

Spartan Shops, Inc.

**Financial Statements
(with Supplementary Information)
and Independent Auditor's Report**

June 30, 2023

Spartan Shops, Inc.

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Independent Auditor's Report

To the Board of Directors
Spartan Shops, Inc.
(A California State University Auxiliary Organization)

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of Spartan Shops, Inc., a component unit of California State University, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Spartan Shops, Inc.'s basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Spartan Shops, Inc. as of June 30, 2023, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Spartan Shops, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Spartan Shops, Inc. for the year ended June 30, 2022, were audited by another auditor who expressed unmodified opinions on those statements on October 12, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Spartan Shops, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Spartan Shops, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Spartan Shops, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 9, Schedule of Changes in the Net OPEB Liability and Related Ratios on page 32, and the Schedule of OPEB Contributions on page 33 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spartan Shops, Inc.'s basic financial statements. The accompanying supplementary information on pages 35 to 40 is presented for purposes of additional analysis as required by an Administrative Directive dated June 24, 2003, *Financial Reporting Requirements for Auxiliary Organizations*, from the California State University Office of the Chancellor, and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Report on Summarized Comparative Information

As indicated on page 2, another auditor previously audited Spartan Shops, Inc.'s June 30, 2022 financial statements and expressed unmodified opinions on those audited financial statements on October 12, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023 on our consideration of Spartan Shops, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Spartan Shops, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spartan Shops, Inc.'s internal control over financial reporting and compliance.



Los Angeles, California
September 29, 2023

Spartan Shops, Inc.

Management's Discussion and Analysis Year Ended June 30, 2023 (Unaudited)

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, 2023. 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 comprises three major divisions that service SJSU: Dining Services, University Bookstore, and Real Estate Services.

Dining Services: The Dining Services portion of the portfolio is the largest service operation in Spartan Shops. In September 2018, Spartan Shops entered into an agreement with Chartwells Higher Education ("Chartwells"), a division of Compass Group USA, Inc., to manage all food preparation and service programs on behalf of SJSU. Therefore, Chartwells has served as SJSU's exclusive food service provider since 2018. As part of this agreement, Chartwells provides residential dining services in our Dining Commons, a food court and retail within the Diaz Compean Student Union, two markets, concessions in the Provident Credit Union Event Center and South Campus Athletics facilities, as well as catering on the Main Campus, South Campus, and the Hammer Theatre. The agreement with Chartwells began as a cost of business model, which required a management fee to be paid by Spartan Shops. In July of 2022, the relationship shifted to a profit loss basis. In June of 2023, the term was extended to June 30, 2037 to allow for additional capital investments and guaranteed revenues to account for Spartan Shops' increasing operating expenditures (e.g. facilities use fees, utilities, and maintenance and repair). Chartwells is committed to fund an investment in Spartan Shops' dining service program for a total sum not to exceed \$20,877,066 through June 30, 2042. This investment is recorded as capital assets and deferred revenue and recorded as contributed capital assets using the straight-line method over the contract period.

University Bookstore: In March of 2011, Spartan Shops entered into a 15-year agreement with Barnes & Noble College Booksellers to provide bookstore management and services in the Spartan Bookstore located in the Diaz Compean Student Union. Said agreement expires on June 30, 2026. As a part of this agreement, Barnes & Noble provides course materials, electronic goods, retail merchandise, university branded goods, as well as school supplies to the SJSU campus community.

Real Estate Services: Spartan Shops owns and offers 13 below market rate units located on 4th Street and 8th Street in Downtown San Jose. These units are exclusively reserved for the occupancy of current faculty and staff at SJSU. On July 26, 2022, Spartan Shops entered into a 3-year agreement with a 2-year option to extend with Cal-Western Property Management ("Cal Western"). Cal Western provides property management services at a flat rate fee of 6% and manages all maintenance and repairs.

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

Spartan Shops, Inc.

Management's Discussion and Analysis Year Ended June 30, 2023 (Unaudited)

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 Statements

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 non-operating 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 related 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 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, 2023. Included are 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.

Management's Discussion and Analysis Year Ended June 30, 2023 (Unaudited)

Business-Type Activities

Condensed Summary of Net Position

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

	2023	2022	Change
Assets:			
Current assets	\$ 8,228,120	\$ 6,334,284	\$ 1,893,836
Capital assets, net	9,923,265	11,012,307	(1,089,042)
Noncurrent assets	1,293,791	1,177,213	116,578
Total assets	<u>19,445,176</u>	<u>18,523,804</u>	<u>921,372</u>
Deferred outflows of resources			
Deferred outflows - differences between projected and actual investment earnings	54,915	78,880	(23,965)
Total deferred outflows of resources	<u>54,915</u>	<u>78,880</u>	<u>(23,965)</u>
Liabilities:			
Current liabilities	5,007,511	3,746,871	1,260,640
Noncurrent liabilities	14,555,096	12,239,270	2,315,826
Total liabilities	<u>19,562,607</u>	<u>15,986,141</u>	<u>3,576,466</u>
Deferred inflows of resources			
Deferred inflows - differences between projected and actual investment earnings	32,857	4,828	28,029
Total deferred inflows of resources	<u>32,857</u>	<u>4,828</u>	<u>28,029</u>
Net position:			
Net investment in capital assets	9,923,265	11,012,307	(1,089,042)
Unrestricted - Student Services	(10,018,638)	(8,400,592)	(1,618,046)
Total net position	<u>\$ (95,373)</u>	<u>\$ 2,611,715</u>	<u>\$ (2,707,088)</u>

Total assets increased by \$921 thousand from fiscal year 2022 to fiscal year 2023. This is primarily due to an increase of \$1.7 million of short-term investments and an increase of \$208 thousand in cash and receivables. Capital assets decreased \$1.09 million primarily due to the addition of capital assets by Chartwells and real estate division offset by the depreciation and the disposal of assets. In addition, OPEB assets increased \$106 thousand due to changes in assumptions.

Total liabilities increased by \$3.6 million from fiscal year 2022 to fiscal year 2023 primarily due to a \$2.1 million net increase in unearned revenue related to contributed capital assets from Chartwells as required by their contract and \$3.1 million in signing bonus against the annual investment amortization. Accounts Payable increased \$1.5 million due to operating subsidies provided to Chartwells for financial relief in the current year.

