

FORTY-NINER SHOPS, INC.
FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Forty-Niner Shops, Inc.
California State University, Long Beach

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Forty Niner Shops, Inc. (a California Nonprofit Corporation) which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Forty Niner Shops, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 the Organization 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.

Responsibilities of Management 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 opinion. 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 generally accepted auditing standards 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 generally accepted auditing standards 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 Forty Niner 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 the Forty Niner 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary Information

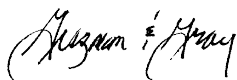
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The following schedules are presented for purposes of additional analysis and are not a required part of the financial statements:

- Schedule of Enterprise Activities
- Schedule of Net Position
- Schedule of Revenues, Expenses and Changes in Net Position
- Schedule of Other Information

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2022 on our consideration of Forty Niner 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 the Forty Niner 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 the Forty Niner Shops, Inc.'s internal control over financial reporting and compliance.



Guzman & Gray, CPAs
Long Beach, California
September 16, 2022

FORTY-NINER SHOPS, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	JUNE 30,	
	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,962,930	\$ 4,904,009
Accounts receivable	1,160,212	1,158,232
Accounts receivable, CSULB	577,993	302,353
Inventories	1,073,158	1,031,915
Prepaid expenses	18,897	50,797
	7,793,190	7,447,306
 CAPITAL ASSETS, net of accumulated		
Depreciation	5,399,106	6,192,359
 OTHER ASSETS		
Investments	8,640,025	10,512,158
Overfunded pension obligation	32,738	
Overfunded post-retirement medical benefits	1,035,113	13,331
	9,707,876	10,525,489
 TOTAL ASSETS	 \$ 22,900,172	 \$24,165,154

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENTS OF FINANCIAL POSITION (CONTINUED)

LIABILITIES AND NET ASSETS

	JUNE 30,	
	2022	2021
CURRENT LIABILITIES		
Long term debt, current portion	\$ 105,000	\$ 100,000
Accounts payable, trade	318,626	135,578
Accounts payable, CSULB	197,822	145,848
Refundable campus debit card deposits	744,336	447,862
Accrued liabilities	309,422	734,528
Accrued payroll and related expenses	92,110	38,101
Accrued vacation	496,150	482,726
Accrued sick pay	969,672	857,450
Pension obligation, current		477,775
	3,233,138	3,419,868
NONCURRENT LIABILITIES		
Long term debt, net of current portion	2,839,722	2,957,531
Paycheck Protection Program Forgivable Loan		2,000,000
Pension obligation, net of current portion		4,028,777
	2,839,722	8,986,308
Total Liabilities	6,072,860	12,406,176
NET ASSETS		
Without Donor Restrictions		
Invested in capital assets	2,454,384	3,134,828
Board designated	4,793,818	11,726,202
Undesignated (Deficit)	9,579,110	(3,102,052)
Total Net Assets	16,827,312	11,758,978
TOTAL LIABILITIES AND NET ASSETS	\$ 22,900,172	\$ 24,165,154

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENTS OF ACTIVITIES

	JUNE 30,	
	2022	2021
ENTERPRISE OPERATING REVENUES		
Sales	\$ 25,006,256	\$ 10,263,290
Commission	1,783,537	1,481,619
Vending		4,099
Other	<u>154,071</u>	<u>4,853</u>
	<u>26,943,864</u>	<u>11,753,861</u>
ENTERPRISE OPERATING EXPENSES		
Cost of sales	10,601,776	6,389,735
Programs	12,235,775	7,836,789
General and administrative	<u>4,203,561</u>	<u>2,814,061</u>
	<u>27,041,112</u>	<u>17,040,585</u>
ENTERPRISE OPERATING GAIN(LOSS)	<u>(97,248)</u>	<u>(5,286,724)</u>
NONOPERATING INCOME (EXPENSE)		
Interest imputed from net loan premiums and costs	12,809	12,809
Interest expense	(130,608)	(135,525)
Investment income, net	(1,958,524)	3,024,312
Paycheck Protection Program	2,000,000	2,000,000
Net (loss) on disposal of fixed assets	<u>(76,323)</u>	<u>(87,299)</u>
	<u>76,323</u>	<u>4,814,297</u>
NONMANDATORY TRANSFERS TO UNIVERSITY		
Contributions to University and University programs	<u>(70,891)</u>	<u>(89,033)</u>
PENSION AND POSTRETIREMENT BENEFIT RELATED CHANGES	<u>5,312,796</u>	<u> </u>
INCREASE(DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 5,068,334</u>	<u>(\$ 561,460)</u>

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENT OF ACTIVITIES (CONTINUED)

	FOR THE YEARS ENDED	
	JUNE 30,	
	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING	\$ 11,758,978	\$ 12,320,438
INCREASE(DECREASE) IN NET ASSETS	<u>5,068,334</u>	<u>(561,460)</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, ENDING	<u>\$ 16,827,312</u>	<u>\$ 11,758,978</u>

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAMS						GENERAL AND ADMINISTRATIVE	TOTAL
	BOOKSTORE	CONVENIENCE STORE	ID CARD SERVICES	RESIDENCE HALL	RETAIL DINING	TOTAL		
OPERATING EXPENSES								
Salaries and wages	\$ 2,111,400	\$ 166,913	\$ 176,605	\$ 2,659,636	\$ 844,227	\$ 5,958,781	\$ 1,320,404	\$ 7,279,185
Employee benefits	575,625	44,017	52,506	994,971	352,398	2,019,517	2,219,022	4,238,539
Advertising and promotions	20,166	625	383	5,580	3,465	30,219	4,849	35,068
Bad debts	90	(124)	-	(4)	(32)	(70)	-	(70)
Bank and credit card fees	149,253	22,487	4,389	1,977	54,449	232,555	16,638	249,193
Board	-	-	-	-	-	-	36,852	36,852
Depreciation	319,942	78,171	-	9,120	404,075	811,308	50,359	861,667
Discounts and markdowns	2,019	-	-	-	-	2,019	-	2,019
Donations	9,818	-	-	-	-	9,818	27,769	37,587
Employees' appreciation	6,182	16	-	326	376	6,900	895	7,795
Equipment rental	20,411	30	-	11,480	11,938	43,859	2,279	46,138
Freight out and postage	(38,548)	-	1	-	-	(38,547)	1,876	(36,671)
General expenses	6,971	4,019	-	19,158	53,114	83,262	8,564	91,826
Insurance	58,741	3,538	421	63	68,430	131,193	5,719	136,912
Professional services	18,747	-	-	-	512	19,259	119,591	138,850
R/H commissions	-	-	-	925,163	-	925,163	-	925,163
Rent	73,200	-	9,600	-	22,200	105,000	-	105,000
Repairs and maintenance	174,090	9,156	131,140	56,356	130,747	501,489	287,958	789,447
Royalties and commissions	85,971	4,368	-	-	8,200	98,539	-	98,539
Services	70,241	17,620	-	204,834	113,526	406,221	11,291	417,512
Subscriptions and dues	7,456	-	935	-	7,528	15,919	9,456	25,375
Supplies	159,480	6,697	48,739	331,040	38,359	584,315	48,281	632,596
Telephone and data lines	23,499	2,004	506	8,694	7,876	42,579	27,816	70,395
Training	6,919	320	2,000	17,737	511	27,487	3,912	31,399
Travel	2,723	-	-	970	141	3,834	30	3,864
Utilities	92,259	658	-	-	122,239	215,156	-	215,156
TOTAL EXPENSES	\$ 3,956,655	\$ 360,515	\$ 427,225	\$ 5,247,101	\$ 2,244,279	\$ 12,235,775	\$ 4,203,561	\$ 16,439,336

