

## MINUTES

FORTY-NINER SHOPS, INC.

FINANCE & INVESTMENT COMMITTEE

**Friday, September 17, 2021 – Zoom Conference Meeting**

(Exception Made Due to Covid-19 Issues & Campus Safety Precautions)

**Members Present:** Mr. Scott Apel, Chair Dr. Praveen Soni  
Dr. Beth Lesen Mr. John Barcelona

**Staff Present:** Mr. Robert de Wit, Interim General Manager/Controller  
Mr. Tom Collier, Accounting Manager  
Ms. Marianne Russo, Executive Secretary

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**A. Call to Order:**

The meeting was called to order at 8:32 a.m. by Chair, Scott Apel

**B. Approval of the Agenda:** September 17, 2021

- Mr. Apel requested to have the Agenda amended to include Mr. John Barcelona, our new ASI Vice President of Finance, as a member of the F&I Committee

Motion to accept the Agenda as amended.

M/S Dr. Lesen / Dr. Soni

By acclamation the Agenda for the meeting of September 17, 2021 was hereby approved as amended.

**C. Approval of Minutes:** May 14, 2021

Motion to accept the Minutes as presented.

M/S Dr. Soni / Dr. Lesen

By acclamation the minutes of May 14, 2021 were hereby approved as presented.

**D. Action Items:** 4th Quarter 2020/2021 Year-End Review

- **Financial Summary:** June 30, 2021, Financial Results (Post-Audit):
  - Key Activities – Total Year Covid Impacted Results:
    - Sales came in at \$10,263,290 as opposed to over \$28 million in 2019 – 2020
    - Operating income before G&A/Investment was down \$2,559,373
    - Reported negative net contribution of \$561,461 which was mitigated by the first Paycheck Protection Program (PPP) loan forgiveness and investment return
    - Pro-Forma operating Cash Flow of negative \$2,570,590 net of the second PPP loan funded in March 2021

- Mr. de Wit discussed that there were minor re-classifications and adjustments of \$75,000 resulting from the audit due to invoice timing and insurance prepayments. These differences were noted from the pre-audit July financial statements sent out previously.
- 4<sup>th</sup> Quarter Overview:
  - June and 4<sup>th</sup> Quarter results were mixed with low volume operating results and sales limited to Bookstore activity at only 50% of normal sales.
  - The Great Plates Program was terminated by Los Angeles County in July which brought in over \$60,000 in June and \$157,926 for the 4<sup>th</sup> quarter.
    - All other retail food sales were at \$12,823 and \$43,701 for the month and quarter.
  - There were strong grad commissions that came in around \$400,000 in support of the off-campus Commencement Ceremonies held at Angeles Stadium.
  - The Shops saw non-operating gains and benefits from the first PPP loan forgiveness of \$2 million (June 11, 2021) and an investment return of \$459,000 for the quarter.
  - There was an additional withdrawal from the VEBA account of \$400,000 in June to taper the Post-Retirement medical benefits obligation for the year.
    - This account is overfunded by \$13,000 based on the prior Actuarial Assessment
    - There was a \$643,465 liability decrease from last year as the fund benefited from a \$1.4 million investment gain.
    - Additionally, medical premiums went down and will continue to go down for this next calendar year.
  - There was minimal shrinkage from this year's Physical Inventory process with only a \$57,000 write-off against a \$109,000 shrinkage reserve.
  - Unemployment Insurance (UIP) accrual went up by \$500,000
    - Traditionally the Shops are fully self-insured through AORMA. However, additional funds were required to cover the unemployment insurance premiums incurred due to the extension of unemployment benefits from the federal and state government.
    - AORMA has agreed to allow the Shops to pay this down over 5 years at a 3.5% interest rate.
  - CalPERS Actuarial impact of \$1,024,129 increasing the unfunded liability to \$4,506,552
    - While the Board had approved a plan in 2019 to reduce the overall CalPERS liability, the annual \$500,000 contribution had been put on hold due to the Shops cash flow concerns under the current campus environment.
    - Depending upon how well the Shops do financially over this next fiscal year, Mr. de Wit proposed that the \$500,000 payment that was missed last year along with the \$500,000 payment planned for this year would be submitted as scheduled to help get back on track with this program.
- Year to Date Status:
  - The budget put together last year assumed that Spring classes would be back in person on campus and when that did not occur it had a significant impact to the Shops financials.

