

**Associated Students of
San José State University**
(A Component Unit of California State
University)

Financial Statements
June 30, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
Associated Students of San José State University

Report on Audit of the Financial Statements

Opinion

We have audited the financial statements of Associated Students of San José State University (Associated Students), a component unit of California State University, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Associated Students' basic financial statements as listed in the table of contents

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Associated Students as of June 30, 2022, and the respective changes in its financial position and its cash flows thereof 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 Associated Students 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.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the July 1, 2021, net position of Associated Students, has been restated, for the correction of an error. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the Associated Students adopted Governmental Accounting Standards Board (GASB) Statement 87, *Leases*, as of July 1, 2021. Our opinion is not modified with respect to this matter.

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 the Associated Students' 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 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 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 the Associated Students' 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 Associated Students' 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 4 to 9, schedule of changes in net Other Post-Employment Benefits liability and related ratios on page 26, and schedule of contributions on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board (GASB), which 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 consist 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 an opinion on the financial statements that collectively comprise the Associated Students basic financial statements. The accompanying schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2022, on our consideration of the Associated Students' 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 Associated Students' 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 Associated Students' internal control over financial reporting and compliance.

RSM US LLP

San José, California
October 14, 2022

**Associated Students of San José State University
(A Component Unit of California State University)**

**Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2022**

Management's Discussion and Analysis

This section of Associated Students of San José State University's (Associated Students) annual financial report presents management's discussion and analysis of the financial performance of Associated Students for the fiscal year ended June 30, 2022. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

Introduction to Associated Students of San José State University

Associated Students is a California State University auxiliary organization that was organized and created to be the student voice for San José State University (the University). We are governed by a student-elected board of 13 members. Associated Students was established in 1857 and incorporated as a nonprofit public benefit corporation in 1980. Associated Students owns an 11,450 square-foot Child Development Center located one block from the main campus. We operate 10 departments that serve the needs and demands of students to enhance their educational and co-curricular experiences. They include Student Government; the General Services Center; Transportation Solutions; Marketing; the Print and Technology Center; the Child Development Center; Events; Cesar Chavez Community Action Center; Human Resources; and Administration. Revenues are derived from mandatory program fees collected by the campus from each matriculated student; ancillary revenues from fee for service and programs; federal, state and local grants; and student organization contributions.

Students interact with Associated Students on a daily basis, through the use of the Smart Pass Clipper Card program for transportation, use of services, participation in programs and events, or campus-wide decision-making in Associated Students' government, the Academic Senate, or related University committees and interactions with administrators. Associated Students approves the creation of student organizations and administers student organizations' funds.

Associated Students' board of directors (the Board) is composed of 13 voting members, including three officers: Associated Students' president and CEO; vice president and Board chair; and controller and CFO. In addition, there is one nonvoting University designee that serves as a liaison for the University. The Board meets biweekly to review and develop policy, approve the annual budget and appoint student representatives to Associated Students and University committees. There are nine standing committees of the Board: Academic Affairs, Audit, Campus Life Affairs, Finance, Internal Affairs, Lobby Corps, Operations, Personnel and Programming Board. The executive director manages and is administratively responsible for day-to-day operations of Associated Students supported by approximately 35 full-time, one part-time and 61 student employees.

Associated Students' financial reserves consist of monies held in the University Pooled Income Fund, bank balances and cash on hand. Our Other Post-Retirement Benefit (OPEB) plan assets are held in the CSU Auxiliary Organization Association, Agent Multi-Employer VEBA Trust Fund. Fiduciary net position of the plan is reviewed each year by the Associated Students' actuary to determine future contributions.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2022**

Introduction to the Financial Statements

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. For reporting purposes, the University is considered a special-purpose government engaged only in business-type activities, which best represent the activities of Associated Students.

The financial statements include the statement of net position, revenues, expenses and changes in net position, and cash flows. These statements are supported by the notes to the financial statements and this management discussion and analysis. All sections must be considered together to obtain a complete understanding of the financial picture of Associated Students.

Statement of net position: The statement of net position includes all assets, deferred outflows, liabilities, deferred inflows and net position. Assets, deferred outflows, liabilities, deferred inflows and net position are reported at their book value, on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net position of Associated Students.

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.

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

Reporting entity: Associated Students is a nonprofit auxiliary organization of San José State University. Associated Students sponsors various campus activities that complement the instructional programs of the University campus.

Analytical Overview Summary

The following discussion highlights management's understanding of the key financial aspects of Associated Students' financial activities as of and for the year ended June 30, 2022. Included are comparative analyses of the current- and prior-year activities and balances and a discussion of the reason for the change in the balances from year to year.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2022**

Condensed Summary of Net Position

Associated Students' condensed summary of net position is as follows as of June 30:

	2022	2021 *	Change
Current assets	\$ 13,036,981	\$ 12,625,812	\$ 411,169
Noncurrent assets	1,698,015	3,735,271	(2,037,256)
Total assets	<u>14,734,996</u>	<u>16,361,083</u>	<u>(1,626,087)</u>
Deferred outflows of resources	<u>1,365,383</u>	<u>1,408,040</u>	<u>(42,657)</u>
			-
Current liabilities	844,715	1,194,756	(350,041)
Noncurrent liabilities	<u>1,140,409</u>	<u>1,380,075</u>	<u>(239,666)</u>
Total liabilities	<u>1,985,124</u>	<u>2,574,831</u>	<u>(589,707)</u>
			-
Deferred inflows of resources	<u>368,417</u>	<u>9,940</u>	<u>358,477</u>
Net position:			
Investment in capital assets	1,698,015	1,304,527	393,488
Restricted: funds held for student organizations	1,337,440	1,165,888	171,552
Unrestricted	<u>10,711,383</u>	<u>12,713,937</u>	<u>(2,002,554)</u>
Total net position	<u>\$ 13,746,838</u>	<u>\$ 15,184,352</u>	<u>\$ (1,437,514)</u>

* 2021 was not restated for adoption of GASB 87, *Leases* or restatement of error.