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	PROGRAMS							TOTAL	GENERAL AND ADMINISTRATIVE	TOTAL
	BOOKSTORE	CONVENIENCE STORE	ID CARD SERVICES	FOOD SERVICES		TOTAL	TOTAL			
				RESIDENCE HALL	RETAIL DINING					
OPERATING EXPENSES										
Salaries and wages	\$ 1,214,430	\$ 422,715	\$ 164,212	\$ 1,232,995	\$ 349,331	\$ 3,383,683	\$ 1,143,105	\$ 4,526,788		
Employee benefits	477,689	158,055	51,863	923,542	249,135	1,860,284	1,080,417	2,940,701		
Advertising and promotions	5,359	14,202	-	1,605	486	21,652	2,150	23,802		
Bad debts	5,215	3	-	54	13	5,285	-	5,285		
Bank and credit card fees	88,876	2,568	872	424	7,848	100,588	6,998	107,586		
Board	-	-	-	-	-	-	15,246	15,246		
Depreciation	372,474	108,115	-	8,573	437,796	926,958	85,884	1,012,842		
Discounts and markdowns	(15)	-	-	-	-	(15)	-	(15)		
Employees' appreciation	709	-	-	25	10	744	81	825		
Equipment rental	18,767	617	-	7,091	7,592	34,067	2,599	36,666		
Freight out and postage	(72,552)	143	2	-	(2)	(72,409)	1,265	(71,144)		
General expenses	(535)	2,908	1	10,437	7,631	20,442	579	21,021		
Insurance	53,468	2,922	348	71	61,796	118,605	5,175	123,780		
Professional services	-	300	-	-	-	300	108,066	108,366		
R/H commissions	-	-	-	71,608	-	71,608	-	71,608		
Rent	73,200	-	9,600	-	22,200	105,000	-	105,000		
Repairs and maintenance	161,286	3,416	154,932	30,342	81,365	431,341	286,994	718,335		
Royalties and commissions	16,177	35,345	-	-	-	51,522	-	51,522		
Services	50,697	3,353	-	140,581	65,085	259,716	7,445	267,161		
Subscriptions and dues	8,332	(206)	-	795	1,179	10,100	10,122	20,222		
Supplies	135,285	5,823	53,092	156,726	(19,539)	331,387	26,772	358,159		
Telephone and communications	26,449	7,143	1,973	6,218	7,423	49,206	25,129	74,335		
Training	996	-	-	1,280	413	2,689	5,225	7,914		
Travel	926	114	-	160	332	1,532	809	2,341		
Utilities	70,355	6,105	-	-	46,044	122,504	-	122,504		
TOTAL EXPENSES	\$ 2,707,588	\$ 773,641	\$ 436,895	\$ 2,592,527	\$ 1,326,138	\$ 7,836,789	\$ 2,814,061	\$ 10,650,850		

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	JUNE 30,	
	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase(Decrease) in net assets	\$ 5,068,334	(\$ 561,460)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	861,667	1,012,842
Interest imputed from net loan premiums and costs	(12,809)	(12,809)
Forgiveness of Paycheck Protection Program Loan	(2,000,000)	(2,000,000)
Unrealized (gain) loss on investments	2,280,375	(1,844,043)
Realized (gain) loss on investments	(106,567)	(1,025,560)
Net (gain) loss on disposal of fixed assets		87,299
(Increase) decrease in:		
Accounts receivable	(1,980)	1,277
Accounts receivable, CSULB auxiliary organizations		2,624
Accounts receivable, CSULB	(275,640)	100,061
Inventories	(41,243)	763,573
Prepaid expenses	31,900	(7,377)
Overfunded pension obligation	(32,738)	
Overfunded postretirement medical Benefits	(1,021,782)	(13,331)
Increase (decrease) in:		
Accounts payable	183,048	(215,435)
Accounts payable, CSULB	51,974	(736,827)
Refundable campus debit card deposits	296,474	107,925
Accrued liabilities	(425,106)	304,323
Accrued payroll	54,009	(346,493)
Accrued vacation	13,424	20,611
Accrued sick pay	112,222	38,619
Accrued pension obligation		643,727
Accrued postretirement benefits	(4,506,552)	(630,316)
Net Cash Provided by (Used in) Operating Activities	<u>529,010</u>	<u>(4,310,770)</u>

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)

	FOR THE YEARS ENDED	
	JUNE 30,	
	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(68,414)	(257,956)
Purchase of investments	(4,891,067)	(2,685,463)
Proceeds from sale of investments	<u>4,589,392</u>	<u>5,575,259</u>
Net Cash Provided by (Used in) Investment Activities	<u>(370,089)</u>	<u>2,631,840</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term debt	(100,000)	(95,000)
Proceeds from paycheck protection program forgivable loan	<u> </u>	<u>2,000,000</u>
Net Cash Provided by (Used in) Financing Activities	<u>(100,000)</u>	<u>1,905,000</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>58,921</u>	<u>226,070</u>
BEGINNING CASH AND CASH EQUIVALENTS	<u>4,904,009</u>	<u>4,677,939</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 4,962,930</u>	<u>\$ 4,904,009</u>
 SUPPLEMENTAL DISCLOSURE		
CASH PAID FOR		
Cash paid for interest	<u>\$ 130,608</u>	<u>\$ 135,525</u>

See Independent Auditors' Report and Notes to Financial Statements.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Organization is a nonprofit auxiliary organization, organized to operate food services and bookstore activities at California State University, Long Beach for the benefit of the University Campus. The Organization's customer base consists primarily of students enrolled at California State University, Long Beach.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net Assets

The Organization's financial statements are presented in accordance with guidelines established for auxiliary organizations issued by the Office of the Chancellor of the California State University.

Net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization does not have net assets with donor restrictions.

Net assets released from donor restrictions

Net assets are released by incurring expenses satisfying the restriction or occurrence of the other events specified by donors.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments, such as money market funds, that are readily convertible to known amounts of cash within 90 days from the date of purchase. All cash balances are held at major banking and broker institutions.

Investments

The Organization accounts for all investments at fair market value. Net realized, unrealized gains and losses on investments and investment fees are reflected in the statement of activities under investment income, net.

Allowance for Doubtful Accounts

Management provides for the probability of uncollectible amounts through a charge to earnings and a current expected credit losses to an allowance for doubtful accounts based on its assessment, which includes credit history and external events such as current and future political and economic conditions. No allowance for doubtful accounts has been established because management believes that all accounts are collectible and no allowance is needed.