Deferred inflows (outflows) of resources: Spartan Shops has deferred outflows and inflows 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 decreased by \$23 thousand and deferred inflows of resources increased by \$28 thousand from fiscal year 2022 to fiscal year 2023 due to changes on projected and actual earnings on investments.

Spartan Shops, Inc.

**Management's Discussion and Analysis
Year Ended June 30, 2023
(Unaudited)**

Total net position decreased by \$2.7 million from fiscal year 2022 to fiscal year 2023 due to the current year expenses of \$6 million exceeding the revenues of \$3.3 million.

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:

	2023	2022	Change
Operating revenues:			
Auxiliary enterprise revenues:			
Commercial services - rental revenue	\$ 335,069	\$ 234,257	\$ 100,812
Total auxiliary enterprise revenues	<u>335,069</u>	<u>234,257</u>	<u>100,812</u>
Other operating revenues:			
Dining contract management	281,536	731,119	(449,583)
Commission income - dining services	1,198,016	-	1,198,016
Contributed assets - bookstore and dining services	636,332	560,971	75,361
Commission income - bookstore	539,537	559,726	(20,189)
Other income	59,542	63,104	(3,562)
Unused meal plan revenue	121,089	285,876	(164,787)
Total other operating revenues	<u>2,836,052</u>	<u>2,200,796</u>	<u>635,256</u>
Total operating revenues	<u>3,171,121</u>	<u>2,435,053</u>	<u>736,068</u>
Operating expenses:			
Operating - bookstore and dining	3,942,737	885,612	3,057,125
Administrative	946,572	948,658	(2,086)
OPEB (benefit) expense	(54,471)	(60,794)	6,323
Depreciation and amortization	1,145,503	1,301,566	(156,063)
Total operating expenses	<u>5,980,341</u>	<u>3,075,042</u>	<u>2,905,299</u>
Total operating loss	<u>(2,809,220)</u>	<u>(639,989)</u>	<u>(2,169,231)</u>
Nonoperating revenues (expenses):			
Interest income from notes receivable	10,372	10,372	-
Investment income	141,259	22,205	119,054
Gain/(Loss) on disposal of capital assets	(57,060)	9,688	(66,748)
Other income	7,561	32,043	(24,482)
Total nonoperating revenues (expenses)	<u>102,132</u>	<u>74,308</u>	<u>27,824</u>
Change in net position	<u>(2,707,088)</u>	<u>(565,681)</u>	<u>(2,141,407)</u>
Net position:			
Beginning of year	2,611,715	3,177,396	(565,681)
End of year	<u>\$ (95,373)</u>	<u>\$ 2,611,715</u>	<u>\$ (2,707,088)</u>

Total operating revenue increased by \$736 thousand from fiscal year 2022 to fiscal year 2023 primarily due to an increase of \$748 thousand in revenue received from Chartwells and a decrease of \$113 thousand in unused meal plans, bookstore commission and other income offset by an increase of \$101 thousand in commercial services.

Total operating expenses increased by \$2.9 million overall from fiscal year 2022 to fiscal year 2023 primarily due to an increase of \$3 million in operating expenses which include \$1.5 million disbursement

Spartan Shops, Inc.

**Management's Discussion and Analysis
Year Ended June 30, 2023
(Unaudited)**

to Chartwells for financial relief, \$429 thousand for Chartwells repair and maintenance, \$258 thousand for Chartwells waste disposal, and \$758 thousand for SJSU facility fee cost allocation. The depreciation and amortization decreased by \$156 thousand.

Total nonoperating revenue for Spartan Shops increased by \$28 thousand from fiscal year 2022 to fiscal year 2023 primarily due to an increase of \$119 thousand in investment income offset by a decrease of \$91 thousand in the gain on disposal of capital assets, and other income.

Fiduciary Statements

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

Total net position decreased by \$13 thousand from fiscal year 2022 to fiscal year 2023 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:

	2023	2022
Assets	\$ 2,413,364	\$ 2,428,629
Liabilities	90,227	91,908
Net position	\$ 2,323,137	\$ 2,336,721

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

Change in the fiduciary net position increased by \$85 thousand from fiscal year 2022 to fiscal year 2023 primarily due to the increase in investment earnings from the trust.

	2023	2022
Additions	\$ 111,414	\$ 35,473
Deductions	124,998	134,285
Change in fiduciary net position	(13,584)	(98,812)
Fiduciary net position - beginning	2,336,721	2,435,533
Fiduciary net position - ending	\$ 2,323,137	\$ 2,336,721

Spartan Shops, Inc.

Statement of Net Position—Business-Type Activities
June 30, 2023
With Summarized Totals at June 30, 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents	\$ 2,368,514	\$ 1,863,234
Short-term investments	5,185,154	3,498,895
Receivables	674,452	972,155
Total current assets	<u>8,228,120</u>	<u>6,334,284</u>
Noncurrent assets		
Other Post-Employment Benefits (OPEB) asset	1,083,581	977,116
Notes receivable, net	210,210	200,097
Capital assets, net	9,923,265	11,012,307
Total noncurrent assets	<u>11,217,056</u>	<u>12,189,520</u>
Total assets	<u>\$ 19,445,176</u>	<u>\$ 18,523,804</u>
Deferred outflows of resources		
OPEB Deferred outflows—differences between projected and actual investment earnings	\$ 54,915	\$ 78,880
<u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	2,073,236	649,554
Related party accounts payable	1,818,789	1,789,364
Accrued salaries and benefits payable	4,043	5,453
Unearned revenue, current portion	838,248	1,049,682
Other liabilities	273,195	252,818
Total current liabilities	<u>5,007,511</u>	<u>3,746,871</u>
Noncurrent liabilities		
Unearned revenue, net of current portion	14,555,096	12,239,270
Total noncurrent liabilities	<u>14,555,096</u>	<u>12,239,270</u>
Total liabilities	<u>19,562,607</u>	<u>15,986,141</u>
Deferred inflows of resources		
OPEB Deferred inflows—differences between projected and actual investment earnings	32,857	4,828
Net position		
Net investment in capital assets	9,923,265	11,012,307
Unrestricted	(10,018,638)	(8,400,592)
Total net position	<u>\$ (95,373)</u>	<u>\$ 2,611,715</u>

See Notes to Financial Statements.

Spartan Shops, Inc.

