 17, 1999, participants who reach the age of 55 with at least 20 years of service are eligible to retire. Spouses of covered retirees are eligible. Coverage continues after the death of the retiree for the surviving spouse's lifetime. In addition, for fiscal year 2021 a maximum monthly employer contribution was \$250 for employees or \$510 for the employee plus one covered person.

The following employees are included in the plan for the year ended June 30, 2021:

Retirees or beneficiaries currently receiving benefit payments	23
Inactive employees entitled to but not receiving benefits	5
Total employees	<u>28</u>

An implicit subsidy was included in plan liabilities for the pre-65 retirees. The implicit subsidy measures the amount of subsidy transferred from active members of a group to retirees because retirees are older and generally utilize more medical services. Spartan Shops determines the implicit subsidy for pre-Medicare retirees as the projected difference between (a) retiree medical claim costs by age, and (b) premiums charged for retiree coverage. Implicit benefit payments were \$12,616 for the year ended June 30, 2021.

Spartan Shops contributions to the Plan occur as benefits are paid to retirees and/or to the OPEB trust. Benefit payments may occur in the form of direct payments for premiums and taxes (explicit subsidies) and/or indirect payments to retirees in the form of higher premiums for active employees (implicit subsidies). Benefits paid by the trust were \$89,074 for the year ended June 30, 2021.

Total OPEB liability, fiduciary net position and net OPEB liability: In accordance with the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB that are required to be reported by an employer primarily result from changes in the components of the net OPEB liability; that is, changes in the total OPEB liability and in the OPEB plan's fiduciary net position.

The net OPEB liability is determined based on the results of an actuarial valuation, the effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs, and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period.

The Spartan Shops valuation and measurement date is June 30, 2021.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 10. Employee Benefits and Compensation Plan (Continued)

The following is Spartan Shops' change in total OPEB liability, plan fiduciary net position and net OPEB liability (asset) for the year ended June 30, 2021:

	Increase (Decrease)		
	Total	Plan	Net OPEB
	OPEB Liability (a)	Fiduciary Net Position (b)	Liability (Asset) (a) - (b)
Balance at June 30, 2020	\$ 1,943,503	\$ 2,532,960	\$ (589,457)
Changes during the Period:			
Service cost	-	-	-
Interest cost	32,175	-	32,175
Investment experience	-	(50,656)	50,656
Assumption changes	(245,681)	-	(245,681)
Plan experience	(180,926)	-	(180,926)
Benefit payments	(101,690)	(101,690)	-
Employer contributions	-	12,616	(12,616)
Expected investment income	-	42,303	(42,303)
Net changes	(496,122)	(97,427)	(398,695)
Balance at June 30, 2021	<u>\$ 1,447,381</u>	<u>\$ 2,435,533</u>	<u>\$ (988,152)</u>

The following are the components of OPEB expense (benefit) for the year ended June 30, 2021:

Interest cost	\$ 32,175
Expected earnings on assets	(42,303)
Deferred inflows of resources:	
Assumption changes	(245,681)
Plan experience	(180,926)
Investment experience	(30,192)
OPEB benefit	<u>\$ (466,927)</u>

The following are the reasons for the changes in deferred outflows for the year ended June 30, 2021:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 2,222
Total	<u>\$ 2,222</u>

Spartan Shops, Inc.
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Notes to Financial Statements

Note 10. Employee Benefits and Compensation Plan (Continued)

Spartan Shops will recognize deferred outflows in expense in future periods as shown below:

Years ending June 30:		
2022		\$ (30,190)
2023		8,727
2024		13,553
2025		10,132
2026		-
Total		<u>\$ 2,222</u>

The discount rate used for the fiscal year ended 2021 is 1.85%. Health Care Cost Trend Rate was assumed to start at 5.7% fluctuating down to 4% by 2076. The impact of a 1% increase or decrease in these assumptions is shown in the chart below:

	1% Decrease	Current	Current + 1%
Change in Discount Rate	0.85%	1.85%	2.85%
Net OPEB asset	827,056	988,152	1,122,185
Change in Health Care Cost Trend Rate	4.7%	5.7%	6.7%
Net OPEB asset	1,053,869	988,152	890,485

Funded status and funding progress: Spartan Shops has prefunded 168% of the total OPEB liability based on the assumptions in the June 30, 2021, valuation. The total OPEB liability for benefits was \$1.45 million and the actuarial value of assets was \$2.44 million, resulting in an overfunded accrued liability of \$988,152 as of June 30, 2021.