Inventories

Inventories for the bookstore are valued using the lower of cost or market by the average unit cost inventory method of accounting. Inventories for the food service are valued using the lower of cost (first-in, first-out) or market method.

Capital Assets and Depreciation

Capital asset accounts are stated at cost less accumulated depreciation. Betterments and major improvements are added to the respective asset's cost while ordinary repairs that do not extend useful lives are expensed as incurred. All direct and indirect costs incurred in constructing assets are accumulated in an asset account and no depreciation is recognized until the asset is put into operation. When an asset is sold or otherwise disposed of, the cost of the asset and the related accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the statement of activities.

Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the various classes of property which are ten to fifty years for buildings and improvements, five to ten years for equipment, furniture and fixtures, and three to five years for automobiles.

The capitalization thresholds are as follows:

Buildings and building improvements	\$ 10,000
Equipment and furniture	\$ 5,000
Vehicles and other	\$ 5,000

Equipment acquired under capital leases are recorded at the lower of the fair value or the present value of future minimum lease payments. Leases are amortized over their estimated useful lives of five years or the lease term, whichever is shorter. Amortization of equipment acquired under capitalized leases is included with depreciation expense.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Vacation and Sick Pay

Accruals for vacation and sick pay are made on a monthly basis as such benefits become payable to employees. Pay rate increases are applied to the hours earned in prior periods, if any, and are reported as a current expense in the statement of activities.

Debt Issuance Costs

The debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability. Similarly, the discount on premium resulting from the determination of present value shall be reported in the statement of financial position as a direct deduction from or addition to the face amount of the note and shall not be classified as a deferred charge or deferred credit. Amortization of discounts, premiums and debt issuance costs shall be reported as either interest expense or interest income.

Revenue Recognition

The Organization applies the five-step model to contracts when it is probable that the Organization will collect the consideration it is entitled. To determine revenue recognition for arrangements within the scope of ASC Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606"), the Organization performs the following five steps: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when or as the Organization satisfies a performance obligation. The Organization then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied.

A summary of significant revenue recognition policies are as follows:

Bookstore Sales

Bookstore sales revenues are recognized at the point of sale. Web sales are recorded upon delivery to the customer or upon customer pickup at the store.

Commission Fees

Commission fees revenues are recognized when cash is received or when contracted amounts are earned.

Food Service and Dining Sales

Food service and dining sales revenues are recognized at the point of sale.

Vending Machine Sales

Vending Machine sales revenues are recognized when cash is received.

Textbook Rental revenues

Short term textbook rental revenues are generally recognized at the beginning of the lease term and properly recognized within the applicable fiscal year.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates include annual depreciation, the carrying value of property, plant and equipment, estimates of postretirement benefits, timing of income recognition of certain revenues and allowance for doubtful accounts. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Fair Value Measurements

The Organization follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input of assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among their various programs and support services. Expenses that can be identified with a specific program or support services are allocated directly according to their natural expenditure classification. Salaries and wages, employee benefits, employees' appreciation, professional services, service, training and travel are based on time and effort. Certain costs such as advertising and promotional, bad debts, bank and credit card fees, board, discounts and markdowns, freight out and postage, general expenses, inventory adjustments, Residence Hall commissions, royalties and commissions, subscriptions and dues and supplies are allocated based on estimated usage on general and administrative, bookstore, ID card services and food service. Costs related to space include insurance, interest, rent, repairs and maintenance which include maintenance of information and technology and other, telephone and data lines and utilities are allocated on a square footage basis.

Income Taxes

The Organization is exempt from federal income and state franchise taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements, if any.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Evaluations of Subsequent Events by Management

The Organization has evaluated events and transactions for potential recognition or disclosure through September 16, 2022 which represents the date the financial statements were available to be issued.

NOTE 2 – ACCOUNTS RECEIVABLE, CSULB AUXILIARY ORGANIZATIONS

Accounts receivable from CSULB auxiliary organizations are comprised of the following:

	June 30,	
	2022	2021
CSULB	\$ 577,993	\$ 302,353

NOTE 3 – INVENTORIES

Inventories consist of the following:

	June 30,	
	2022	2021
Textbooks	\$ 152,286	\$ 389,059
Computer equipment, supplies and software	114,826	65,122
Supplies	644,312	485,672
Food service	161,734	92,062
	\$ 1,073,158	\$ 1,031,915

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 4 – INVESTMENTS

Investments are recorded at fair market value. The historical and market values are as follows:

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Mutual funds	\$2,042,698	\$1,738,731	\$2,978,680	\$ 3,519,017
Common stocks	3,150,418	5,782,764	3,859,511	5,782,764
Investments in alternative funds	<u>1,124,627</u>	<u>1,118,530</u>	<u>1,129,841</u>	<u>1,210,377</u>
	<u>\$6,317,743</u>	<u>\$8,640,025</u>	<u>\$7,968,032</u>	<u>\$10,512,158</u>

A summary of investment income, net is as follows:

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Dividends and interest	\$ 259,695	\$ 207,801
Net unrealized gain (loss)	(2,280,375)	1,844,043
Net realized gain	106,567	1,025,560
Investment advisory fee	(44,411)	(53,092)
	<u>(\$ 1,958,524)</u>	<u>\$ 3,024,312</u>

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2022:

	<u>Fair Market</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Value</u>			
Investments				
Mutual funds	\$ 1,738,731	\$ 1,738,731		
Common stocks	5,782,764	5,782,764		
Investments in alternative funds	<u>1,118,530</u>		<u>\$1,118,530</u>	
	<u>\$ 8,640,025</u>	<u>\$ 7,521,495</u>	<u>\$1,118,530</u>	<u>NONE</u>

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2021:

	<u>Fair Market</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Value</u>			
Investments				
Mutual funds	\$ 3,519,017	\$ 3,519,017		
Common stocks	5,782,764	5,782,764		
Investments in alternative funds	<u>1,210,377</u>		<u>\$1,210,377</u>	
	<u>\$ 10,512,158</u>	<u>\$ 9,301,781</u>	<u>\$1,210,377</u>	<u>NONE</u>

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 5 - CAPITAL ASSETS

Capital assets and the related accumulated depreciation consist of the following:

	June 30,	
	2022	2021
Buildings and improvements	\$ 19,351,279	\$ 19,351,279
Equipment, furniture and fixtures	6,141,552	6,026,644
Automobiles	46,734	46,734
	25,539,565	25,424,657
Less: accumulated depreciation	(20,140,459)	(19,355,028)
	5,399,106	6,069,629
Construction in progress		122,730
	\$ 5,399,106	\$ 6,192,359

Construction in progress at June 30, 2021 consisted primarily of capital leasehold improvement expenditures for food service facilities which were completed during the current year.

Depreciation expense for the years ended June 30, 2022 and 2021 was \$861,667 and \$1,012,842, respectively.