Statement of Revenues, Expenses and Changes in Net Position—Business-Type Activities
Year Ended June 30, 2023
With Summarized Totals for the Year Ended June 30, 2022

	2023	2022
Operating revenues		
Auxiliary enterprise revenues		
Commercial services-rental revenue	\$ 335,069	\$ 234,257
Total auxiliary enterprise revenues	335,069	234,257
Other operating revenues		
Dining contract management	281,536	731,119
Commission income—dining services	1,198,016	-
Contributed assets—bookstore and dining services	636,332	560,971
Commission income—bookstore	539,537	559,726
Other income	59,542	63,104
Unused meal plan revenue	121,089	285,876
Total other operating revenues	2,836,052	2,200,796
Total operating revenues	3,171,121	2,435,053
Operating expenses		
Operating-bookstore and dining	3,942,737	885,612
Administrative	946,572	948,658
OPEB (benefit) expense	(54,471)	(60,794)
Depreciation and amortization	1,145,503	1,301,566
Total operating expenses	5,980,341	3,075,042
Operating loss	(2,809,220)	(639,989)
Nonoperating revenues (expenses)		
Interest income from notes receivable	10,372	10,372
Investment income	141,259	22,205
(Loss)/gain on disposal of capital assets	(57,060)	9,688
Other income	7,561	32,043
Net nonoperating revenues (expenses)	102,132	74,308
Change in net position	(2,707,088)	(565,681)
Net position, beginning of year	2,611,715	3,177,396
Net position, end of year	\$ (95,373)	\$ 2,611,715

See Notes to Financial Statements.

Spartan Shops, Inc.

Statement of Cash Flows—Business-Type Activities
Year Ended June 30, 2023
With Summarized Totals for the Year Ended June 30, 2022

	2023	2022
Cash flows from operating activities		
Cash received from sales	\$ 632,772	\$ 761,200
Payments to suppliers	(3,416,976)	(1,691,790)
Payment to employees	-	(10,049)
Other operating receipts	4,826,923	-
	2,042,719	(940,639)
Cash flows from noncapital financing activities		
Other income	7,561	32,043
	7,561	32,043
Cash flows from capital and related financing activities		
Purchase of capital assets	-	(218,701)
Proceeds from the sale of capital assets	-	26,417
	-	(192,284)
Cash flows from investing activities		
Purchases of investments	(58,790)	(2,434)
Proceeds from sales of investments	72,741	1,458
Additions to the CSU Investment Pool	(19,972,412)	(15,321,440)
Withdrawals from the CSU Investment Pool	18,346,874	17,169,452
Investment income	66,587	22,205
	(1,545,000)	1,869,241
Net cash (used in) provided by investing activities	(1,545,000)	1,869,241
Net increase in cash and cash equivalents	505,280	768,361
Cash and cash equivalents, beginning	1,863,234	1,094,873
Cash and cash equivalents, end	\$ 2,368,514	\$ 1,863,234

Spartan Shops, Inc.

Statement of Cash Flows—Business-Type Activities
Year Ended June 30, 2023
With Summarized Totals for the Year Ended June 30, 2022

	2023	2022
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	(2,809,220)	(639,989)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	1,145,503	1,301,566
Bad debt expense	259	260
Amortization of signing and partnership bonus	(281,537)	(265,047)
Amortization of contributed assets—bookstore, dining services and commercial services	(636,332)	(560,971)
Chartwells advance commissions and payments	804,347	-
Change in assets and liabilities		
Receivables	297,703	(851,804)
OPEB asset	(106,465)	11,036
Prepaid expenses	-	9,163
Accounts payable and related party accounts payable	1,453,107	150,626
Accrued salaries and benefits payable	18,967	(27,618)
Unearned revenue	2,104,393	3,969
Deferred inflows/outflows—OPEB liability	51,994	(71,830)
	\$ 2,042,719	\$ (940,639)
Noncash investing activities		
Contributed capital assets	\$ 246,883	\$ 1,019,283
Imputed interest on notes receivable	\$ 10,372	\$ 10,372
Loss on disposal of capital assets	\$ 57,060	\$ (9,688)
Reduction of previously contributed capital assets	\$ 133,362	\$ -

See Notes to Financial Statements.

Spartan Shops, Inc.

Statement of Fiduciary Net Position—Other Post-Employment Benefit Trust Fund
June 30, 2023
With Summarized Totals at June 30, 2022

	<u>Assets</u>	<u>2023</u>	<u>2022</u>
Assets			
Investments		\$ 2,409,321	\$ 2,423,176
Accounts receivable		4,043	5,453
		<u>2,413,364</u>	<u>2,428,629</u>
Total assets			
		<u>2,413,364</u>	<u>2,428,629</u>
	<u>Liabilities and Net Position</u>		
Liabilities			
Accounts payable		86,184	86,455
Other liabilities		4,043	5,453
		<u>90,227</u>	<u>91,908</u>
Total liabilities			
		90,227	91,908
Net position			
Restricted			
Post employment benefits other than pensions		<u>2,323,137</u>	<u>2,336,721</u>
		<u>\$ 2,323,137</u>	<u>\$ 2,336,721</u>
Total net position			
		<u>\$ 2,323,137</u>	<u>\$ 2,336,721</u>

See Notes to Financial Statements.

Spartan Shops, Inc.

**Statement of Changes in Fiduciary Net Position—Other Post-Employment Benefit Trust Fund
Year Ended June 30, 2023
With Summarized Totals for the Year Ended June 30, 2022**

	2023	2022
Additions		
Contributions		
Members	\$ 28,011	\$ 32,247
Investment earnings		
Interest, dividends and other	83,403	3,226
Total additions	111,414	35,473
Deductions		
Medical premiums for retirees	113,827	118,407
Administrative expense	11,171	15,878
Total deductions	124,998	134,285
Net decrease in fiduciary net position	(13,584)	(98,812)
Net position, beginning of year	2,336,721	2,435,533
Net position, end of year	\$ 2,323,137	\$ 2,336,721

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

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 California State University ("CSU" or the "University") 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 San José State University ("SJSU") campus. 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 is a component unit of California State University and is included in their financial statements as a discretely presented component unit.

Spartan Shops' financial statements include a single proprietary fund/business-type activities and fiduciary fund statements. The business-type activities statements include: the statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The fiduciary fund statements include the OPEB trust fund statements of fiduciary net position and statements of changes in fiduciary net position.