Assets: Current assets increased \$411,000 due to increases in cash of \$1,742,000 offset by decreases in accounts receivable of \$1,100,000

Noncurrent assets decreased by \$2,037,000 from 2021 to 2022. This is due to removal of prepaid rent of \$2,431,000 on Scheller House, offset by an increase in capital assets of \$603,000...

Deferred outflows Deferred outflows decreased \$43,000 due to changes in expected and actual experience and a change in the interest rate and expected rate of return on assets.

Liabilities: Current liabilities increased/decreased by \$350,000 from 2021 to 2022, due to the reduction in deferred revenue from student fees collected in advance.

Noncurrent liabilities decreased by \$240,000 from 2021 to 2022. This is due to a decrease in the OPEB liability due to changes in actuarial assumptions.

Net position: Total net position increased by \$1,437,000 from 2021 to 2022 primarily due to net operating income during the year and restatement of \$2,113,000 related to removal of prepaid rent on the Scheller House.

At June 30, 2022, net position of Associated Students includes restricted funds held for student organizations and the following unrestricted funds: Board-designated for an endowment of \$722,000 for scholarships. Net position also comprises of amounts that invested in capital assets.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2022**

Condensed Summary of Revenues, Expenses and Changes in Net Position

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

	2022	2021 *	Change
Operating revenues:			
Program fees	\$ 6,511,515	\$ 6,441,681	\$ 69,834
Government contracts:			
Federal	459,086	371,655	87,431
State	372,919	533,413	(160,494)
Grants—local	141,023	236,480	(95,457)
Child Development Center—parent fees	631,681	394,274	237,407
Student club contributions	862,703	327,685	535,018
Paycheck Protection Program loan forgiveness	-	915,842	(915,842)
Other revenue	216,921	71,698	145,223
Total operating revenues	<u>9,195,848</u>	<u>9,292,728</u>	<u>(96,880)</u>
Operating expenses:			
Programs	4,807,616	3,864,001	943,615
Child Development Center expenses	2,076,549	2,063,148	13,401
Administrative	371,326	282,780	88,546
Student grants and scholarships	70,000	70,000	-
Depreciation and amortization	280,104	220,793	59,311
Student club expenditures	691,046	375,823	315,223
OPEB expense	294,281	291,464	2,817
Total operating expenses	<u>8,590,922</u>	<u>7,168,009</u>	<u>1,422,913</u>
Operating income	<u>604,926</u>	<u>2,124,719</u>	<u>(1,519,793)</u>
Nonoperating revenues (expenses):			
Investment income, net	59,273	134,385	(75,112)
Lease interest expense	(83)	-	(83)
Miscellaneous other income	10,916	15,332	(4,416)
Net nonoperating revenues	<u>70,106</u>	<u>149,717</u>	<u>(79,611)</u>
Changes in net position	<u>675,032</u>	<u>2,274,436</u>	<u>(1,599,404)</u>
Net position, beginning of year, as previously reported	15,184,352	12,909,916	2,274,436
Restatement- correction of error	(2,112,546)	-	-
Net position, as restated	<u>13,071,806</u>		
Net position, end of year	<u>\$ 13,746,838</u>	<u>\$ 15,184,352</u>	<u>\$ 675,032</u>

* 2021 was not restated for adoption of GASB 87, *Leases* or restatement of error.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Management's Discussion and Analysis (unaudited)
Year Ended June 30, 2022**

Revenues: Total operating revenues decreased by \$97,000 from 2021 to 2022. Main contributors were:

- Child Development Center parent fee revenue increased by \$237,000 primarily due to the center's increased capacity as Department of Health restrictions were eased. This was offset partially by decreases in state grant revenues of \$160,000.
- Student club receipts increased \$535,000, as the campus reopened and restrictions on most activities were lifted resulting in higher club fee collections and contributions.
- Similarly, other revenue, primarily Print and Technology Center fees, recovered from the prior year when pandemic shelter-in-place order restricted access to the facility, increasing \$191,000 from the prior year.

These increases were offset by a decrease in operating revenue of \$916,000 since the Paycheck Protection Program loan and forgiveness were a one-time source of support.

Expenses: Total operating expenses increased by \$1.5 million from 2021.

- Operating expenses for Associated Students are principally made up of wages and related payroll taxes and benefits, which are approximately 38% and 10.6% of total operating expenses, respectively. Salaries increased as Associated Students increased its minimum wage to \$17 per hour effective January 1, 2022. Overall, wages increased by \$253,000 as more student assistants were hired to support the reopened campus. Related payroll taxes and employee benefit expensed decreased \$60,000, due to a change in plan from Calpers to CSU's Prism program.
- Student club expenditures increased/decreased by \$315,000 largely due to the lifting of restrictions on campus activities as the campus reopened.
- The Smart Pass program provides students and staff with low-cost transit passes, significant savings for participants. Smart Pass expenses increased \$607,000 in 2022, as more students attended classes on campus making them eligible for the program.