Methods and assumptions: Spartan Shops uses the entry age normal cost method with normal cost determined on a level percent of pay basis to determine the benefit obligations. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees and is calculated based on the assumptions and census data.

The following assumptions were used in actuarial valuation:

Discount rate: A discount rate of 1.85% was used based on the money market rate of return on the assets held as of June 30, 2021.

**Spartan Shops, Inc.
(A California State University Auxiliary Organization)**

Notes to Financial Statements

Note 10. Employee Benefits and Compensation Plan (Continued)

Long-term return on assets: Since Spartan Shops has prefunded over 168% of the total OPEB liability and anticipates no further contributions to the plan, Spartan Shops held its plan assets in money market fund with the long term expected rate of return of 1.85% as of June 30, 2021.

Investment Class	Target Allocation	Long-Term Expected Real Rate of Return
Money market	100.00 %	1.85%
Total	100.00 %	

Participants valued: Only (a) current active employees age 45 and older with eight or more years of service, and (b) retired and/or fully vested inactive participants and their covered dependents are valued. No future entrants are considered in this valuation.

Mortality: Basic mortality rates were taken from those published in the CalPERS 2017 report of an experience study using data from 1997 to 2015, adjusted to back out 15 years of Scale MP 2016 to central year 2015.

Health care cost trend rate: Medical plan premiums and claims costs by age are assumed to increase once each year. Increases over the prior year's levels are assumed to be 5.7% in 2022, 5.6% in 2023, 5.5% in 2024 and 5.4% in 2025 - 2026.

Participation rate:

Vested terminated participants: One hundred percent these participants are assumed to maintain their current plan election in retirement and continue coverage for their lifetime. Those not currently enrolled in CalPERS medical coverage are assumed to elect coverage in the Kaiser Bay Area plan.

Retired participants: Existing medical plan elections for currently covered retirees are assumed to be continued until the retiree's death. If a retiree is known to us to be eligible but currently waiving coverage, we assumed a 75% probability that such retiree will elect to re-enroll in coverage at age 65.

Employer cost sharing: With the change in Spartan Shops' operations and closed plan membership, there will be no future increases in the monthly caps on the Spartan Shops' contributions toward retiree medical premiums.

Projected cash flows: Spartan Shops anticipates no further contributions to the Plan and, at present, based on the assumptions used in the current-year valuation, the trust is projected to have sufficient assets to pay all future plan benefits. As such, Spartan Shops intends to take annual disbursement from the Plan as reimbursement for retiree medical expenses paid the by Spartan Shops each year.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Notes to Financial Statements

Note 11. Noncurrent Liabilities

Schedule of changes in noncurrent liabilities for the year ended June 30, 2021 is shown below:

	2021				
	Beginning of Year	Addition	Reduction	End of Year	Amount Due in One Year
Unearned revenue - food services investment	\$ 4,376,264	\$ 3,277,658	\$ 456,336	\$ 7,197,586	\$ 375,343
Unearned revenue - signing bonuses	2,736,498	2,000,000	342,366	4,394,132	365,047
Unearned revenue - prepaid commission	-	1,500,000	-	1,500,000	107,143
Total unearned revenue	<u>\$ 7,112,762</u>	<u>\$ 6,777,658</u>	<u>\$ 798,702</u>	<u>\$ 13,091,718</u>	<u>\$ 847,533</u>

Note 12. Bookstore Contracted Management

In March 2011, Spartan Shops entered into an agreement with Barnes & Noble for the management of the daily operations of the Spartan Bookstore for a period of 10 years. Spartan Shops extended their contract agreement with Barnes & Noble from July 1, 2021, to June 30, 2026, in July 2015. Under the extended agreement, the commission payment is 12% of net sales, up to and including \$10 million plus 13% of net sales greater than \$10 million per year. In December 2018, Spartan Shops and Barnes & Noble amended the contract to add new commission of 7% of all gross sales of first day and eTextbooks, which come into effect starting on July 2018. The Minimum Annual Guarantee will be an amount equal to 90% of the percentage of net sales for the immediately preceding year effective for fiscal years beginning after June 30, 2016. Due to the significant reduction in sales caused by the COVID-19 pandemic, Barnes & Noble amended the agreement in April 2020 to eliminate the minimum annual guarantee in its entirety for the contract years of July 2019 through June 2021. During this period, Barnes & Noble will pay Spartan Shops the calculated commission payment of 12% of net sales and 7% of first day and eTextbooks as described above. Effective July 1, 2021, the annual guarantee amount will recommence at 90% of the calculated commission of the 2020-2021 contract year.