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 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 position in the following classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net investment in capital assets

Capital assets, net of accumulated depreciation, outstanding debt or liabilities attributable to the acquisition, construction, or improvement of those assets.

Restricted—nonexpendable

The component of net position that is subject to externally imposed conditions that Spartan Shops retains in perpetuity. Net assets in this category consist of endowments. There were no restricted nonexpendable components of net position as of June 30, 2023.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

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. The Other Post Employment Benefit Trust Fund has restricted net position for payment of post-employment benefits other than pensions.

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.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts of assets and liabilities, in the financial statements and accompanying notes, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 statements 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, 2023 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.

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 their estimated acquisition 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 the 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. The contribution of these capital improvements is recorded as deferred revenue and recorded as contributed assets—bookstore and dining services revenue over the term of the contract period.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

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, 2023, no impairment loss was recorded.

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' other post-employment benefit plan are to be recognized in future periods to other post-employment benefit plan expense.

Revenue recognition

Bookstore and dining services commission are exchange transactions and are recorded at the end of each month based on contracted percentages of sales 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.

Deferred revenue consists of an upfront of capital investment from Barnes & Noble, signing bonus, partnership bonus, advanced commissions from Chartwells, and Chartwells' contributed capital investment through the term of the contract. The contract signing bonuses are deferred revenue and are being recognized as other operating revenue over the life of the contract. The contributed capital investment is being recorded as contributed assets and amortized on a straight-line basis from the date the projects start through the end of the contract term. Spartan Shops records contributed assets—bookstore and dining services revenue according to the amortization schedule in the contract. These amounts are not recorded as revenue when the assets are constructed due to amounts having to be repaid to Chartwells if the contract is terminated early.

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 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.

Summarized information

The financial statements include certain prior year summarized comparative information in total but not by net position class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

with Spartan Shops' financial statements as of and for the year ended June 30, 2022, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation.

Accounting pronouncement adopted in the current year

Spartan Shops adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangement*, effective July 1, 2022. The objective of this statement is to clarify the definitions and financial reporting requirement for Public-Private and Public-Public Partnerships ("PPP") and Availability Payment Arrangements ("APA"). PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Spartan Shops has determined the adoption of GASB 94 did not have a material effect 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 has the following recurring fair value measurements in its business-type and fiduciary fund statements as of June 30, 2023:

Business-type activities	
Investment type	
CSU Investment Pool	\$ 3,133,812
Money market funds	1,168,971
Mutual funds	<u>882,371</u>
Total investments	<u>\$ 5,185,154</u>
Fiduciary fund	
Investment type	
Money market funds	<u>\$ 2,409,321</u>
Total investments	<u>\$ 2,409,321</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.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

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, which is less than one year on average. Spartan Shops had no investments with interest rate risk at June 30, 2023.

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. SJSU funds are not rated.

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.

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, 2023, Spartan Shops' bank balances exceed the federally insured amount by \$1,964,283, which is uninsured and collateralized by securities held by the pledging financial institution.

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, 2023.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

Note 4 - Capital Assets

Capital assets consist of the following at June 30:

	2022	Additions	CIP Transfers	Retirements and Other	2023
Capital assets not being depreciated					
Land	\$ 2,310,000	\$ -	\$ -	\$ -	\$ 2,310,000
Construction in progress	758,789	84,982	(135,693)	(127,463)	580,615
Total capital assets not being depreciated	3,068,789	84,982	(135,693)	(127,463)	2,890,615
Capital assets being depreciated					
Buildings	1,763,726	-	-	-	1,763,726
Leasehold improvements	7,250,190	18,540	135,693	(2,325)	7,402,098
Equipment, furniture and fixtures	7,974,662	143,361	-	(280,766)	7,837,257
Intangible assets	120,037	-	-	-	120,037
Total capital assets being depreciated	17,108,615	161,901	135,693	(283,091)	17,123,118
Total capital assets	20,177,404	246,883	-	(410,554)	20,013,733
Less accumulated depreciation					
Buildings	(1,219,813)	(62,288)	-	-	(1,282,101)
Leasehold improvements	(1,909,417)	(533,612)	-	1,608	(2,441,421)
Equipment, furniture and fixtures	(5,916,640)	(548,793)	-	218,524	(6,246,909)
Intangible assets	(119,227)	(810)	-	-	(120,037)
Total accumulated depreciation	(9,165,097)	(1,145,503)	-	220,132	(10,090,468)
Net capital assets being depreciated	7,943,518	(983,602)	135,693	(62,959)	7,032,650
Net capital assets	\$ 11,012,307	\$ (898,620)	\$ -	\$ (190,422)	\$ 9,923,265

Depreciation and amortization expense was \$1,145,503 for the year ended June 30, 2023.

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, 2023, there were seven loans funded by the City. At June 30, 2023, the Spartan Shops receivable portion was \$420,000, less a present value discount of \$204,400. 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. At June 30, 2023,

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

an allowance for doubtful accounts of \$5,390 was recorded assuming a 2.5% default rate of a loan. Spartan Shops recorded bad debt expense of \$259 in fiscal year 2023. 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, 2023:

Notes receivable	\$ 420,000
Less discount on notes receivable	<u>(204,400)</u>
Total notes receivable	215,600
Less allowance for doubtful accounts	<u>(5,390)</u>
Total notes receivable, net	<u><u>\$ 210,210</u></u>

As of June 30, 2023, the amount of principal of notes receivable for future fiscal years is as follows:

	<u>Principal</u>
Years ending June 30:	
2024-2028	\$ -
2029-2032	<u>420,000</u>
	<u><u>\$ 420,000</u></u>

Note 6 - Lease Commitments

Spartan Shops entered into an operating and lease agreement with 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 includes 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 University's campus (the "Campus"). Under the lease agreement, Spartan Shops and the Campus negotiate the facility use fee on an annual basis after the reconciliation of year-end revenue and as such, this lease did not qualify as a lease under GASB 87. 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 SJSU to meet its requirements and obligations. There are no future minimum or fixed lease payments. During the year ended June 30, 2023, Spartan Shops recorded a facility fee payment of \$915,000.

Note 7 - 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.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

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.

As Spartan Shops does not currently have paid employees, premiums allocated to Spartan Shops will be based on the program's required minimum premium. The premium for the current year was allocated to Spartan Shops by 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, 2023, Spartan Shops has no liability reserves accrued, as there were 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 \$6,791 during the year ended June 30, 2023.