- The Shops were volume and operationally challenged with sales being down 39% below budget across the board.
  - In order to keep the organization running and maintain a good cash position, Mr. de Wit discussed that \$3.8 million was taken from investment reserves.
- Overall, the total year results were much better than planned with non-core business benefits from the Great Plates program in Residential Dining, the original PPP loan forgiveness along with better than anticipated \$4.4 million in aggregate investment gains.
- Year-to-Year Comparison
  - Operating results ran behind last year with the full year being affected by the pandemic as opposed to just one quarter of the previous year:
    - Sales and operating income were down across the board with sales down 64.2% reflected in Bookstore sales decreased by 33% and Residential Dining down by 89%.
    - Additionally, margin rates were down to 38.7% from the traditional 54.3% due to issues with economy of sale and being able to purchase items in bulk.
    - The net contribution is up by \$1.7 million mitigated by operating expenses that were down by 48.9% and the investments gains along with the two PPP loans.
- Capital Status Full Year 2020-2021
  - Current Year Expenditures of \$260,397
    - There was an IT Storage System upgrade expense of \$32,523.
    - For health and safety reasons, the Bookstore received an ADA upgrade to their front doors at \$10,500 along with a \$23,980 update to the building's HVAC systems.
    - PCI Compliant residual costs came in at \$96,750 for our credit card readers which has been ongoing from a CSU Audit a few years back.
    - An expense of \$98,464 was for new and refurbished custom-built electric carts.
      - While 6 were ordered before the pandemic, the Shops were able to cancel 3 of these vehicles and reduce the original budgeted amount of \$160,000.
- Investment Results
  - The Markets continued to be favorable and the Shops saw a 4<sup>th</sup> quarter investment gain of \$448,548.
  - Total investment gain for the year came in at \$4.4 million
    - While there were withdrawals from the Morgan Stanley and VEBA accounts totaling around \$3.8 million, this was made up by the overall investment gains for the year.
- Financial Statements Overview – June 2021:
  - Cash and Investments Report:
    - Cash and investments were similar to last year at \$15.4 million that included the second PPP loan of \$2 million and the \$4.4 million in investment gains.
  - Balance Sheet Review:
    - Inventory and Accounts Receivable were down \$660,000 for the year and around \$200,000 for the quarter due to the reduced business volume.
    - Liabilities were down by \$600,000 due to the following activities:
      - The PPP Loans and subsequent forgiveness of the first loan
      - CalPERS liability being up by \$650,000 while the VEBA was down \$643,000
      - Payroll and operational expenses were down by \$300,000
  - Cash Flow Statement:

- Negative cash flow of \$1.2 million in June with a Year-to-Date total of \$2.6 million down due to circumstances from the ongoing pandemic conditions.
- Campus Contributions
  - These contributions were trimmed back to \$749,731 in line with reduced business and the Board's directive on donations given the ongoing pandemic.
    - Donations were \$95,659
    - Partnerships at \$127,224
    - Reimbursed Services were \$492,368
    - Capital Improvements came in at \$34,480

Motion to accept the 4th Quarter and Full Year 2020-2021 Financial Review.

M/S Dr. Soni / Dr. Lesen

By acclamation the 4<sup>th</sup> Quarter and Full Year 2020-2021 Financial Review was hereby approved to recommend to the Board.

## **E. General Information**

- CalPERS Audit Update
  - Mr. de Wit reviewed that the Shops had been audited by CalPERS who had taken exception to our incentive program being reported as “special compensation” over the last 10 years.
    - This activity involved current employees who were in the classic CalPERS legacy program hired before 2010, former employees who had retired from the Shops along with other former employees who had either been terminated or separated from the organization but have not retired.
      - As part of the audit, CalPERS requested that the Shops hold off on reporting the full year 2019-2020 incentive payout to CalPERS which was paid out in the fall of 2020.
    - Additionally, retirees/employees would not be able to get credit for bonus related CalPERS retirement contributions due to these findings and those retirees who had been “overpaid” would see their future retirement reduced as well as need to return up to 10 years of excess contributions.
  - The Shops strongly disagreed with this audit finding as it would be a major detriment to our current employees and a financial hardship to the retired employees.
    - Ultimately, CalPERS legal team did agree with our position and the Shops received a settlement that maintained our Incentive Plan was reportable to CalPERS without any diminishment of benefits or impacts to our retirees.
    - The full year 2019/2020 incentive pay that was paid out on November 2020 without the CalPERS deductions or employer contributions must now be reported as intended.
      - These contributions had to be paid 30 days from the settlement so the Shops allowed these employees to have this amount taken from two payroll cycles.
- 1<sup>st</sup> Quarter Financial Assessment:
  - Mr. de Wit reported that the Shops were in better shape than had been anticipated with the increased occupancy rate for the Residential Dining division.
    - Sales are up in retail dining for the Outpost along with the University Library Caffeine Lab coffee concept.

- We have moved Catering and Food Trucks to the campus to manage at this time. In addition, Athletics is looking for a third-party concessions vendor.
- In the future, a discussion may need to be had in terms of what would be the best business model for the 49er Shops moving forward.

**E. Adjournment**

- There being no further business, the meeting was adjourned at 9:47 a.m.