Spartan Shops received \$295,626 in commission from Barnes & Noble for the fiscal year ended June 30, 2021.

As part of the agreement, Barnes & Noble shall provide Spartan Shops an annual unrestricted donation of \$10,000 per year. Due to the reduction in sales caused by the COVID-19 pandemic, Barnes & Noble amended the agreement in March 2021 to pay Spartan Shops \$5,000 or 50% of the annual unrestricted donation of \$10,000. Effective July 1, 2021, the annual unrestricted donation will recommence at the full amount (or \$10,000) for the 2021 to 2022 contract year. In April 2011, Barnes & Noble paid Spartan Shops \$1,000,000 as the sole capital investment to improve the New Bookstore facility to be located in the renovated Student Union building. As part of the contract extension agreement in July 2015, Barnes & Noble invested additional \$500,000. Spartan Shops capitalized \$651,127 as lease hold improvements, \$548,405 as equipment, furniture and fixtures, and keep the remaining unspent balance of \$183,467 from the New Bookstore facility capital investment in deferred revenue account for future bookstore maintenance. The repair and maintenance fund will be recognized as revenue when it is spent. Spartan Shops recognized \$83,333 as other nonoperating income for the depreciated bookstore facility investment for the fiscal year ended June 30, 2021, and will recognize an annual depreciated capital investment amount of \$100,000 as revenue through the end of the contract terms.

In the event this agreement is terminated by the Spartan Shops without cause or by Barnes & Noble with cause, the New Bookstore facility investment shall be refunded to Barnes & Noble based on the pro-rata unrecognized portion. The undepreciated New Bookstore facility investment balance as of June 30, 2021, is \$500,000.

Spartan Shops, Inc.
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Notes to Financial Statements

Note 13. Spartan Golf Complex Contracted Management

In September 2017, Spartan Shops entered into an agreement with TREF for the management of the daily operations of the Golf Complex for a period of five years, effective July 1, 2017, through June 30, 2022. Under the agreement, any shortfall in the fees, etc. collected and the operating costs will be reimbursed by TREF to Spartan Shops on a quarterly basis. The management of the Golf Complex was handled by the university effective July 1, 2020.

Note 14. Dining Services Contracted Management

In September 2018, Spartan Shops entered into an agreement with Chartwells, a division of Compass Group USA, Inc. for a period from July 5, 2018, through June 30, 2020, to provide and manage residential meal program at The Commons, retail food services operation on SJSU campus, concession services at the Event Center and SJSU South campus, Hammer Theater and catering services with an earned management fee basis and with an option of two five-year contract extensions. In October 2019, Spartan Shops amended the contract with the management fee basis through June 30, 2021, with an option of two six-year contract extensions and a fixed annual management fee of \$400 thousand. In October 2020, the contract was amended with the management fee basis remaining through June 30, 2021, with an option of two seven-year contract extensions.

In the first year, Chartwells provided the dining operation services on an Earned Management Fee basis. As part of the financial arrangement, Chartwells was entitled to the Earned Management Fee equal to 2% of gross sales to the extent that profit exceeds all cost of business, which includes, but was not limited, to the cost of all Chartwells labor, cost of all products, merchandise, materials, supplies, and the cost of all other operating expenses. The management fee shall be payable in 12 monthly installments which is applied to the monthly financial statements. Based on the monthly performance of Chartwells operation, Spartan Shops shall reimburse Chartwells the amount equal to the monthly net loss or Chartwells shall pay Spartan Shops the amount equal to the monthly net profit. Spartan Shops paid Chartwells \$4 million for the operating subsidy and the management fee of \$400 thousand for the fiscal year ended June 30, 2021. These expenses were recorded in operating expense on the statement of revenue, expenses and changes in net position.