Other revenues (expenses): Other revenues and expenses come from sources that are not part of Associated Students' primary business functions. Included in this classification for 2022 are miscellaneous income of \$11,000 and investment income of \$59,000.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Management’s Discussion and Analysis (unaudited)
Year Ended June 30, 2022**

Change in Net Position

The net result of the changes in revenues and expenses as discussed above result in changes in net position of \$675,000 for 2022, which is less than the changes in net position for 2021 of \$2.3 million.

Capital assets: Capital assets, net of accumulated depreciation, are as follows for the year ended June 30, 2022:

Land and land improvements	\$ 500,000
Leasehold improvements	585,883
Work in progress	92,785
Buildings	360,407
Equipment, furniture and fixtures	148,794
Leased assets	10,146
Total capital assets, net of accumulated depreciation	<u>\$ 1,698,015</u>

Capital assets increased \$393,000 from 2021 due to capitalization of leasehold improvements of \$585,000 related to the Scheller House and the Community Garden, capitalization of leased assets of \$10,000 offset by \$280,000 of depreciation.

Factors Impacting Future Periods

Seventy percent of Associated Students’ annual operating revenue is derived from program fees. The annual Associated Students fee is adjusted annually by the Higher Education Price Index unless suspended by the University. The program fee collected from the campus from the student has remained constant at \$98 per semester since 2019. An increase allows Associated Students to offset growing expenses. Any significant decreases in enrollment would impact Associated Students’ net position and would require the Board and management to address the impact through cost reductions. That said, the program fee was increased, effective for Fall 2022, to \$100.50

The national, statewide and local initiatives targeted to provide economic stability and to address affordable living wages will have a significant impact on our budget. Inflation, a competitive employment market, and the local cost of living will challenge our ability to attract and retain both student and professional staff.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Statement of Net Position
June 30, 2022**

Assets

Current assets:

Cash and cash equivalents	\$ 9,612,337
Restricted cash for student organizations	1,079,930
Restricted investments for student organizations	258,556
Accounts receivable, net of allowance	1,977,326
Inventories	83,383
Prepaid expenses	25,449
Total current assets	13,036,981

Noncurrent assets:

Capital assets, net of accumulated depreciation	1,698,015
Total noncurrent assets	1,698,015
Total assets	14,734,996

Deferred outflows of resources:

Deferred outflows—Other post-employment benefits (OPEB) contributions made after the measurement date	94,304
Deferred outflows—differences between projected and actual experience and changes in assumptions	1,271,079
Total deferred outflows of resources	1,365,383

Liabilities

Current liabilities:

Accounts payable	158,953
Accrued payroll and other liabilities	148,298
Compensated absences	206,712
Lease liability, current portion	10,169
Unearned revenue	320,583
Total current liabilities	844,715

Noncurrent liabilities:

Net OPEB liability	1,140,409
Total liabilities	1,985,124

Commitments and contingencies

Deferred inflows of resources:

Deferred inflows—differences between projected and actual returns on assets	368,417
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Net position:

Investment in capital assets	1,698,015
Restricted funds held for student organizations	1,337,440
Unrestricted	10,711,383
Total net position	\$ 13,746,838

See notes to financial statements.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2022**

Operating Revenues	
Program fees	\$ 6,511,515
Government contracts:	
Federal	459,086
State	372,919
Grants—local	141,023
Child Development Center—parent fees	631,681
Student club contributions	862,703
Other revenue	216,921
Total operating revenues	<u>9,195,848</u>
Operating expenses:	
Programs	4,807,616
Child Development Center expenses	2,076,549
Administrative	371,326
Student grants and scholarships	70,000
Depreciation and amortization	280,104
Student club expenditures	691,046
OPEB expense	294,281
Total operating expenses	<u>8,590,922</u>
Operating income	<u>604,926</u>
Nonoperating revenues (expenses):	
Investment income, net	59,273
Lease interest expense	(83)
Miscellaneous income	10,916
Total nonoperating revenues	<u>70,106</u>
Changes in net position	<u>675,032</u>
Net position, beginning of year, as previously reported	15,184,352
Restatement—correction of error	<u>(2,112,546)</u>
Net position, beginning of year, as restated	13,071,806
Net position, end of year	<u><u>\$ 13,746,838</u></u>

See notes to financial statements.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Statement of Cash Flows
Year Ended June 30, 2022**

Cash flows from operating activities:	
Program fees	\$ 7,300,508
Federal grants and contracts	459,086
State and local grants and contracts	372,919
Nongovernmental grants and contracts	141,023
Payments to suppliers	(4,232,834)
Payments to employees	(3,155,204)
Payments to students	(127,540)
Other receipts	1,264,797
Net cash provided by operating activities	<u>2,022,755</u>
Cash flows from capital and related financing activities:	
Payments on leased assets	(10,200)
Purchases of capital assets	(186,672)
Net cash used in capital and related financing activities	<u>(196,872)</u>
Cash flows from investing activities:	
Investment income	55,705
Miscellaneous other income	10,914
Net cash provided by investing activities	<u>66,619</u>
Net increase in cash, cash equivalents and restricted cash	1,892,502
Cash, cash equivalents and restricted cash, beginning of year	<u>8,799,765</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 10,692,267</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 604,926
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	280,104
Changes in assets and liabilities:	
Accounts receivable	1,356,075
Inventories	(3,110)
Prepaid expenses	(16,493)
Deferred outflows of resources	8,022
Accounts payable	(52,560)
Accrued payroll and other liabilities and compensated absences	14,890
Unearned revenue	(322,545)
Deferred inflows of resources	393,912
OPEB obligation	(240,466)
Total adjustments	<u>1,417,829</u>
Net cash provided by operating activities	<u>\$ 2,022,755</u>

See notes to financial statements.