NOTE 6 – ACCOUNTS PAYABLE, CSULB AUXILIARY ORGANIZATIONS

Accounts payable due to CSULB auxiliary organizations are comprised of the following:

	June 30,	
	2022	2021
CSULB	\$ 197,822	\$ 145,848

NOTE 7 – LONG TERM DEBT

Long term debt is summarized as follows:

	JUNE 30,	
	2022	2021
Note payable to CSU is payable semiannually on May 1 and November 1 of each year including interest and matures May 1, 2039.	\$ 2,745,000	\$ 2,845,000
Unamortized net deferred amount on refinancing	199,722	212,531
Less: Current portion	(105,000)	(100,000)
Noncurrent portion	\$ 2,839,722	\$ 2,957,531

In 2008, the Organization borrowed \$4,110,000 from CSU in connection with the construction of certain food service leasehold improvements. The CSU assisted in financing the construction through the issuance of System wide Revenue Bonds Series 2008A, by the State of California in the amount of \$4,110,000.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 7 – LONG TERM DEBT (Continued)

On April 20, 2016, CSU refinanced \$3,415,000 of the System wide Revenue Bonds Series 2008A by issuing a \$3,125,000 of System wide Revenue Bonds Series 2016A. Interest rates range from 2% to 5% with an average face coupon rate of 4.61% and effective rate of 3.32%. The bonds will mature over the next 23 years with an average maturity of 14.25 years. On May 1, 2016 the loan agreement between the Organization and CSU was amended to reflect the refinancing of the bonds. The Organization is obligated to repay the CSU the amount of the indenture obligations, interest and costs by making payments to the CSU equal to the CSU's debt service on the bonds. The debt obligation is secured by the Organization's revenues.

The future scheduled maturities of long term debt for the next five years and thereafter are as follows:

<u>Year ending June 30,</u>	
2023	\$ 105,000
2024	110,000
2025	115,000
2026	125,000
2027	130,000
Thereafter	<u>2,160,000</u>
	<u>\$2,745,000</u>

NOTE 8 – PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

The Paycheck Protection Program (PPP) allows certain eligible borrowers that previously received a PPP loan to apply for a Second Draw PPP loan with the same general loan terms as their First Draw PPP loan. In April 2021, the Organization received loan proceeds of \$2,000,000 from a local bank under the PPP administered by the SBA as part of the Second Draw PPP loan was recorded as a liability at June 30, 2021 and was forgiven during the current year 2022. The PPP program was established as part of the CARES Act and the SBA can loan a qualifying organization up to 2.5 times the qualifying organization's average monthly payroll expenses.

The loan and accrued interest are forgivable as long as the borrower uses the loan proceeds during the 8 or 24 week covered period it selects for payroll, healthcare benefits, interest on loan obligations incurred before February 15, 2021, rent and utilities as outlined in the loan agreement.

The unforgiven portion of the PPP loan is payable over five years from the disbursement date. Interest on the loan of 1% from the disbursement date which is April 1, 2022. Payments of the principal and interest are deferred until the date the lender receives notification from the SBA of any unforgiven loan amount but not to exceed the final loan forgiveness application due date. Any remaining balance due on the loan must be repaid on or before the maturity date of the loan.

During the year, Organization received full forgiveness from the SBA and recognized the \$2,000,000 as income.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 9 – NET ASSETS WITHOUT RESTRICTIONS

Net assets without restrictions at June 30, are comprised of the following:

	2022	2021
Invested in capital assets	\$ 2,454,384	\$ 3,134,828
Board Designated For:		
PERS unfunded liability		4,506,552
SRB Funding Outpost	2,957,531	3,070,339
SBA PPP 2		2,000,000
Beach Deposits	744,336	447,862
Beach Investment Group	571,951	681,590
AORMA Unemployment Insurance		499,859
Sick pay benefits	520,000	520,000
	4,793,818	11,726,202
Undesignated net assets (Deficit)	9,579,110	(3,102,052)
	\$ 16,827,312	\$ 11,758,978

NOTE 10 - LEASE COMMITMENTS

The Organization leases certain property for the bookstore facility from California State University, Long Beach (CSULB) and other unrelated third parties. The agreement with CSULB require the Organization to manage and operate the facility for the benefit of the University. Some of the leases for the facilities are non-cancellable and expired in 2018 with options to renew each year for five years. Under the terms of these leases, the Organization is required to make monthly lease payments totaling \$11,532 and is responsible for repairs, maintenance, alterations, and insurance. Non-cancellable operating lease agreements with the CSULB and other unrelated third parties for retail and food service facilities commenced in 2015, 2018, 2021 and 2022 and expire in 2023, 2024, and 2027.

Also, the Organization maintains equipment under non-cancellable operating leases. The lease agreements expire between 2024 and 2026.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 10 - LEASE COMMITMENTS (Continued)

Future minimum rental payments required for equipment and facilities under operating leases that have an initial or remaining non-cancellable lease term in excess of one year, as of June 30, 2022 are as follows:

<u>Year ending June 30,</u>	
2023	\$ 122,186
2024	29,886
2025	19,385
2026	11,785
2027	<u>1,145</u>
	<u>\$ 184,387</u>

Rent expense was \$105,000 and \$105,000 for the years ended June 30, 2022 and 2021, respectively.

NOTE 11 – OPERATING AGREEMENTS

The Organization has entered into certain non-cancellable operating agreements with selected food service providers for catering, vending and other food services. Royalties are due to the Organization based on a percentage of monthly gross sales of the Operator or a set annual amount, whichever is greater. Also, the Operators will pay a percent of monthly gross sales for common area maintenance charges. Initial terms of the leases vary from one to five years and have varying expiration dates.

The Organization has also entered into an agreement that contains guaranteed minimum commission payments. Commissions are due to the Organization based on a percentage of qualifying revenues.

The estimated guaranteed annual payments are as follow:

<u>Year ending June 30,</u>	
2023	\$ 135,428
2024	24,945
2025	24,945
2026	24,945
2027	<u>18,345</u>
	<u>\$ 228,608</u>

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 12 - PENSION PLAN (CALPERS)

The Organization participates in a cost-sharing multiple-employer defined benefit plan through the California Public Employees' Retirement System plan (CalPERS) which covers substantially all regular salaried full-time employees of the Organization. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. The Organization's CalPERS Employer Identification Number is 4917586175.

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the California Public Employees' Retirement System Executive Office- 400 P Street – Sacramento, CA 95814.

The recorded unfunded pension liabilities at June 30, 2022 and 2021 were derived from the most recent Accounting Valuation Reports provided by CalPERS. The measurement dates for the reports were June 30, 2021 and 2020, respectively.

The plan's proportionate share of the fiduciary's overfunded accumulated net pension liability as of June 30, 2022 (the measurement date) was \$32,738. The plan's proportionate share of the fiduciary's unfunded accumulated net pension liability as of June 30, 2020 (the measurement date) was \$4,506,552.

The plan's proportionate share of fiduciary net asset position which is the total assets less certain reserve and expense requirements at June 30, 2022 and June 30, 2021 (the measurement dates) were \$28,041,722 and \$23,081,237, respectively.