Spartan Shops distributed weekly meal plan funds to Chartwells based on daily rates and usage and recorded \$139 thousand as other income for unused meal plan left over at the end of the academic year.

Chartwells is committed to fund capital improvement, signing bonus payments, and pre-opening/transition expenses in a total sum not to exceed \$20,877,066 starting from July 2018 through June 2035. The Investment will be disbursed and amortized on a straight-line basis from when the project is finished through June 30, 2035, with the exception of a few investment items with a shorter amortization schedule. Amortization of investment shall be treated as cost of business and Spartan Shops shall hold title to items funded by the Investment. Based on the amended agreement in October 2020, Chartwells funded \$2 million signing bonus and \$1.5 million advance commission.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Notes to Financial Statements

Note 14. Dining Services Contracted Management (Continued)

If the agreement expired or is terminated for any reason prior to the full amortization of the investment, Spartan Shops is liable for and promises to pay Chartwells the unamortized portion of the capital investment immediately upon expiration or termination. In the event the agreement expires or is terminated before any disbursements are scheduled to be made, Chartwells will not advance such additional disbursements. Spartan Shops received \$4.25 million signing bonus and partnership bonus and recorded the amortization of \$259 thousand as other nonoperating revenue for the fiscal year ended June 30, 2021, respectively. Spartan Shops received \$1.5 million advance commission in March 2021 for the contract year 2022. The annual amount of \$107,143 of the advance commission payment shall be offset with the annual commission payment received in future years starting July 1, 2021, through the remainder of the term. Chartwells spent \$8,311,689 of the investment and amortized \$1,114,102 through June 30, 2021. Spartan Shops recorded \$7,197,587 unearned revenue as the net of investment spending and amortization, \$367,255 as other nonoperating revenue and \$3,277,658 as capital asset investment for the year ended June 30, 2021.

As part of the agreement, Chartwells shall provide in-kind contribution of food services with annual retail value of \$160,000 and cash funding of \$15,000 for each academic year. For the year ended June 30, 2021, Chartwells provided \$15,000 cash funding to be used for scholarships and diversity inclusion program. No in-kind contribution was recorded for the year ended June 30, 2021, due to no department event activities during the COVID-19 pandemic.

Note 15. Contingencies

On March 11, 2020, The World Health Organization declared the outbreak of novel coronavirus as a global pandemic. Spartan Shops had a significant negative impact that affected the financial results and investment balances planned for the future. While the global pandemic continues and there are inherent uncertainties, there's been enough information and assumptions about returning back to business to plan for financial recovery in the future.

Spartan Shops, Inc.
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Schedule of Changes in the Net OPEB Liability and Related Ratios - Last Ten Years

	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ -	\$ -	\$ 59,490	\$ 57,617
Interest	32,175	38,328	25,231	25,600
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(180,926)	-	(201,421)	-
Changes in assumptions	(245,681)	54,046	(298,414)	-
Benefit payments	(101,690)	(130,513)	(133,652)	(110,302)
Net change in total OPEB liability	(496,122)	(38,139)	(548,766)	(27,085)
Total OPEB liability - beginning	1,943,503	1,981,642	2,530,408	2,557,493
Total OPEB liability - ending (a)	<u>\$ 1,447,381</u>	<u>\$ 1,943,503</u>	<u>\$ 1,981,642</u>	<u>\$ 2,530,408</u>
Plan fiduciary net position				
Contributions - employer	\$ 12,616	\$ 36,465	\$ 37,962	\$ 110,302
Net investment income	3,149	33,820	50,076	218,853
Benefit payments	(101,376)	(130,513)	(133,652)	(110,302)
Administrative expense	(11,816)	(1,500)	(1,525)	(7,093)
Net change in plan fiduciary net position	(97,427)	(61,728)	(47,139)	211,760
Plan fiduciary net position - beginning	2,532,960	2,594,688	2,641,827	2,430,067
Plan fiduciary net position - ending (b)	<u>\$ 2,435,533</u>	<u>\$ 2,532,960</u>	<u>\$ 2,594,688</u>	<u>\$ 2,641,827</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (988,152)</u>	<u>\$ (589,457)</u>	<u>\$ (613,046)</u>	<u>\$ (111,419)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	168%	130%	131%	104%
Covered-employee payroll	NA	NA	NA	265,697
Net OPEB liability as a percentage of covered-employee payroll	NA	NA	NA	-41.93%

Information presented prospectively beginning with 2018 due to implementation of GASB 75.