**Associated Students of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 1. Nature of Organization

Associated Students of San José State University (Associated Students) is a nonprofit auxiliary organization of the California State University (CSU) Associated Students operates student programs and activities for the benefit of the students of San José State University (the University). Such programs and activities are funded primarily from student program fees, government contracts and program fees.

Note 2. Summary of Significant Accounting Policies

Associated Students prepares its financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The significant accounting and reporting policies used by Associated Students are described below to enhance the usefulness and understandability of the financial statements.

Basis of accounting: Associated Students' financial statements have been prepared in conformity with U.S. GAAP as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Associated Students uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

For financial reporting purposes, Associated Students is considered to be a special-purpose government engaged only in business-type activities. The GASB defines business-type activities as activities financed in whole or in part by fees charged to external parties for goods or services. For financial reporting purposes, Associated Students is also considered to be a component unit of the California State University and is included in their financial statements as a discretely component unit.

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

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

Investment in capital assets: Investment in capital assets including leased assets represents the cost of the capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Associated Students does not have any debt on capital assets.

Restricted nonexpendable: This component of net position is subject to externally imposed conditions that Associated Students retains them in perpetuity. Net assets in this category consist of endowments. There were no restricted nonexpendable components of net position as of June 30, 2022.

**Associated Students of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Restricted expendable: This component of net position is subject to externally imposed conditions that can be fulfilled by the actions of Associated Students or by the passage of time. Student organization funds, net of student organization accounts payable, are \$1,337,440 at June 30, 2022, and are included in restricted expendable net position due to contributions being restricted by the donors for use to administer activities of that particular club.

Unrestricted: All other categories of net position are considered unrestricted. In addition, the unrestricted component of net position may be designated by the board of directors of Associated Students.

Cash and cash equivalents: Associated Students considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2022, Associated Students' has bank balances that exceed federally insured amounts of \$250,000 and are uninsured.

Restricted Investments: Restricted investments invested in the CSU Investment Pool are reported at amortized cost, with realized and unrealized gains and losses included on the accompanying statement of revenues, expenses and changes in net position as investment income. Dividends and interest income are accrued when earned.

Accounts and other receivables: Accounts receivables consist of the following balances for June 30, 2022:

Program fees due from San José State University (SJSU)	\$ 1,811,408
Parent fees receivable	5,716
Grants receivable	57,842
Receivable from San José State University	12,524
Receivable from SJSU Student Union	1,130
Receivable from SJSU Tower Foundation	1,388
Receivable from SJSU Research Foundation	64,189
Miscellaneous	29,329
Allowance for doubtful accounts	(6,200)
Total accounts receivable	<u>\$ 1,977,326</u>

Receivables are stated at net realizable value. Grant receivables due from Bay Area Air Quality Management District, a local agency, to incentivize alternative transportation usage. A valuation allowance for uncollectible amounts is based on its assessment of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to accounts receivable.

Inventories: Inventories consist of copier paper, bindings, copier equipment and the cost value of certain transit tickets sold as a pass-through from the transit authorities. Inventories are stated at the lower of cost or market using the first-in, first-out method.

Prepaid expenses: Prepaid expenses consist of amounts paid in advance for products or services that have not yet been received as of the fiscal year-end. Prepaid items are expensed when the products or services are received.

**Associated Students of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are stated at historical cost. Purchases costing \$1,000 or more with a useful life of one year or more are capitalized. Donated capital assets are recorded at their estimated acquisition value. Major repairs and replacements that extend the useful life of the assets are capitalized and depreciated. The cost of normal maintenance and repairs are charged to expense when incurred.

Depreciation expense is computed on the straight-line method over estimated useful lives, ranging from three to 25 years, as follows:

	<u>Years</u>
Buildings and building improvements	5-25
Computer software and website	3-5
Equipment, furniture and fixtures	3-10
Leasehold improvements	10-30

Impairment of long-lived assets: Associated Students accounts for impairment of long-lived assets in accordance with GASB Statement No. 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. No impairment losses were recorded during the year.

Compensated absences: Employees' unused vacation leave benefits are recognized as liabilities as required by U.S. GAAP. Sick leave benefits are not recognized as liabilities since it is Associated Students' policy that sick leave does not vest. Instead, Associated Students records such amounts as operating expenditures in the period sick leave is taken. Compensated absences are classified as current as management estimates that all or majority of the balance will be used within one year. Any unused compensated absences are paid out to employees upon termination.

Unearned revenue: Unearned revenue consists primarily of program fees collected in advance for summer and fall semesters.

Deferred outflows and deferred inflows of resources: Deferred outflows and deferred inflows of resources relate to the effects of changes in assumptions, differences in the actual and expected return on plan assets and contributions made after the measurement date on Associated Students' Other Post-Employment Benefits (OPEB) plan, and are to be recognized in future periods to OPEB plan expense.