The actuarially assumed investment return as of June 30, 2021 was 7.15% per annum. The salary scale used assumes salary increases that vary by entry age and service. The total increase in any future year includes an assumed 2.50% inflation rate.

For employees hired before January 1, 2013, the Organization is required to contribute at an actuarially determined rate. For the year ended June 30, 2022 this rate is comprised of 10.88% of the normal cost rate. The active employee contribution rate is 6.91% of annual pay. For employees hired on and after January 1, 2013, the expected employee contribution rates for the years ending June 30, 2022 and 2021 are 6.75% and 8.328%, respectively.

Employer's contribution rates are assumed to increase 10.9% each year for the next five years. Employer's contribution rates may change if plan contracts are amended. Payroll is assumed to increase on average 2.322% each year for the next five years. CalPERS requires a minimum contractual contribution of 10.87% of payroll and either a monthly dollar payment of \$40,799 or an annual lump sum prepayment of \$473,300.

As of the measurement date June 30, 2020, the plan was between 73-83% funded. As of June 30, 2022, management estimated that the total unfunded accrued liability was \$5,595,948.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 12 - PENSION PLAN (CALPERS) (Continued)

During the 2022 fiscal year, the employer and employee contributions were \$279,960 and \$202,261, respectively.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 546,221
2023	593,941
2024	624,598
2025	652,986
2026	595,473
Thereafter	<u>(3,045,957)</u>
	<u>(\$ 32,738)</u>

NOTE 13 - RETIREMENT PLAN (403B)

Effective July 2009, the Organization adopted an Internal Revenue Code 403(b) tax deferred retirement plan for all eligible employees. The plan is a defined contribution plan covering part time and full time employees except for student employees performing specified services, nonresident aliens, and employees who normally work less than twenty hours per week. Each year, participants may contribute an amount or percentage of their base pay by means of payroll deductions up to the elective deferral limit set by law.

The plan provides for an employer matching contribution and an employer non-elective contribution for all employees that have obtained one year of service equivalent to one thousand hours. The Organization may contribute a discretionary percentage up to six percent of the amount of the employees' elective deferral. This contribution is allocated to all participants in proportion to each eligible employee's compensation. For the years ending June 30, 2022 and 2021 the employer contributions amounted to \$53,301 and \$34,386.

NOTE 14 - POST RETIREMENT MEDICAL BENEFITS

The Organization provides post-retirement health care and dental insurance benefits for certain qualified retired employees. Only full-time salaried employees hired prior to January 1, 2009 and that were participating in CalPERS as of January 1, 2009, that terminate employment after attaining five years of service time and have reached age 50 while working for the Organization are eligible for the plan.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 14 - POST RETIREMENT MEDICAL BENEFITS (Continued)

As of June 30, 2022 and 2021 the number of eligible retired employees participating in the plan were 65 and 61, respectively. Currently, there are 7 active employees that could be eligible to participate in the plan in the future.

On September 30, 2011, the board of directors approved the participation in the Auxiliary Multiple Employer VEBA, a consortium of CSU Auxiliary organizations organized to provide retiree health care benefits through a Voluntary Employees Benefit Organization (VEBA) recognized under 501(c)(9). During the years ending June 30, 2022 and June 30, 2021 no contributions were made to the account. During the year ending June 30, 2021 the Organization withdrew \$800,000 from the trust account as reimbursement for the plan's current year medical costs of \$351,431 and future medical costs of \$448,569. Since 2011, the total amount invested in the VEBA Trust was \$4,000,000 and the total amount withdrawn from the VEBA Trust was \$800,000. The assets of the VEBA Trust are invested primarily in equity and fixed income securities. The assets held in the VEBA Trust reduce the accumulated post retirement obligation, as reported in the statement of financial position. As of June 30, 2022 and 2021, the VEBA trust held assets at fair market value of \$5,104,797 and \$6,353,835, respectively.

As of June 30, 2022 and 2021, the accumulated post-retirement benefit obligation amount has been accrued in the statements of financial position.

The following table sets forth the funded status of the plan reconciled to the recorded post-retirement benefits cost recognized in the Organization's financial statements:

	June 30,	
	<u>2022</u>	<u>2021</u>
Accumulated Post Retirement Benefit Obligation		
Retirees	\$ 2,969,974	\$ 3,311,516
Active Employees	<u>1,099,710</u>	<u>3,029,170</u>
	4,069,684	6,340,686
Fair Value of Assets	<u>(5,104,797)</u>	<u>(6,353,835)</u>
Overfunded APBO		
Unamortized gain (loss)	NONE	NONE
Unamortized transition obligation	<u>(1,035,113)</u>	<u>(13,331)</u>
Accrued Post Retirement Benefit Cost (Asset)	<u>(\$ 1,035,113)</u>	<u>(\$ 13,331)</u>

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 14 - POST RETIREMENT MEDICAL BENEFITS (Continued)

	June 30,	
	2022	2021
Reconciliation of Benefit Obligation:		
Benefit obligation at beginning of year	(\$ 13,331)	\$ 630,316
Service cost	194,766	36,000
Interest cost	142,439	315,248
Contributions	NONE	NONE
Withdrawals	NONE	800,000
Asset return loss (gain)	1,249,038	(1,443,464)
Expected Return on assets	(408,143)	NONE
Net Actuarial loss (gain)	(2,199,882)	NONE
Benefits paid	NONE	(351,997)
Balance of (Over) or Under		
Funded Benefit Obligation	(\$1,035,113)	(\$ 13,331)
Pension-related changes other than net periodic pension cost		
Amortization of transition obligation	\$ NONE	\$ NONE
Net gain (loss)	NONE	NONE
	\$ NONE	\$ NONE
Net periodic post retirement benefit cost		
Service cost	\$ 194,766	\$ 36,000
Interest cost	142,439	315,248
Expected return on assets	408,143	NONE
Amortized gain (loss)	NONE	NONE
Net periodic benefit cost	\$ 745,348	\$ 351,248

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation is 3%. The Consumer Price Index assumed is 3% less than the discount rate assumption. Medical costs are assumed to increase 3% during the year beginning July 1, 2022 with the rate of increase decreasing each year thereafter until the year beginning July 1, 2027 and thereafter the Medical Cost trend rate is assumed to be the same as Consumer Price Index Increases.

The Organization's policy is to have an actuarial study of the plan performed every 3 years. The Organization had a study performed in January 2022. The next study is expected to be performed for the fiscal year ending January 1, 2025. The Organization performs its own estimates and assumptions in interim years also taking into consideration past actuarial assumptions.

As of June 30, 2022 the Organization's Post Retirement Medical Benefit Obligation is overfunded by \$1,035,113.

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 14 - POST RETIREMENT MEDICAL BENEFITS (Continued)

A corridor is not used to amortize any actuarial gains and losses.

NOTE 15 – SELF-INSURANCE

The California State University System (System) and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, general liability, industrial and nonindustrial disability, unemployment insurance coverage, and other risk-related programs.

NOTE 16 – REIMBURSEMENTS TO AND FROM CSULB

The Organization paid reimbursements to CSULB for the year ended June 30, 2022 in the amount of \$863,915.