At June 30, 2023, 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 8 - 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 6). Amounts payable to and from the University and related organizations are recorded on the statements of net position as accounts receivable and accounts payable. Receivables and payables due to and from related parties were as follows as of June 30, 2023:

Receivable from Tower Foundation	<u>\$ -</u>
Total related-party accounts receivable	<u><u>\$ -</u></u>
Payable to SJSU	\$ 1,818,789
Payable to Student Union	<u>-</u>
Total related-party accounts payable	<u><u>\$ 1,818,789</u></u>

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

For the year ended June 30, 2023, the related party transactions included:

Payments to SJSU for salaries of SJSU personnel working on contracts, grants, and other programs	\$ 580,962
Payments to SJSU for other than salaries of SJSU personnel	1,777,433
Payments received from SJSU for services, space, and programs	13,786,518

Note 9 - 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 did not make any contributions to the Plan during the year ended June 30, 2023. There are no participants in the pension plan as of June 30, 2023.

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, 2023, these reimbursements were \$112,443.

Plan assets are held in an institutional trust with Principal Trust. As of June 30, 2023, the fair value measurements of the plan assets was \$2,409,321, in money market funds, which are categorized as Level 1 inputs. Spartan Shops accrued benefit reimbursement of \$86,184 for retiree benefits paid for the year ended June 30, 2023.

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 2023, a maximum monthly employer contribution was \$250 for employees or \$510 for the employee plus one covered person.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

The following employees are included in the plan for the year ended June 30, 2023:

Retirees or beneficiaries currently receiving benefit payments	23
Inactive employees entitled to but not receiving benefits	<u>4</u>
	<u><u>27</u></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. Since Spartan Shops does not have any active employees, there would not be any implicit subsidy transfers from active members to the retiree members. There were no implicit benefit payments for the year ended June 30, 2023.

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 \$86,184 for the year ended June 30, 2023.

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, and 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. Deferred inflows and outflows of resources include the net difference between projected and actual earnings on OPEB plan investments, which are amortized over five years.

For the fiscal year ended June 30, 2023, Spartan Shops' valuation date was June 30, 2023, and measurement date was June 30, 2023.

Spartan Shops, Inc.

**Notes to Financial Statements
June 30, 2023**

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, 2023.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)-(b)
Balance at July 1, 2022	\$ 1,359,605	\$ 2,336,721	\$ (977,116)
Expected changes during the period			
Service cost	-	-	-
Interest cost	24,355	-	24,355
Expected investment income	-	42,332	(42,332)
Employer contributions	-	-	-
Administrative expenses	-	(10,803)	10,803
Benefit payments	(86,184)	(86,184)	-
Total expected changes during the period	<u>(61,829)</u>	<u>(54,655)</u>	<u>(7,174)</u>
	<u>1,297,776</u>	<u>2,282,066</u>	<u>(984,290)</u>
Unexpected changes during the period			
Change due to investment experience	-	41,071	(41,071)
Plan experience			
Premiums/Benefit Caps/Estimated Claims Other Than Expected	(1,299)	-	(1,299)
One eligible member chose SJSU coverage	(43,771)	-	(43,771)
Other plan experience	(32,981)	-	(32,981)
Assumption changes			
Change in healthcare trend	3,580	-	3,580
Updated mortality assumptions	16,251	-	16,251
Total unexpected changes during the period	<u>(58,220)</u>	<u>41,071</u>	<u>(99,291)</u>
Balance at June 30, 2023	<u>\$ 1,239,556</u>	<u>\$ 2,323,137</u>	<u>\$ (1,083,581)</u>

The following are the components of OPEB expense (benefit) for the year ended June 30, 2023:

Interest cost	\$ 24,355
Expected earnings on assets	(42,332)
Administrative expenses	10,803
Implicit subsidy	-
Deferred (inflows) outflows of resources	
Assumption changes	19,831
Plan experience	(78,051)
Investment experience	<u>10,923</u>
OPEB benefit	<u>\$ (54,471)</u>

The following are the reasons for the changes in deferred outflows and inflows for the year ended June 30, 2023:

Spartan Shops, Inc.

**Notes to Financial Statements
June 30, 2023**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 54,915	\$ 32,857
Total	\$ 54,915	\$ 32,857

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

Years ending June 30:	
2024	\$ 15,749
2025	12,328
2026	2,196
2027	(8,215)
2028	-
Thereafter	-
Total	\$ 22,058

The discount rate used for the fiscal year ended 2023 was 1.85%. Health care cost trend rate was assumed to start at 6.2% fluctuating down to 3.9% by 2075. The impact of a 1% increase or decrease in these assumptions is shown in the chart below:

	1% Decrease 0.85%	Current 1.85%	Current + 1% 2.85%
Change in discount rate			
Net OPEB asset	\$ 958,183	\$ 1,083,581	\$ 1,189,378
Change in health care cost trend rate	1% Decrease 5.2%	Current 6.2%	Current + 1% 7.2%
Net OPEB asset	\$ 1,137,166	\$ 1,083,581	\$ 1,005,072

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, 2023.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

Long-term return on assets

Since Spartan Shops has prefunded over 187% as of June 30, 2023, of the total OPEB liability and anticipates no further contributions to the plan, Spartan Shops held its plan assets in a money market fund with the long-term expected rate of return of 1.85% as of June 30, 2023.

Investment Class	Target Allocation	Long-Term Expected Real Rate of Return
Money market fund	100.0%	1.85%
Total	100.0%	

Participants valued

Only 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 2021 report of an experience study using data from 1997 to 2019, 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 6.2% in 2025, 5.6% in 2026, 5.5% in 2027 and 5.4% in 2028.