Revenue recognition: Parent fees for the Child Development Center and transit access program fees are exchange transactions and are recognized when the goods or services are provided.

Program fees are imposed nonexchange transactions and are recognized when Associated Students has an enforceable legal claim, which is when the student registers for classes.

Revenues from government contracts and local grants are voluntary nonexchange transactions, and revenue is recorded when all eligibility requirements imposed by the provider have been met.

**Associated Students of San José State University
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Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: Associated Students is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California income taxes under Section 23701(d) of the California Revenue and Taxation Code (the Code). The Internal Revenue Service (IRS) classified the organization as one that is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section(s) 509(a)(1) and 170(b)(1)(A)(vi). Associated Students 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 Associated Students' 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.

Use of estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the amounts reported financial statements and accompanying notes. On an ongoing basis, Associated Students' management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Associated Students' management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Accounting standards effective for the current year: Effective July 1, 2021, Associated students implemented GASB Statement 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities that previously were classified as operating leases. It establishes a single module for lease accounting based on the foundational principal that leases are financings on the right to use an underlying asset. Under this statement, the lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the Foundation's leasing activities. With the adoption of this standard, right-of-use assets and lease liabilities of \$10,146 and \$10,169 were recorded. There were no adjustments to beginning net position with the adoption of this standard.

Accounting pronouncements in future years: GASB 96, *Subscription- Based Information Technology Arrangements* is effective for fiscal year June 30, 2023. It requires similar treatment as lease for subscription-based information technology arrangements (SBITA). This statement results in recording a right of use subscription asset and subscription liability if the SBITA is a contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets. Management is currently evaluating the impact of adopting this standard on the financial statements.

Restatement: When implementing GASB 87; *Leases*, management identified an error in the initial recognition of a contract in a previous fiscal year and as a result, Associated Students net position has been restated as of July 1, 2021 as follows:

Net position, as previously reported	\$ 15,184,352
Remove prepaid rent	(2,579,174)
Correct leasehold improvements	466,628
Net position, as restated	<u>\$ 13,071,806</u>
Change in net position, as restated	\$ 89,413

**Associated Students of San José State University
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Notes to Financial Statements

Note 3. Deposits, Investments and Fair Value Measurements

Investment policy: Investments consist of funds invested with the University in the CSU Investment Pool. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the investing organizations. The third objective is to generate an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit and certain other investment instruments. At June 30, 2022, Associated Students has \$258,556 deposited in the CSU Investment Pool.

Associated Students' investment in the CSU Investment Pool is valued at amortized cost, which is the Associated Students' contributions to the pool plus interest income. Therefore, it is not subject to categorization in the fair value hierarchy table or interest rate, credit risk or custodial credit risk disclosures.

Custodial credit risk for deposits is the risk that Associated students will not be able to recover its deposits in the event of a failure of a deposit institution. Associated Students' has bank balances at June 30, 2022 in the amount of \$10,493,922 that are uncollateralized by securities and exceed the Federal Deposit Insurance Corporation insured limit of \$250,000.

**Associated Students of San José State University
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Notes to Financial Statements

Note 4. Capital Assets

Capital assets consist of the following at June 30, 2022:

	Beginning of Year July 1, 2021	Additions	Deletions	End of Year June 30, 2022
Non-depreciable:				
Land and land improvements	\$ 500,000	\$ -	\$ -	\$ 500,000
Work in progress	211,193	92,785	(211,193)	92,785
	<u>711,193</u>	<u>92,785</u>	<u>(211,193)</u>	<u>592,785</u>
Depreciable:				
Building	2,939,391	-	-	2,939,391
Accumulated depreciation	(2,458,848)	(120,136)	-	(2,578,984)
	<u>480,543</u>	<u>(120,136)</u>	<u>-</u>	<u>360,407</u>
Equipment, furniture and fixtures	1,871,259	115,205	(472,961)	1,513,503
Accumulated depreciation	(1,758,468)	(79,202)	472,961	(1,364,709)
	<u>112,791</u>	<u>36,003</u>	<u>-</u>	<u>148,794</u>
Leasehold Improvements*	3,080,000	189,875	-	3,269,875
Accumulated depreciation*	(2,613,372)	(70,620)	-	(2,683,992)
	<u>466,628</u>	<u>119,255</u>	<u>-</u>	<u>585,883</u>
Intangible assets	134,127	-	-	134,127
Accumulated depreciation	(134,127)	-	-	(134,127)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total depreciable	1,059,962	35,122	-	1,095,084
Leased assets	-	20,292	-	20,292
Accumulated amortization	-	(10,146)	-	(10,146)
		<u>10,146</u>		<u>10,146</u>
Total capital assets	<u>\$ 1,771,155</u>	<u>\$ 138,053</u>	<u>\$ (211,193)</u>	<u>\$ 1,698,015</u>

Depreciation and amortization expense for the year ended June 30, 2022, was \$280,104 which included \$10,146 in lease amortization.

**Associated Students of San José State University
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Notes to Financial Statements

Note 5. Related-Party Transactions and Commitments

Associated Students has routine business transactions with the University and other auxiliaries of the University.