These reimbursements have been included in the financial statements as follows:

Repairs and maintenance	\$ 11,494
Communications	40,380
Allocated general and administrative	65,733
Utilities and rent	488,582
Supplies	26,326
Interest and principal on note payable	<u>231,400</u>
	<u>\$ 863,915</u>

The Organization paid reimbursements to CSULB for the year ended June 30, 2021 in the amount of \$693,102.

These reimbursements have been included in the financial statements as follows:

Repairs and maintenance	\$ 9,454
Communications	45,772
Allocated general and administrative	77,729
Utilities and rent	317,167
Supplies	11,705
Interest and principal on note payable	<u>231,275</u>
	<u>\$ 693,102</u>

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 17 – OTHER RELATED PARTY TRANSACTIONS

The Organization charged CSULB \$462,697 and \$550,302 at June 30, 2022 and 2021, respectively, for reimbursement of expenses to operate the ID Card Services.

CSU and CSULB charges the Organization a fee from 3% to 7% to oversee any on campus construction projects.

NOTE 18 – CONCENTRATIONS, RISKS AND UNCERTAINTIES

Credit Risks

The Organization maintains cash in various financial institutions located in Southern California. All accounts at an insured depository institution, including all non-interest bearing accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000. Investments held by other institutions are covered up to \$500,000 under insurance provided by the Securities Investor Protection Corporation (SIPC). However, the SIPC does not protect against losses in market value.

At times, cash balances in financial institutions may exceed federally insured limits, but management believes the Organization was not exposed to any significant credit risk. Uninsured balances were \$4,626,830 and \$4,701,291 at June 30, 2022, and 2021, respectively.

Market and Interest Rate Risks

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position.

Uncertainties

On June 15, 2022, the California Governor temporarily lifted certain COVID-19 restrictions and put in place a new public health order. California continues to follow certain COVID-19 public health guidance for certain establishments. Any unknown increased risk exposure from the COVID-19 pandemic could have an adverse financial impact on the Organization's programs and business.

NOTE 19 – LIQUIDITY

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ 4,962,930
Accounts receivable	1,160,212
Accounts receivable, CSULB	<u>577,993</u>
	6,701,135
Less amounts unavailable for general expenditure within one year.	<u>(744,336)</u>
Total Financial Assets Available to Management for General Expenditures Within One Year	<u>\$ 5,956,799</u>

FORTY-NINER SHOPS, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 19 – LIQUIDITY (Continued)

The Organization's financial assets have been reduced by refundable campus debit card deposits of \$744,336 since the amount is not available for general use.

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

SUPPLEMENTARY
INFORMATION

FORTY-NINER SHOPS, INC.
SCHEDULE OF ENTERPRISE ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAMS							
	TOTAL	GENERAL AND ADMINISTRATIVE	BOOKSTORE	CONVENIENCE STORE	ID CARD SERVICES	FOOD SERVICES		
						TOTAL	RESIDENCE HALL	RETAIL DINING
ENTERPRISE OPERATING REVENUES								
Sales	\$ 25,006,256	\$ -	\$ 10,694,311	\$ 513,483	\$ 462,697	\$ 13,335,765	\$ 11,768,863	\$ 1,566,902
Contracted revenue and commissions	1,783,537	-	1,541,936	-	12,954	228,647	-	228,647
Other	154,071	-	154,071	-	-	-	-	-
	<u>26,943,864</u>	<u>-</u>	<u>12,390,318</u>	<u>513,483</u>	<u>475,651</u>	<u>13,564,412</u>	<u>11,768,863</u>	<u>1,795,549</u>
COST OF SALES	<u>10,601,776</u>	<u>-</u>	<u>6,915,000</u>	<u>249,050</u>	<u>-</u>	<u>3,437,726</u>	<u>2,812,562</u>	<u>625,164</u>
GROSS PROFIT	<u>16,342,088</u>	<u>-</u>	<u>5,475,318</u>	<u>264,433</u>	<u>475,651</u>	<u>10,126,686</u>	<u>8,956,301</u>	<u>1,170,385</u>
PROGRAM EXPENSES	12,235,775	-	3,956,655	360,515	427,225	7,491,380	5,247,101	2,244,279
SUPPORTING SERVICES EXPENSES	4,203,561	4,203,561	-	-	-	-	-	-
	<u>16,439,336</u>	<u>4,203,561</u>	<u>3,956,655</u>	<u>360,515</u>	<u>427,225</u>	<u>7,491,380</u>	<u>5,247,101</u>	<u>2,244,279</u>
ENTERPRISE OPERATING INCOME(LOSS)	<u>(97,248)</u>	<u>(4,203,561)</u>	<u>1,518,663</u>	<u>(96,082)</u>	<u>48,426</u>	<u>2,635,306</u>	<u>3,709,200</u>	<u>(1,073,894)</u>
NONOPERATING INCOME(EXPENSE)								
Interest imputed from net loan premiums and costs	12,809	12,809	-	-	-	-	-	-
Interest expense	(130,608)	(130,608)	-	-	-	-	-	-
Investment income, net	(1,958,424)	(1,958,424)	-	-	-	-	-	-
Paycheck Protection Program	2,000,000	2,000,000	-	-	-	-	-	-
Contributions to University	(70,891)	(70,891)	-	-	-	-	-	-
Pension and postretirement benefit- related changes other than net periodic cost	5,312,796	5,312,796	-	-	-	-	-	-
Increase(decrease) in net assets without donor restrictions	<u>\$ 5,068,434</u>	<u>\$ 962,121</u>	<u>\$ 1,518,663</u>	<u>\$ (96,082)</u>	<u>\$ 48,426</u>	<u>\$ 2,635,306</u>	<u>\$ 3,709,200</u>	<u>\$ (1,073,894)</u>

See independent auditors' report

FORTY-NINER SHOPS, INC.
SCHEDULE OF ENTERPRISE ACTIVITIES (CONTINUED)