Participation rate

Vested terminated participants

One hundred percent of 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 rise in future medical costs and inflation, and the over-funded status of the OPEB plan, Spartan Shops will be evaluating the possibility of increasing the monthly caps on Spartan Shops' contributions towards 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 by Spartan Shops each year.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

Note 10 - Noncurrent Liabilities

Schedule of changes in noncurrent liabilities for the year ended June 30, 2023 is shown below:

	Beginning of Year	Addition	Reduction	End of Year	Amount Due in One Year
Unearned revenue - food services investment	\$ 7,755,899	\$ 113,521	\$ 536,332	\$ 7,333,088	\$ 298,249
Unearned revenue - signing bonuses	4,029,084	3,125,000	381,537	6,772,547	431,004
Unearned revenue - rental payment	3,969	1,995	3,969	1,995	1,995
Unearned revenue - prepaid commission	1,500,000	-	214,286	1,285,714	107,000
Total unearned revenue	<u>\$ 13,288,952</u>	<u>\$ 3,240,516</u>	<u>\$ 1,136,124</u>	<u>\$ 15,393,344</u>	<u>\$ 838,248</u>

Note 11 - Bookstore Contract 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 agreement with Barnes & Noble from July 1, 2021, to June 30, 2026, in July 2015. Under the extended agreement and subsequent amendment executed in December of 2018, the commission payment is 12% of all gross sales, up to \$10 million and 13% of all gross sales over \$10 million per year and 7% of all gross sales of First Day and eTextbooks. The Minimum Annual Guarantee will be an amount equal to 90% of the calculated commissions for the commencing after June 30, 2016. Due to the significant reduction in sales caused by the COVID-19 pandemic related closures, Barnes & Noble amended the agreement in April 2020 to eliminate the minimum annual guarantee from July 2019 through June 2021. Effective July 1, 2021, the guaranteed amount recommenced at the rate of 90% of the calculated commission of the prior contract year. During this period, Barnes & Noble will pay Spartan Shops the calculated commission payment of 12% of gross sales and 7% of First Day and eTextbooks as described above.

Spartan Shops received \$539,537 in commission from Barnes & Noble for fiscal year ended June 30, 2023.

As part of the agreement, Barnes & Noble shall provide Spartan Shops an annual unrestricted donation of \$10,000 per year. In April 2011, Barnes & Noble paid Spartan Shops \$1,000,000 to improve the new bookstore facility located in the renovated Diaz Compean Student Union building. As part of the contract extension agreement in July 2015, Barnes & Noble invested an additional \$500,000 to the new Bookstore facility. Spartan Shops capitalized \$651,127 as leasehold improvements, \$548,405 as equipment, furniture and fixtures, and kept the remaining unspent balance of \$183,467 from the new bookstore facility capital investment in a deferred revenue account for future bookstore maintenance. The repair and maintenance fund will be recognized as revenue when it is spent. Spartan Shops recognized \$100,000 as operating revenue and recorded it as contributed assets—bookstore and dining services revenue for the depreciated bookstore facility investment for the fiscal year ended June 30, 2023, and \$100,000 each year in the subsequent years through the end of the contract terms.

In the event this agreement is terminated by 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 bookstore facility investment balance as of June 30, 2023 was \$300,000.

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

Note 12 - Dining Services Contract Management

Spartan Shops entered into an agreement with Chartwells, a division of Compass Group USA, to provide the entirety of the food service programming on the SJSU campus. This includes catering, food vending, residential dining, concessions and/or all food preparation, serving dining and storage on the main and south campus, as well as catering services to our offsite Hammer Theatre.

The agreement is effective from July 5, 2018 through June 30, 2037. For the period from July 2018 through June 30, 2022, Spartan Shops retained all revenue from operation and reimbursed Chartwells for the cost of business (referred to as a cost of business model). Cost of business included all Chartwells' labor, cost of all products, merchandise, materials, supplies, and the cost of all other operating expenses including depreciation for the first three years and excluding depreciation for the current fiscal year. Management fee of \$400,000 was paid on year 2 and year 3 only.

Effective July 1, 2022, the services transitioned from a cost of business model to a profit loss basis. Chartwells then began paying commissions to Spartan Shops based on gross sales in accordance with the established commission rates below:

Meal plans	11% until new dining commons open: 12% thereafter
Retail food sales	7%
Catering internal and external	10%
Conference	10%
Spartan Stadium	10%
Hammer Theater	10%
Event Center	10%
Subcontractor Sales	2.5%

Spartan Shops received \$1,198,015 in commission from Chartwells for the fiscal year ended June 30, 2023.

Spartan Shops distributed weekly meal plan funds to Chartwells based on daily rates and usage and recorded \$121,089 as unused meal plan revenue at the end of the 2023 academic year.

In addition to the commission structure above, Chartwells is also committed to fund capital improvements, signing bonus payments, and pre-opening/transition expenses in a total sum not to exceed \$20,877,066 starting from July 2018 through June 2037. The investment will be made throughout the lease term and amortized on a straight-line basis from when the project is placed in service through June 30, 2042, with the exception of a few investment items with a shorter amortization schedule. Spartan Shops shall hold title to items funded by the investment. Based on the amended agreement executed in June 2023, Chartwells funded a \$3,125,000 signing bonus. Due to there being no fixed payment portion of the lease contract each year, a lease receivable and deferred inflow was not recorded related to this lease under GASB 87 and GASB 94.

If the agreement expires 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. For this reason, Spartan Shops has recorded deferred revenue in the amount of the contributed capital assets each year and is amortizing the contributed assets over the remaining lease term when the project is placed in service. 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 a total of \$7,375,000 in signing and partnership bonuses and recorded the amortization of \$281,537 as

Spartan Shops, Inc.

Notes to Financial Statements June 30, 2023

revenue through June 30, 2023. Spartan Shops received \$1,500,000 in advance commission in March 2021. 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, until the original commission advance has been fully credited against Spartan Shops earned commissions.

During the year ended June 30, 2023, Chartwells contributed \$246,883 in capital assets which summed to a total of \$9,444,492 in the capital asset investment. Of this total investment of \$9,444,492, Spartan Shops amortized \$2,111,405 of contributed capital assets through June 30, 2023, resulting in unearned revenue remaining of \$7,333,088. During the fiscal year that ended on June 30, 2023, \$536,332 of unearned revenue related to Chartwells' capital investments was recorded as contributed assets—bookstore and dining services based on the remaining term of the lease.

As part of the agreement, Chartwells shall provide in-kind contribution of food services with annual retail value of \$160,000. The SJSU campus received \$143,808 of retail food services as a result of the aforementioned in-kind contribution for the fiscal year that ended on June 30, 2023.