Amounts receivable and payable to and from the University and related organizations are recorded on the statement of net position as receivables and accounts payable. Receivables due from and payables due to related parties are as follows as of June 30, 2022:

Program fees due from San José State University	\$ 1,811,408
Receivable from San José State University	12,524
Receivable from SJSU Student Union	1,130
Receivable from SJSU Tower Foundation	1,388
Receivable from SJSU Research Foundation	64,189
	<u>\$ 1,890,639</u>
Payable to San José State University	\$ 6,122
Payable to Student Union, Inc.	2,265
	<u>\$ 8,387</u>

Compensation paid to student members of Associated Students' board of directors totaled \$127,540 for the year ended June 30, 2022. These payments, which range from approximately \$180 to \$1,320 per month, are recorded as program expenses on the statement of revenues, expenses and changes in net position.

Associated Students leases facilities under operating leases from organizations related to the University. Associated Students leased certain facilities under operating lease agreements with monthly rent of \$9,477 and thus they did not qualify as a lease under GASB 87. This lease expired on June 30, 2021, and was month-to-month throughout the fiscal year. In addition, the leases require Associated Students to pay its pro-rata share of utilities expense and maintain appropriate insurance coverage. Rent and utilities expense under the leases were \$130,781 for the year ended June 30, 2022.

Associated Students has a contract with the University to use the Scheller House free of cost through August 2031. The terms of the agreement require Associated Students to maintain appropriate insurance coverage. Associated Students paid for renovations to the Scheller House and capitalized and depreciated these leasehold improvements which have a net book value of \$407,611 as of June 30, 2022.

**Associated Students of San José State University
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Notes to Financial Statements

Note 6. Compensated Absences

Accrued compensated absences consist of the following activity during the year ended June 30:

	Beginning Balance as of June 30, 2021	Additions	Reductions	Ending Balance as of June 30, 2022	Current Portion
Compensated absences	\$ 209,755	\$ 171,261	\$ (174,304)	\$ 206,712	\$ 206,712

Unused accrued compensated absences are paid upon employees' termination.

Note 7. Leases

Associated Students has the following lease liabilities:

Community Garden Lease, Term: July 1, 2021 to June 30, 2023. Monthly rent payment \$850.

The total amount of the right to use asset net related accumulated amortization at June 30, 2022 was \$10,146.

Associated Students recognized no variable payments in the period not previously in the lease liability's measurement. In addition, Associated Students recognized in no termination penalties or purchase options in the period, not previously included in the lease liability measurement.

Principal and interest payments on leases are \$10,169 and \$109 for 2023.

Note 8. Post-Employment Health Care Plan

Plan description: Associated Students provides lifetime retiree medical dental and vision benefits to employees, and their beneficiaries, who retire at age 59.5 or older with five years of service through the PRISM group insurance program (the Plan). These statements are available from Keenan Financial Services, P.O. Box 4328, Torrance, CA 90510.

Benefits: The Plan provides health, dental and vision care benefits to employees and their dependents. Benefits are provided by third-party insurers, and the full cost of benefits is provided by the Plan.

Participants covered by the Plan are as follows:

Retirees receiving benefits	13
Participating active employees	35
Total number of participants	48

Contributions: Associated Students' board of directors approved the inclusion of Associated Students in a Voluntary Employees' Beneficiary Association (VEBA) Trust comprising CSU auxiliaries. The VEBA is a separate 501(c)(9) established in August 2010 to assist in funding OPEB health care benefits.

**Associated Students of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 8. Post-Employment Health Care Plan (Continued)

Contribution requirements are established and may be amended by Associated Students' board of directors. Associated Students' board of directors designated a portion of net position as a reserve to cover future costs of the Plan. The Plan is funded on a pay-as-you-go basis that is the annual cost of providing benefits and is paid from operations. Contributions to the Plan for the year ended June 30, 2022, were \$94,305 and were recorded as deferred outflows—contributions made after the measurement date on the statement of net position.

Plan assets: The VEBA professional management team includes a program coordinator, corporate trustee, investment advisor, legal, and audit and tax services. Trust assets are invested and held in custody by Benefit Trust Company serving as the corporate trustee, in a mix that includes approximately 50% bonds and 50% equity. Morgan Stanley Smith Barney serves as an investment advisor to the corporate trustee. They make recommendations regarding the management of VEBA Trust investments, which are then either approved and implemented or otherwise rejected by the Trust Investment Committee at Benefit Trust Company. The total market value of Associated Students' VEBA account at June 30, 2021, the measurement date, was \$3,002,869.

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 and deferred inflows of resources related to OPEB that are required to be reported by an employer primarily result from changes in the components of the net OPEB liability, that is, changes in the total OPEB liability and in the OPEB plan's fiduciary net position.

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

**Associated Students of San José State University
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Notes to Financial Statements

Note 8. Post-Employment Health Care Plan (Continued)

The following presents the net OPEB liability of Associated Students if it were calculated using a discount rate and health care trend rate that is 1% lower or higher than the current rate for the year ended June 30, 2022:

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2021	\$ 3,755,193	\$ 2,374,318	\$ 1,380,875
Service cost	192,640	-	192,640
Interest on total OPEB liability	225,687	640,701	(415,014)
Administrative expenses	-	(12,150)	12,150
Employer contributions	-	180,124	(180,124)
Benefit payments	(180,124)	(180,124)	-
Experience gains/losses	-	-	-
Changes in assumptions	149,882	-	149,882
Net change	388,085	628,551	(240,466)
Balance at June 30, 2022	\$ 4,143,278	\$ 3,002,869	\$ 1,140,409