FOR THE YEAR END JUNE 30, 2022

	PROGRAMS							
	TOTAL						FOOD SERVICES	
		GENERAL AND ADMINISTRATIVE	BOOKSTORE	CONVENIENCE STORE	ID CARD SERVICES	TOTAL	RESIDENCE HALL	RETAIL DINING
OPERATING EXPENSES								
Salaries and wages	\$ 7,279,185	\$ 1,320,404	\$ 2,111,400	\$ 166,913	\$ 176,605	\$ 3,503,863	\$ 2,659,636	\$ 844,227
Employee benefits	4,238,539	2,219,022	575,625	44,017	52,506	1,347,369	994,971	352,398
Advertising and promotions	35,068	4,849	20,166	625	383	9,045	5,580	3,465
Bad debts	(70)	-	90	(124)	-	(36)	(4)	(32)
Bank and credit card fees	249,193	16,638	149,253	22,487	4,389	56,426	1,977	54,449
Board	36,852	36,852	-	-	-	-	-	-
Discounts and markdowns	2,019	-	2,019	-	-	-	-	-
Donations	37,587	27,769	9,818	-	-	-	-	-
Employees' appreciation	7,795	895	6,182	16	-	702	326	376
Equipment rental	46,138	2,279	20,411	30	-	23,418	11,480	11,938
Freight out and postage	(36,671)	1,876	(38,548)	-	1	-	-	-
General expenses	91,826	8,564	6,971	4,019	-	72,272	19,158	53,114
Insurance	136,912	5,719	58,741	3,538	421	68,493	63	68,430
Professional services	138,850	119,591	18,747	-	-	512	-	512
R/H commissions	925,163	-	-	-	-	925,163	925,163	-
Rent	105,000	-	73,200	-	9,600	22,200	-	22,200
Repairs and maintenance	789,447	287,958	174,090	9,156	131,140	187,103	56,356	130,747
Royalties and commissions	98,539	-	85,971	4,368	-	8,200	-	8,200
Services	417,512	11,291	70,241	17,620	-	318,360	204,834	113,526
Subscriptions and dues	25,375	9,456	7,456	-	935	7,528	-	7,528
Supplies	632,596	48,281	159,480	6,697	48,739	369,399	331,040	38,359
Telephone and data lines	70,395	27,816	23,499	2,004	506	16,570	8,694	7,876
Training	31,399	3,912	6,919	320	2,000	18,248	17,737	511
Travel	3,864	30	2,723	-	-	1,111	970	141
Utilities	215,156	-	92,259	658	-	122,239	-	122,239
	<u>15,577,669</u>	<u>4,153,202</u>	<u>3,636,713</u>	<u>282,344</u>	<u>427,225</u>	<u>7,078,185</u>	<u>5,237,981</u>	<u>1,840,204</u>
DEPRECIATION								
Depreciation	861,667	50,359	319,942	78,171	-	413,195	9,120	404,075
	<u>861,667</u>	<u>50,359</u>	<u>319,942</u>	<u>78,171</u>	<u>-</u>	<u>413,195</u>	<u>9,120</u>	<u>404,075</u>
TOTAL EXPENSES	<u>\$ 16,439,336</u>	<u>\$ 4,203,561</u>	<u>\$ 3,956,655</u>	<u>\$ 360,515</u>	<u>\$ 427,225</u>	<u>\$ 7,491,380</u>	<u>\$ 5,247,101</u>	<u>\$ 2,244,279</u>

See independent auditors' report

Forty-Niner Shops, Inc. (Long Beach)

Schedule of Net Position

June 30, 2022

(for inclusion in the California State University Financial Statements)

Assets:

Current assets:

Cash and cash equivalents	\$	4,962,930
Accounts receivable, net		1,738,205
Prepaid expenses and other current assets		1,092,055

Total current assets 7,793,190

Noncurrent assets:

Other long-term investments		8,640,025
Capital assets, net		5,399,106
Other assets		1,067,851

Total noncurrent assets 15,106,982

Total assets 22,900,172

Deferred outflows of resources:

Net OPEB liability		-
Others		-

Total deferred outflows of resources -

Liabilities:

Current liabilities:

Accounts payable		1,570,206
Accrued salaries and benefits		1,557,932
Long-term debt obligations, current portion		105,000

Total current liabilities 3,233,138

Noncurrent liabilities:

Long-term debt obligations, net of current portion		2,839,722
--	--	-----------

Total noncurrent liabilities 2,839,722

Total liabilities 6,072,860

Net position:

Net investment in capital assets		2,454,384
Unrestricted		14,372,928

Total net position \$ 16,827,312

See independent auditors' report.

Forty-Niner Shops, Inc. (Long Beach)
Schedule of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2022
(for inclusion in the California State University Financial Statements)

Revenues:

Operating revenues:

Sales and services of auxiliary enterprises, gross	\$ 26,943,864
	26,943,864

Expenses:

Operating expenses:

Auxiliary enterprise expenses	26,179,445
Depreciation and amortization	861,667
	27,041,112

Operating income (loss)	(97,248)
--------------------------------	-----------------

Nonoperating revenues (expenses):

Other federal nonoperating grants, noncapital	2,000,000
Investment income (loss), net	(1,958,524)
Interest expense	(117,799)
Other nonoperating revenues (expenses)	5,241,905

Net nonoperating revenues (expenses)	5,165,582
---	------------------

Income (loss) before other revenues (expenses)	5,068,334
---	------------------

Increase (decrease) in net position	5,068,334
--	------------------

Net position:

Net position at beginning of year, as previously reported	11,758,978
	11,758,978
Net position at end of year	\$ 16,827,312

See independent auditors' report.

Forty-Niner Shops, Inc. (Long Beach)
Other Information
June 30, 2022
(for inclusion in the California State University Financial Statements)

3.1 Composition of capital assets:

	Balance June 30, 2021	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2021 (Restated)	Additions	Retirements	Transfer of completed CWIP/PWIP	Balance June 30, 2022
Non-depreciable/Non-amortizable capital assets:									
Land and land improvements					\$ -				\$ -
Works of art and historical treasures					-				-
Construction work in progress (CWIP)	122,730				122,730			(122,730)	-
Intangible assets:									
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Intangible assets in progress (PWIP)					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total non-depreciable/non-amortizable capital assets	\$ 122,730	-	-	-	\$ 122,730	-	-	(122,730)	\$ -
Depreciable/Amortizable capital assets:									
Buildings and building improvements	19,313,615	37,664			19,351,279				19,351,279
Improvements, other than buildings	37,664	(37,664)			-				-
Infrastructure					-				-
Leasehold improvements					-				-
Personal property:									
Equipment	6,073,379			(1)	6,073,378	68,416	(76,238)	122,730	6,188,286
Library books and materials					-				-
Intangible assets:									
Software and websites					-				-
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-	-	-
Total depreciable/amortizable capital assets	25,424,658	-	-	(1)	25,424,657	68,416	(76,238)	122,730	25,539,565
Total capital assets	\$ 25,547,388	-	-	(1)	\$ 25,547,387	68,416	(76,238)	-	\$ 25,539,565

See independent auditors' report.

Forty-Niner Shops, Inc. (Long Beach)
Other Information
June 30, 2022
(for inclusion in the California State University Financial Statements)

Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)

Buildings and building improvements	(13,929,367)	(37,664)		(13,967,031)	(530,437)		(14,497,468)
Improvements, other than buildings	(37,664)	37,664		-			-
Infrastructure				-			-
Leasehold improvements				-			-
Personal property:							
Equipment	(5,387,998)		(1)	(5,387,999)	(331,230)	76,238	(5,642,991)
Library books and materials				-			-
Intangible assets:							
Software and websites				-			-
Rights and easements				-			-
Patents, copyrights and trademarks				-			-
Licenses and permits				-			-
Other intangible assets:				-			-
Total Other intangible assets:	-	-	-	-	-	-	-
Total intangible assets	-	-	-	-	-	-	-
Total accumulated depreciation/amortization	(19,355,029)	-	(1)	(19,355,030)	(861,667)	76,238	(20,140,459)
Total capital assets, net excluding lease assets	\$ 6,192,359	-	-	(2) \$ 6,192,357	(793,251)	-	5,399,106