Note 13 - Subsequent Events

In June 2023, Spartan Shops signed amendment four (4) with Chartwells, which became effective July 1, 2023. In accordance with amendment four (4), Chartwells shall pay a facility use fee in the amount of \$425,000 in fiscal year 2023-2024, and the commission rate model will transition to a flat rate for all gross sales as described in the tiered rate structure below:

Gross Sales	Fiscal/Academic Year 23/24	All Subsequent Years
\$0 - \$22,500,000	4.75%	6.00%
\$22,501,000 - \$25,000,000	15.50%	15.50%
\$25,001,000 - \$100,000,000	20.50%	20.50%

Spartan Shops will also receive a second commission advance of \$840,000. An annual amount of \$60,000 shall be offset against Spartan Shops earned commissions until the advance has been fully credited. Furthermore, for the 2023-2024 academic year, Chartwells shall pay an annual value of \$301,000 towards the repair and maintenance fund, with a 3% annual escalation rate in each subsequent contract year.

Spartan Shops, Inc.

Schedule of Changes in the Net OPEB Liability and Related Ratios June 30, 2023

	2023	2022	2021	2020	2019	2018
Total OPEB liability						
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 59,490	\$ 57,617
Interest	24,355	25,727	32,175	38,328	25,231	25,600
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(78,051)	-	(180,926)	-	(201,421)	-
Changes in assumptions	19,831	-	(245,681)	54,046	(298,414)	-
Benefit payments	(86,184)	(113,503)	(101,690)	(130,513)	(133,652)	(110,302)
Net change in total OPEB liability	(120,049)	(87,776)	(496,122)	(38,139)	(548,766)	(27,085)
Total OPEB liability - beginning	1,359,605	1,447,381	1,943,503	1,981,642	2,530,408	2,557,493
Total OPEB liability - ending (a)	\$ 1,239,556	\$ 1,359,605	\$ 1,447,381	\$ 1,943,503	\$ 1,981,642	\$ 2,530,408
Plan fiduciary net position						
Contributions - employer	\$ -	\$ 27,048	\$ 12,616	\$ 36,465	\$ 37,962	\$ 110,302
Net investment income	83,403	3,226	3,149	33,820	50,076	218,853
Benefit payments	(86,184)	(113,208)	(101,376)	(130,513)	(133,652)	(110,302)
Administrative expense	(10,803)	(15,878)	(11,816)	(1,500)	(1,525)	(7,093)
Net change in plan fiduciary net position	(13,584)	(98,812)	(97,427)	(61,728)	(47,139)	211,760
Plan fiduciary net position - beginning	2,336,721	2,435,533	2,532,960	2,594,688	2,641,827	2,430,067
Plan fiduciary net position - ending (b)	\$ 2,323,137	\$ 2,336,721	\$ 2,435,533	\$ 2,532,960	\$ 2,594,688	\$ 2,641,827
Net OPEB liability (asset) - ending (a)-(b)	\$ (1,083,581)	\$ (977,116)	\$ (988,152)	\$ (589,457)	\$ (613,046)	\$ (111,419)
Plan fiduciary net position as a percentage of the total OPEB liability	187%	172%	168%	130%	131%	104%
Covered payroll	NA	NA	NA	NA	NA	\$ 265,697
Net OPEB liability as a percentage of covered payroll	NA	NA	NA	NA	NA	-41.93%

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

Covered payroll is N/A in 2023, 2022, 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 OPEB Contributions June 30, 2023

	2023	2022	2021	2020	2019	2018
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	27,048	12,616	36,465	37,962	110,302
Contribution deficiency (excess)	\$ -	\$ (27,048)	\$ (12,616)	\$ (36,465)	\$ (37,962)	\$ (110,302)
Covered payroll	NA	NA	NA	NA	NA	\$ 265,697
Contributions as a percentage of covered payroll	NA	NA	NA	NA	NA	41.51%

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

Covered payroll is N/A in 2023, 2022, 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.

Notes to schedule:

Valuation date: 6/30/2023

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	N/A; fully funded
Amortization period	N/A; fully funded
Asset valuation method	Market value of assets as of the measurement date
Inflation	2.50%
Health care cost trend rates at June 30, 2023	6.20% in 2025 fluctuating down to 3.9% by 2075
Salary increases	N/A; no actives
Investment rate of return	1.85%
Retirement age	N/A; all retired
Mortality	The mortality rates used in this valuation are those used in the most recent 2021 CalPERS study (CalPERS 2017 for June 30, 2022-2019 and CalPERS 2014 for June 30, 2018)
Mortality Improvement	MW Scale 2022 generational
Benefit changes	None
Changes in actuarial assumptions and methods	None

Supplementary Information

Spartan Shops, Inc.

Schedule Net Position June 30, 2023

(for inclusion in the California State University Financial Statements)

Assets:	
Current assets:	
Cash and cash equivalents	2,368,514
Short-term investments	5,185,154
Accounts receivable, net	674,452
Lease receivable, current portion	-
P3 receivable, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	-
Total current assets	8,228,120
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Lease receivable, net of current portion	-
P3 receivable, net of current portion	-
Notes receivable, net of current portion	210,210
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	-
Capital assets, net	9,923,265
Other assets	1,083,581
Total noncurrent assets	11,217,056
Total assets	19,445,176
Deferred outflows of resources:	
Unamortized loss on debt refunding	-
Net pension liability	-
Net OPEB liability	54,915
Leases	-
P3	-
Others	-
Total deferred outflows of resources	54,915
Liabilities:	
Current liabilities:	
Accounts payable	3,892,025
Accrued salaries and benefits	4,043
Accrued compensated absences, current portion	-
Unearned revenues	838,248
Lease liabilities, current portion	-
SBITA liabilities - current portion	-
P3 liabilities - current portion	-
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	273,195
Total current liabilities	5,007,511
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenues	14,555,096
Grants refundable	-
Lease liabilities, net of current portion	-
SBITA liabilities, net of current portion	-
P3 liabilities, 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	14,555,096
Total liabilities	19,562,607
Deferred inflows of resources:	
P3 service concession arrangements	-
Net pension liability	-
Net OPEB liability	32,857
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Lease	-
P3	-
Others	-
Total deferred inflows of resources	32,857
Net position:	
Net investment in capital assets	9,923,265
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	-
Unrestricted	(10,018,638)
Total net position	(95,373)

Spartan Shops, Inc.