Actuarial methods and assumptions: The actuarial valuation is based on the following dates, periods and assumptions for Associated Students' financial statements for the year ended June 30, 2022:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Measurement period	July 1, 2020, to June 30, 2021
Actuarial cost method	Entry age normal
Discount rate	5.75%
Inflation	2.50%
Salary increases	2.75%
Investment rate of return	5.75%
Health care cost trend rate	4.00%
Mortality rate	2017 CalPERS Mortality for Miscellaneous and School Employees
Preretirement turnover	2017 CalPERS Termination Rates for School Employees

Projections of benefits for financial reporting purposes are based on an established pattern of practice and includes the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value-reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Associated Students of San José State University
(A Component Unit of California State University)**

Notes to Financial Statements

Note 8. Post-Employment Health Care Plan (Continued)

Discount rate: The discount rate used to measure the total OPEB liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that Associated Students' contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. The long-term rate of return was determined based on capital market studies for similar industries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following shows the change in the OPEB liability, fiduciary net position and net OPEB liability for the year ended June 30 2022:

	Discount Rate 1% Lower 4.75%	Valuation Discount Rate 5.75%	Discount Rate 1% Higher 6.75%
Discount rate:			
Net OPEB liability	\$ 1,823,793	\$ 1,140,409	\$ 589,571
		Valuation	
	1% Lower 3.00%	Healthcare Cost 4.00%	1% Higher 5.00%
Health care cost trend rate:			
Net OPEB liability	\$ 466,633	\$ 1,140,409	\$ 2,039,378

OPEB expense and deferred outflows and deferred inflows of resources: As of June 30, 2022, Associated Students recognized OPEB expense of \$294,281.

During the fiscal year ended June 30, 2022, the Associated Students reported deferred outflows and inflows of resources as follows:

	Deferred Outflows	Deferred Inflows
Experience gains/losses	\$ 992,070	\$ -
Assumption changes	279,009	-
Net investment gains/losses	-	(368,417)
	<u>\$ 1,271,079</u>	<u>\$ (368,417)</u>

The \$94,304 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2021, measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2023.

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Differences between projected and actual earnings on OPEB investments are recognized over five years. Changes due to assumptions and experience are recognized over the average remaining service lifetime.

**Associated Students of San José State University
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Notes to Financial Statements

Note 8. Post-Employment Health Care Plan (Continued)

Years ending June 30:

2023	\$ 5,903
2024	10,868
2025	6,175
2026	(2,503)
2027	97,215
Thereafter	785,004
	<u>\$ 902,662</u>

Note 9. Self-Insurance Plans

Associated Students participates in a self-insured workers' compensation and unemployment insurance plan with certain other California State University Auxiliary Organizations that is established as a separate entity risk pool to manage claims and risks. Special legislation was obtained to permit both the CSU as a state agency, and Auxiliary Organizations as separate nonprofit corporations, to create a quasi-public entity to establish and perform pooled group insurance and related risk management functions for the benefit of all who elect to join the new entity and to participate therein. Formed on January 1, 1997, the plan is called the California State University Risk Management Authority (CSURMA), a Joint Powers Authority (JPA). The CSURMA was formed by the CSU and those qualified Auxiliary Organizations that opted to join with intentions to participate in the risk management programs to be offered by the Authority. 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. Associated Students participates in several CSURMA risk management programs, including Pooled Liability Program; Pooled Worker's Compensation Program; IDL/NDI/UI Program; Property Program; and the Auxiliary Organizations Risk Management Alliance (AORMA).

All claims are managed and paid for through the JPA. The pooled retention for each claim by coverage is:

Workers' compensation	\$750,000 per accident
Unemployment insurance	100%
Property	\$500,000 per occurrence
Liability	\$100,000 per occurrence

Workers' compensation premiums allocated to Associated Students are based on applying individual class code rates determined by an independent actuary to Associated Students' payroll and modified by further application of the Associated Students' experience modification (ex-mod) factor. The ex-mod is calculated using the Associated Students' loss history and payroll from the three prior policy years. The premium includes an estimate of the amount for incurred but not reported claims.

Although considerable variability is inherent in such estimates, Associated Students 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. Associated Students received a refund of \$3,833 refund during the fiscal year ended June 30, 2022.

At June 30, 2022, there were 36 full time employees and 56 part time and student employees that were covered by in the CSURMA–AORMA workers' compensation and unemployment insurance program. During the fiscal year ended June 30, 2022, payments to the Workers' Compensation Program were \$27,167.

**Associated Students of San José State University
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Notes to Financial Statements

Note 9. Self-Insurance Plans (Continued)

Associated Students funds the Unemployment Insurance Program to a target balance of two times the five-year rolling average of unemployment claims. In June 2021, Associated Students was notified of a funding shortage in its Unemployment Insurance Program totaling approximately \$37,652 and paid into the program to reduce the deficit. During the year, Associated Students made quarterly payments of \$5,000 toward replenishing to the target balance. The unfunded balance as of March 2022 was \$12,937. Quarterly payments to the fund will continue into the future until the required fund balance equal to two times the five-year rolling average is reached.

Note 10. Contingencies

Associated Students has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material to the basic financial statements taken as a whole.

Note 11. Retirement Plan

Associated Students maintains an annuity purchase plan under Section 401(k) of the Internal Revenue Code (IRC). Under this plan, employees who have completed one year of service may defer up to 20% of their salary through contributions to the plan, subject to IRC limits. Associated Students matches contributions up to 7% of participants' salaries. Associated Students does not hold or direct the use of the assets in this plan nor is it a component unit of Associated Students and thus it did not meet the criteria under GASB 84, *Fiduciary Activities*, to be reported as a fiduciary fund. Matching contributions were \$104,075 for the year ended June 30, 2022, and were recorded as operating expenses on the statement of revenues, expenses and changes in net position.