Covered payroll is N/A in 2021, 2020 and 2019 due to no active members being included in the plan for those years.

No actuarially determined contributions as the plan was prefunded.

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Schedule of Contributions - Last Ten Years

	2021	2020	2019	2018
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	12,616	36,465	37,962	110,302
Contribution deficiency (excess)	\$ (12,616)	\$ (36,465)	\$ (37,962)	\$ 110,302
Covered-employee payroll	NA	NA	NA	\$ 265,697
Contributions as a percentage of covered-employee payroll	NA	NA	NA	41.51%

Information presented prospectively beginning with 2018 due to implementation of GASB 75.
 Covered payroll is N/A in 2021, 2020 and 2019 due to no active members being included in the plan for those years.
 No actuarially determined contributions as the plan was prefunded.

Spartan Shops, Inc.

Schedule of Net Position

June 30, 2021

(for inclusion in the California State University)

Assets:

Current assets:

Cash and cash equivalents	1,094,873
Short-term investments	5,345,931
Accounts receivable, net	120,351
Capital lease receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	9,163
Total current assets	6,570,318

Noncurrent assets:

Restricted cash and cash equivalents	-
Accounts receivable, net	-
Capital lease receivable, net of current portion	-
Notes receivable, net of current portion	189,985
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	-
Capital assets, net	11,092,618
Other assets	988,152
Total noncurrent assets	12,270,755
Total assets	18,841,073

Deferred outflows of resources:

Unamortized loss on debt refunding	-
Net pension liability	-
Net OPEB liability	2,222
Others	-
Total deferred outflows of resources	2,222

Spartan Shops, Inc.

Schedule of Net Position

June 30, 2021

(for inclusion in the California State University)

Liabilities:

Current liabilities:

Accounts payable	2,288,292
Accrued salaries and benefits	11,409
Accrued compensated absences, current portion	4,445
Unearned revenues	847,533
Capital lease obligations, current portion	-
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	270,035

Total current liabilities	3,421,714
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Noncurrent liabilities:

Accrued compensated absences, net of current portion	-
Unearned revenues	12,244,185
Grants refundable	-
Capital lease obligations, net of current portion	-
Long-term debt obligations, net of current portion	-
Claims liability for losses and loss adjustment expenses, net of current portion	-
Depository accounts	-
Net other postemployment benefits liability	-
Net pension liability	-
Other liabilities	-

Total noncurrent liabilities	12,244,185
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Total liabilities	15,665,899
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Deferred inflows of resources:

Service concession arrangements	-
Net pension liability	-
Net OPEB liability	-
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Others	-

Total deferred inflows of resources	-
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Net position:

Net investment in capital assets	3,895,030
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	-
Unrestricted	(717,634)

Total net position	3,177,396
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Spartan Shops, Inc.
Schedule of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2021
(for inclusion in the California State University)

Revenues:	
Operating revenues:	
Student tuition and fees, gross	-
Scholarship allowances (enter as negative)	-
Grants and contracts, noncapital:	
Federal	-
State	-
Local	-
Nongovernmental	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises, gross	251,472
Scholarship allowances (enter as negative)	-
Other operating revenues	3,276,416
Total operating revenues	<u>3,527,888</u>
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	-
Academic support	-
Student services	-
Institutional support	15,000
Operation and maintenance of plant	-
Student grants and scholarships	-
Auxiliary enterprise expenses	5,411,890
Depreciation and amortization	1,636,335
Total operating expenses	<u>7,063,225</u>
Operating income (loss)	<u>(3,535,337)</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Federal financial aid grants, noncapital	-
State financial aid grants, noncapital	-
Local financial aid grants, noncapital	-
Nongovernmental and other financial aid grants, noncapital	-
Other federal nonoperating grants, noncapital	-
Gifts, noncapital	-
Investment income (loss), net	739
Endowment income (loss), net	-
Interest expense	-
Other nonoperating revenues (expenses) - excl. interagency transfers	990,747
Net nonoperating revenues (expenses)	<u>991,486</u>
Income (loss) before other revenues (expenses)	<u>(2,543,851)</u>
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase (decrease) in net position	<u>(2,543,851)</u>
Net position:	
Net position at beginning of year, as previously reported	5,721,247
Restatements	-
Net position at beginning of year, as restated	<u>5,721,247</u>
Net position at end of year	<u>3,177,396</u>