Lease assets, net

Total capital assets, net

5,399,106

Composition of lease assets:

	Balance June 30, 2021	Additions	Remeasurements	Reductions	Balance June 30, 2022
Non-depreciable/Non-amortizable lease assets:					
Land and land improvements	-				-
Total non-depreciable/non-amortizable lease assets	-	-	-	-	-
Depreciable/Amortizable lease assets:					
Land and land improvements	-				-
Buildings and building improvements	-				-
Improvements, other than buildings	-				-
Infrastructure	-				-
Personal property:					
Equipment	-				-
Total depreciable/amortizable lease assets	-	-	-	-	-
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)					
Land and land improvements	-				-
Buildings and building improvements	-				-
Improvements, other than buildings	-				-
Infrastructure	-				-
Personal property:					
Equipment	-				-
Total accumulated depreciation/amortization	-	-	-	-	-
Total lease assets, net	\$ -	-	-	-	\$ -

Forty-Niner Shops, Inc. (Long Beach)
Other Information
June 30, 2022
(for inclusion in the California State University Financial Statements)

3.2 Detail of depreciation and amortization expense:
Depreciation and amortization expense related to capital assets
Amortization expense related to other assets
Total depreciation and amortization

	\$	861,667
	\$	861,667

4 Long-term liabilities:

	Balance June 30, 2021	Prior Period Adjustments/Reclassifications	Balance June 30, 2021 (Restated)	Additions	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion
1. Accrued compensated absences	-		-			-		-
2. Claims liability for losses and loss adjustment expenses	-		-			-		-
3. Capital lease obligations:								
Gross balance	-		-			-		-
Unamortized net premium/(discount)	-		-			-		-
Total capital lease obligations	\$ -		-			-		-
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	-		-			-		-
4.2 Commercial paper	-		-			-		-
4.3 Notes payable (SRB related)	2,845,000		2,845,000		(100,000)	2,745,000	105,000	2,640,000
4.4 Others:								
Paycheck Protection Program Forgivable Loan	2,000,000		2,000,000		(2,000,000)	-		-
	-		-			-		-
	-		-			-		-
Total others	2,000,000	-	2,000,000	-	(2,000,000)	-		-
Sub-total long-term debt	\$ 4,845,000		4,845,000		(2,100,000)	\$ 2,745,000	105,000	2,640,000
4.5 Unamortized net bond premium/(discount)	212,531		212,531		(12,809)	199,722		199,722
Total long-term debt obligations	5,057,531		5,057,531		(2,112,809)	2,944,722	105,000	2,839,722

-Should be zero-

5. Lease Liabilities

Total long-term liabilities						2,944,722	105,000	2,839,722
	Balance June 30, 2021	Additions	Remeasurements	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion	
Lease liabilities	-				-			-
Total	\$ -				-			-

Forty-Niner Shops, Inc. (Long Beach)
Other Information
June 30, 2022
(for inclusion in the California State University Financial Statements)

5 Lease Liabilities schedule:

	Lease Liabilities related to SRB			All other lease liabilities			Total lease liabilities		
	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:									
2023	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-	-
2028 - 2032	-	-	-	-	-	-	-	-	-
2033 - 2037	-	-	-	-	-	-	-	-	-
2038 - 2042	-	-	-	-	-	-	-	-	-
2043 - 2047	-	-	-	-	-	-	-	-	-
2048 - 2052	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum lease payments	\$ -	-	-	-	-	-	-	-	-
Less: amounts representing interest									-
Present value of future minimum lease payments									-
Total lease liabilities									-
Less: current portion									-
Lease liabilities, net of current portion									\$ -

6 Long-term debt obligations schedule:

	Auxiliary revenue bonds (non-SRB related)			All other long-term debt obligations			Total long-term debt obligations		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30:									
2023	-	-	-	105,000	126,275	231,275	105,000	126,275	231,275
2024	-	-	-	110,000	120,900	230,900	110,000	120,900	230,900
2025	-	-	-	115,000	115,275	230,275	115,000	115,275	230,275
2026	-	-	-	125,000	109,275	234,275	125,000	109,275	234,275
2027	-	-	-	2,290,000	729,175	3,019,175	2,290,000	729,175	3,019,175
2028 - 2032	-	-	-	-	-	-	-	-	-
2033 - 2037	-	-	-	-	-	-	-	-	-
2038 - 2042	-	-	-	-	-	-	-	-	-
2043 - 2047	-	-	-	-	-	-	-	-	-
2048 - 2052	-	-	-	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	-	-	2,745,000	1,200,900	3,945,900	2,745,000	1,200,900	3,945,900
Less: amounts representing interest									(1,200,900)
Present value of future minimum payments									2,745,000
Unamortized net premium/(discount)									199,722
Total long-term debt obligations									2,944,722
Less: current portion									(105,000)
Long-term debt obligations, net of current portion									2,839,722

Forty-Niner Shops, Inc. (Long Beach)
Other Information
June 30, 2022
(for inclusion in the California State University Financial Statements)

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs

Payments to University for other than salaries of University personnel \$ 863,915.00

Payments received from University for services, space, and programs \$ 5,773,987.00

Gifts-in-kind to the University from discretely presented component units \$ 70,891.00

Gifts (cash or assets) to the University from discretely presented component units

Accounts (payable to) University (enter as negative number) \$ (197,822.00)

Other amounts (payable to) University (enter as negative number)

Accounts receivable from University (enter as positive number) \$ 577,993.00

Other amounts receivable from University (enter as positive number)

8 Restatements

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

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

Forty-Niner Shops, Inc. (Long Beach)
Other Information
June 30, 2022
(for inclusion in the California State University Financial Statements)

9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Instruction	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Public service	-	-	-	-	-	-	-	-
Academic support	-	-	-	-	-	-	-	-
Student services	-	-	-	-	-	-	-	-
Institutional support	-	-	-	-	-	-	-	-
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	-	-	-	-
Auxiliary enterprise expenses	7,279,185	4,130,117	279,854	(171,432)	-	14,661,721	-	26,179,445
Depreciation and amortization	-	-	-	-	-	-	861,667	861,667
Total operating expenses	\$ 7,279,185	4,130,117	279,854	(171,432)	-	14,661,721	861,667	27,041,112

10 Deferred outflows/inflows of resources:

1. Deferred Outflows of Resources

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

Total deferred outflows - others

-

Total deferred outflows of resources

\$ -

2. Deferred Inflows of Resources

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

Total deferred inflows - others

-

Total deferred inflows of resources

\$ -

11 Other nonoperating revenues (expenses)

Other nonoperating revenues	
Other nonoperating (expenses)	5,241,905
Total other nonoperating revenues (expenses)	\$ 5,241,905

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

To the Board of Directors of
Forty Niner Shops, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Forty Niner Shops, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2022.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

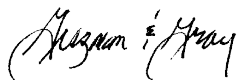
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (Continued)*

Report on Compliance and Other Matters

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

Purpose of this Report

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



Guzman & Gray, CPAs
Long Beach, CA
September 16, 2022