Schedule Revenues, Expenses and Changes Net Position Year Ended June 30, 2023 (for inclusion in the California State University Financial Statements)

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	335,069
Scholarship allowances (enter as negative)	-
Other operating revenues	<u>2,836,052</u>
Total operating revenues	<u>3,171,121</u>
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	-
Academic support	-
Student services	-
Institutional support	-
Operation and maintenance of plant	-
Student grants and scholarships	-
Auxiliary enterprise expenses	4,834,838
Depreciation and amortization	<u>1,145,503</u>
Total operating expenses	<u>5,980,341</u>
Operating income (loss)	<u>(2,809,220)</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	141,259
Endowment income (loss), net	-
Interest expense	-
Other nonoperating revenues (expenses)	<u>(39,127)</u>
Net nonoperating revenues (expenses)	<u>102,132</u>
Income (loss) before other revenues (expenses)	<u>(2,707,088)</u>
State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	<u>-</u>
Increase (decrease) in net position	(2,707,088)
Net position:	
Net position at beginning of year, as previously reported	2,611,715
Restatements	<u>-</u>
Net position at beginning of year, as restated	<u>2,611,715</u>
Net position at end of year	<u>(95,373)</u>

Spartan Shops, Inc.

Other Information

June 30, 2023

(for inclusion in the California State University Financial Statements)

1 Cash and cash equivalents:

Current cash and cash equivalents	2,368,514
Total	\$ 2,368,514

2.1 Composition of investments:

Investment Type	Current	Noncurrent	Total
Money market funds	\$ 1,168,971		1,168,971
Mutual funds	882,371		882,371
CSU Consolidated Investment Pool (formerly SWIFT)	3,133,812		3,133,812
Total other investments	-	-	-
Total investments	5,185,154	-	5,185,154
Less endowment investments (enter as negative number)	-	-	-
Total investments, net of endowments	\$ 5,185,154	-	5,185,154

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	\$ 1,168,971	1,168,971			
Mutual funds	882,371	882,371			
CSU Consolidated Investment Pool (formerly SWIFT)	3,133,812				3,133,812
Total other investments	-	-	-	-	-
Total investments	\$ 5,185,154	2,051,342	-	-	3,133,812

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):	\$ 3,133,812	-	\$ 3,133,812

Spartan Shops, Inc.

Other Information
June 30, 2023

(for inclusion in the California State University Financial Statements)

3.1 Capital Assets, excluding ROU assets:

<u>Composition of capital assets, excluding ROU assets:</u>	Balance June 30, 2022	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2022 (Restated)	Additions	Retirements	Transfer of completed CWIP/PWIP	Balance June 30, 2023
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)	758,789				758,789	84,982	(127,463)	(135,693)	580,615
Total Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	\$ 3,068,789	-	-	-	\$ 3,068,789	84,982	(127,463)	(135,693)	2,890,615
Depreciable/Amortizable capital assets:									
Buildings and building improvements	1,763,726				1,763,726				1,763,726
Leasehold improvements	7,250,190				7,250,190	18,540	(2,325)	135,693	7,402,098
Personal property:									
Equipment	7,974,662				7,974,662	143,361	(280,766)		7,837,257
Library books and materials	-				-				-
Intangible assets:									
Software and websites	108,021				108,021				108,021
Licenses and permits	12,016				12,016				12,016
Other intangible assets:									
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	120,037	-	-	-	120,037	-	-	-	120,037
Total depreciable/amortizable capital assets	17,108,615	-	-	-	17,108,615	161,901	(283,091)	135,693	17,123,118
Total capital assets	\$ 20,177,404	-	-	-	\$ 20,177,404	246,883	(410,554)	-	20,013,733
Less accumulated depreciation/amortization:									
Buildings and building improvements	\$ (1,219,813)				\$ (1,219,813)	(62,288)			(1,282,101)
Leasehold improvements	(1,909,417)				(1,909,417)	(533,612)	1,608		(2,441,421)
Personal property:									
Equipment	(5,916,640)				(5,916,640)	(548,793)	218,524		(6,246,909)
Library books and materials	-				-				-
Intangible assets:									
Software and websites	(107,212)				(107,212)	(809)			(108,021)
Licenses and permits	(12,015)				(12,015)	(1)			(12,016)
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	(119,227)	-	-	-	(119,227)	(810)	-	-	(120,037)
Total accumulated depreciation/amortization	(9,165,097)	-	-	-	(9,165,097)	(1,145,503)	220,132	-	(10,090,468)
Total capital assets, net excluding ROU assets	\$ 11,012,307	-	-	-	\$ 11,012,307	(898,620)	(190,422)	-	9,923,265
Total capital assets, net including ROU assets									\$ 9,923,265

Spartan Shops, Inc.

Other Information
June 30, 2023

(for inclusion in the California State University Financial Statements)

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense - capital assets, excluding ROU assets	\$	1,145,503
Depreciation and Amortization expense - Others		
Total depreciation and amortization	\$	1,145,503

4 Long-term liabilities:

Not Applicable

5 Future minimum payments schedule - leases, SBITA, P3:

Not Applicable

6 Future minimum payments schedule - Long-term debt obligations:

Not Applicable

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$	580,962
Payments to University for other than salaries of University personnel		1,777,433
Payments received from University for services, space, and programs		13,786,518
Accounts payable to University		(1,818,789)

8 Restatements

Not Applicable

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
Auxiliary enterprise expenses	-	-	-	(54,471)		4,889,309		4,834,838
Depreciation and amortization							1,145,503	1,145,503
Total operating expenses	\$ -	-	-	(54,471)	-	4,889,309	1,145,503	\$ 5,980,341

No pension plan reported

N/A

Spartan Shops, Inc.

Other Information

June 30, 2023

(for inclusion in the California State University Financial Statements)

10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources

Deferred outflows - net OPEB liability	54,915
Total deferred outflows - others	-
Total deferred outflows of resources	\$ 54,915

2. Deferred Inflows of Resources

Deferred inflows - net OPEB liability	32,857
Total deferred inflows - others	-
Total deferred inflows of resources	\$ 32,857

11 Other nonoperating revenues (expenses)

Other nonoperating revenues	
Other nonoperating (expenses)	(39,127)
Total other nonoperating revenues (expenses)	\$ (39,127)

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Spartan Shops, Inc.
(A California State University Auxiliary Organization)

We have audited, 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, the financial statements of the business-type activities and the aggregate remaining fund information of Spartan Shops, Inc. ("Spartan Shops") as of June 30, 2023, and the related notes to the financial statements, which collectively comprise Spartan Shops' basic financial statements, and have issued our report thereon dated September 29, 2023, which includes an other matter paragraph as indicated on page 2.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.

CohnReznick LLP

Los Angeles, California
September 29, 2023



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