Spartan Shops, Inc.
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Other Information
June 30, 2021
(for inclusion in the California State University)

¹ Cash and cash equivalents:

Portion of restricted cash and cash equivalents related to endowments	
All other restricted cash and cash equivalents	
Noncurrent restricted cash and cash equivalents	<u>-</u>
Current cash and cash equivalents	<u>1,094,873</u>
Total	<u><u>\$ 1,094,873</u></u>

2.1 Composition of investments:

Investment Type	Current	Noncurrent	Total
Money market funds	\$ 1,124,558.00		1,124,558.00
Repurchase agreements			-
Certificates of deposit			-
U.S. agency securities			-
U.S. treasury securities			-
Municipal bonds			-
Corporate bonds			-
Asset backed securities			-
Mortgage backed securities			-
Commercial paper			-
Mutual funds	865,087		865,087
Exchange traded funds			-
Equity securities			-
Alternative investments:			-
Private equity (including limited partnerships)			-
Hedge funds			-
Managed futures			-
Real estate investments (including REITs)			-
Commodities			-
Derivatives			-
Other alternative investment			-
Other external investment pools			-
CSU Consolidated Investment Pool (formerly SWIFT)	3,356,286		3,356,286
State of California Local Agency Investment Fund (LAIF)			-
State of California Surplus Money Investment Fund (SMIF)			-
Other investments:			-
			-
			-
			-
			-
			-
			-
			-
Total Other investments	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>5,345,931</u>	<u>-</u>	<u>5,345,931</u>
Less endowment investments (enter as negative number)			-
Total investments, net of endowments	<u>\$ 5,345,931</u>	<u>-</u>	<u>5,345,931</u>

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Other Information
June 30, 2021
(for inclusion in the California State University)

2.2 Fair value hierarchy in investments:

Investment Type	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Money market funds	\$ 1,124,558	1,124,558			
Repurchase agreements	-				
Certificates of deposit	-				
U.S. agency securities	-				
U.S. treasury securities	-				
Municipal bonds	-				
Corporate bonds	-				
Asset backed securities	-				
Mortgage backed securities	-				
Commercial paper	-				
Mutual funds	865,087	865,087			
Exchange traded funds	-				
Equity securities	-				
Alternative investments:					
Private equity (including limited partnerships)	-				
Hedge funds	-				
Managed futures	-				
Real estate investments (including REITs)	-				
Commodities	-				
Derivatives	-				
Other alternative investment	-				
Other external investment pools	-				
CSU Consolidated Investment Pool (formerly SWIFT)	3,356,286				3,356,286
State of California Local Agency Investment Fund (LAIF)	-				
State of California Surplus Money Investment Fund (SMIF)	-				
Other investments:					
	-				
	-				
	-				
	-				
	-				
Total Other investments	\$ -	-	-	-	-
Total investments	5,345,931	1,989,645	-	-	3,356,286

2.3 Investments held by the University under contractual agreements:

	Current	Noncurrent	Total
Investments held by the University under contractual agreements e.g - CSU Consolidated Investment Pool (formerly SWIFT):	3,356,286	\$ -	3,356,286

Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Other Information
June 30, 2021
(for inclusion in the California State University)

3.1 Composition of capital assets:

	Balance June 30, 2020	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2020 (Restated)	Additions	Retirements	Transfer of completed CWIP/PWIP	Balance June 30, 2021
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements	\$ 2,310,000	\$ -	\$ -	\$ -	\$ 2,310,000	\$ -	\$ -	\$ -	\$ 2,310,000
Works of art and historical treasures	-	-	-	-	-	-	-	-	-
Construction work in progress (CWIP)	88,966	-	-	-	88,966	1,008,747	-	(72,036)	1,025,677
Intangible assets:									
Rights and easements	-	\$ -	\$ -	\$ -	-	-	-	-	-
Patents, copyrights and trademarks	-	\$ -	\$ -	\$ -	-	-	-	-	-
Intangible assets in progress (PWIP)	-	\$ -	\$ -	\$ -	-	-	-	-	-
Licenses and permits	-	\$ -	\$ -	\$ -	-	-	-	-	-
Other intangible assets:	-	\$ -	\$ -	\$ -	-	-	-	-	-
Total Other intangible assets	-	\$ -	\$ -	\$ -	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	\$ 2,398,966	-	-	-	\$ 2,398,966	1,008,747	-	(72,036)	\$ 3,335,677
Depreciable/Amortizable capital assets:									
Buildings and building improvements	1,763,726	-	-	-	1,763,726	-	-	-	1,763,726
Improvements, other than buildings	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	4,075,794	-	-	-	4,075,794	1,752,896	-	61,491	5,890,181
Personal property:	-	-	-	-	-	-	-	-	-
Equipment	7,909,455	-	-	-	7,909,455	515,536	(525,017)	10,545	7,910,519
Library books and materials	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	131,594	-	-	-	131,594	2,427	(26,000)	-	108,021
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Licenses and permits	12,016	-	-	-	12,016	-	-	-	12,016
Other intangible assets:	-	-	-	-	-	-	-	-	-
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	143,610	-	-	-	143,610	2,427	(26,000)	-	120,037
Total depreciable/amortizable capital assets	13,892,585	-	-	-	13,892,585	2,270,859	(551,017)	72,036	15,684,463
Total capital assets	\$ 16,291,551	-	-	-	\$ 16,291,551	3,279,606.0	(551,017.0)	-	\$ 19,020,140
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)									
Buildings and building improvements	(1,095,237)	-	-	-	(1,095,237)	(62,288)	-	-	(1,157,525)
Improvements, other than buildings	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-
Leasehold improvements	(903,494)	-	-	-	(903,494)	(490,149)	-	-	(1,393,643)
Personal property:	-	-	-	-	-	-	-	-	-
Equipment	(4,647,356)	-	-	-	(4,647,356)	(1,075,679)	463,562	-	(5,259,473)
Library books and materials	-	-	-	-	-	-	-	-	-
Intangible assets:									
Software and websites	(120,487)	-	-	-	(120,487)	(6,639)	21,602	-	(105,524)
Rights and easements	-	-	-	-	-	-	-	-	-
Patents, copyrights and trademarks	-	-	-	-	-	-	-	-	-
Licenses and permits	(9,777)	-	-	-	(9,777)	(1,580)	-	-	(11,357)
Other intangible assets:	-	-	-	-	-	-	-	-	-
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	(130,264)	-	-	-	(130,264)	(8,219)	21,602	-	(116,881)
Total accumulated depreciation/amortization	(6,776,351)	-	-	-	(6,776,351)	(1,636,335)	485,164	-	(7,927,522)
Total capital assets, net	\$ 9,515,200	-	-	-	\$ 9,515,200	1,643,271	(65,853)	-	11,092,618

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3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital assets	\$	1,636,335
Amortization expense related to other assets	\$	-
Total depreciation and amortization	\$	1,636,335

4 Long-term liabilities:

	Balance June 30, 2020	Prior Period Adjustments/Reclassifications	Balance June 30, 2020 (Restated)	Additions	Reductions	Balance June 30, 2021	Current Portion	Noncurrent Portion
1. Accrued compensated absences	\$ 17,021	-	17,021	7,697	(20,273) \$	4,445 \$	4,445 \$	-
2. Claims liability for losses and loss adjustment expenses	-	-	-	-	-	-	-	-
3. Capital lease obligations:								
Gross balance	-	-	-	-	-	-	-	-
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations	\$ -	-	-	-	-	-	-	-
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	\$ -	-	-	-	- \$	-	-	-
4.2 Commercial paper	-	-	-	-	-	-	-	-
4.3 Notes payable (SRB related)	-	-	-	-	-	-	-	-
4.4 Others:								
Notes Payable	101,830	-	101,830	-	(101,830)	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total others	101,830	-	101,830	-	(101,830)	-	-	-
Sub-total long-term debt	\$ 101,830	-	101,830	-	(101,830) \$	-	-	-
4.5 Unamortized net bond premium/(discount)	-	-	-	-	-	-	-	-
Total long-term debt obligations	101,830	-	101,830	-	(101,830)	-	-	-
Total long-term liabilities	\$ 118,851	-	118,851	7,697	(122,103) \$	4,445	4,445 \$	-

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5 Capital lease obligations schedule:

	Capital lease obligations related to SRB			All other capital lease obligations			Total capital lease obligations		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2022	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-
2027 - 2031	-	-	-	-	-	-	-	-	-
2032 - 2036	-	-	-	-	-	-	-	-	-
2037 - 2041	-	-	-	-	-	-	-	-	-
2042 - 2046	-	-	-	-	-	-	-	-	-
2047 - 2051	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum lease payments	<u>\$</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less: amounts representing interest									<u>-</u>
Present value of future minimum lease payments									<u>-</u>
Unamortized net premiums (discount)									<u>-</u>
Total capital lease obligations									<u>-</u>
Less: current portion									<u>-</u>
Capital lease obligations, net of current portion									<u><u>\$</u></u>

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⁶ Long-term debt obligations schedule:

	Auxiliary revenue bonds (non-SRB related)			All other long-term debt obligations			Total long-term debt obligations		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2022	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-
2027 - 2031	-	-	-	-	-	-	-	-	-
2032 - 2036	-	-	-	-	-	-	-	-	-
2037 - 2041	-	-	-	-	-	-	-	-	-
2042 - 2046	-	-	-	-	-	-	-	-	-
2047 - 2051	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	-	-	-	-	-	-	-	-
Less: amounts representing interest									-
Present value of future minimum payments									-
Unamortized net premium/(discount)									-
Total long-term debt obligations									-
Less: current portion									-
Long-term debt obligations, net of current portion									-

**Spartan Shops, Inc.
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7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	538,738
Payments to University for other than salaries of University personnel	492,705
Payments received from University for services, space, and programs	5,331,913
Gifts-in-kind to the University from discretely presented component units	
Gifts (cash or assets) to the University from discretely presented component units	15,000
Accounts (payable to) University (enter as negative number)	(1,763,456)
Other amounts (payable to) University (enter as negative number)	
Accounts receivable from University (enter as positive number)	
Other amounts receivable from University (enter as positive number)	

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

		Debit/(Credit)
Restatement #1	Enter transaction description	
		-
Restatement #2	Enter transaction description	
		-
		-

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9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Public service	-	-	-	-	-	-	-	-
Academic support	-	-	-	-	-	-	-	-
Student services	-	-	-	-	-	-	-	-
Institutional support	-	-	-	-	-	15,000	-	15,000
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	-	-	-	-
Auxiliary enterprise expenses	69,977	4,977	-	(466,927)	-	5,803,863	-	5,411,890
Depreciation and amortization	-	-	-	-	-	-	1,636,335	1,636,335
Total operating expenses	\$ 69,977	4,977	-	(466,927)	-	5,818,863	1,636,335	7,063,225

10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources

Deferred outflows - unamortized loss on refunding(s)	
Deferred outflows - net pension liability	
Deferred outflows - net OPEB liability	2,222
Deferred outflows - others:	
Sales/intra-entity transfers of future revenues	
Gain/loss on sale leaseback	
Loan origination fees and costs	
Change in fair value of hedging derivative instrument	
Irrevocable split-interest agreements	

Total deferred outflows - others

Total deferred outflows of resources

-
\$ 2,222

2. Deferred Inflows of Resources

Deferred inflows - service concession arrangements	
Deferred inflows - net pension liability	
Deferred inflows - net OPEB liability	
Deferred inflows - unamortized gain on debt refunding(s)	
Deferred inflows - nonexchange transactions	
Deferred inflows - others:	
Sales/intra-entity transfers of future revenues	
Gain/loss on sale leaseback	
Loan origination fees and costs	
Change in fair value of hedging derivative instrument	
Irrevocable split-interest agreements	

Total deferred inflows - others

Total deferred inflows of resources

-
\$ -

11 Other nonoperating revenues (expenses)

Other nonoperating revenues	999,152
Other nonoperating (expenses)	(8,405)
Total other nonoperating revenues (expenses)	\$ 990,747

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Spartan Shops, Inc.
San José, 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 business-type activities and fiduciary activities of Spartan Shops, Inc. (Spartan Shops) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Spartan Shops' basic financial statements, and have issued our report thereon dated September 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Spartan Shops' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spartan Shops' internal control. Accordingly, we do not express an opinion on the effectiveness of Spartan Shops' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spartan Shops' 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Tacoma, Washington
September 22, 2021