**Associated Students of San José State University
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**Schedule of Changes in Net OPEB Liability and Related Ratios—Last Ten Years
Year Ended June 30, 2022**

	2022	2021	2020	2019	2018
Total OPEB liability:					
Service cost	\$ 192,640	\$ 133,683	\$ 112,709	\$ 109,692	\$ 106,756
Interest on total OPEB liability	225,687	187,379	129,890	119,413	109,316
Experience losses	-	337,655	809,939	-	-
Changes in assumptions	149,882	156,705	-	-	-
Benefit payments	(180,124)	(191,126)	(60,249)	(51,719)	(49,730)
Net change in total OPEB liability	388,085	624,296	992,289	177,386	166,342
Total OPEB liability—beginning	3,755,193	3,130,897	2,138,608	1,961,222	1,794,880
Total OPEB liability—ending (a)	\$ 4,143,278	\$ 3,755,193	\$ 3,130,897	\$ 2,138,608	\$ 1,961,222
Plan fiduciary net position:					
Contribution—employer	\$ 180,124	\$ 191,126	\$ -	\$ 146,719	\$ 713,987
Net investment income	640,701	93,750	107,890	145,449	152,339
Benefit payments	(180,124)	(191,126)	-	(51,719)	(49,730)
Administrative expense	(12,150)	(10,863)	(11,828)	(14,928)	(9,664)
Net change in plan fiduciary net position	628,551	82,887	96,062	225,521	806,932
Plan fiduciary net position—beginning	2,374,318	2,291,431	2,195,369	1,969,848	1,162,916
Plan fiduciary net position—ending (b)	\$ 3,002,869	\$ 2,374,318	\$ 2,291,431	\$ 2,195,369	\$ 1,969,848
Net OPEB liability (asset)—ending (a) - (b)	\$ 1,140,409	\$ 1,380,875	\$ 839,466	\$ (56,761)	\$ (8,626)
Plan fiduciary net position as a percentage of total OPEB liability	72 %	63 %	73 %	103 %	100 %
Covered payroll	\$ 2,250,614	\$ 2,250,614	\$ 2,168,814	\$ 2,176,356	\$ 2,083,997
Net OPEB liability (asset) as a percentage of covered payroll	50.67 %	61.36 %	38.71 %	(2.61)%	(0.41)%

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

Future years' information will be displayed up to 10 years as information becomes available.

There was a change in the discount rate from 6.0% to 5.75% in fiscal year 2022.

**Associated Students of San José State University
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**Schedule of Contributions—Last Ten Years
June 30, 2022**

Fiscal Year-End *	Actuarially Determined Contribution **	Contributions	Deficiency/ Excess	Covered Payroll	Contributions as a Percentage of Covered Payroll
2022	\$ -	\$ 180,124	\$ (180,124)	\$ 2,250,614	8.00%
2021	-	140,815	(140,815)	2,250,614	6.26%
2020	-	191,126	(191,126)	2,168,814	8.81%
2019	-	146,719	(146,719)	2,176,356	6.74%
2018	-	713,987	(713,987)	2,083,997	34.26%

Notes to Schedule:

* Actuarial methods and assumptions used to set the actuarially determined contributions are based on a measurement date a year in arrears.

** Actuarially Determined Contributions (ADC)—The ADC amount was not calculated. Associated Students contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 30 years.

Associated Students of San José State University
Schedule of Net Position
June 30, 2022
(for inclusion in the California State University Financial Statements)

Assets:	
Current assets:	
Cash and cash equivalents	10,692,267
Short-term investments	258,556
Accounts receivable, net	1,977,326
Lease receivables, current portion	-
Notes receivable, current portion	-
Pledges receivable, net	-
Prepaid expenses and other current assets	108,832
Total current assets	13,036,981
Noncurrent assets:	
Restricted cash and cash equivalents	-
Accounts receivable, net	-
Lease receivables, net of current portion	-
Notes receivable, net of current portion	-
Student loans receivable, net	-
Pledges receivable, net	-
Endowment investments	-
Other long-term investments	-
Capital assets, net	1,698,015
Other assets	-
Total noncurrent assets	1,698,015
Total assets	14,734,996
Deferred outflows of resources:	
Unamortized loss on debt refunding	-
Net pension liability	-
Net OPEB liability	1,365,383
Leases	-
Others	-
Total deferred outflows of resources	1,365,383
Liabilities:	
Current liabilities:	
Accounts payable	158,953
Accrued salaries and benefits	148,298
Accrued compensated absences, current portion	206,712
Unearned revenues	320,583
Lease liabilities, current portion	10,169
Long-term debt obligations, current portion	-
Claims liability for losses and loss adjustment expenses, current portion	-
Depository accounts	-
Other liabilities	-
Total current liabilities	844,715
Noncurrent liabilities:	
Accrued compensated absences, net of current portion	-
Unearned revenues	-
Grants refundable	-
Lease 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	1,140,409
Net pension liability	-
Other liabilities	-
Total noncurrent liabilities	1,140,409
Total liabilities	1,985,124
Deferred inflows of resources:	
Service concession arrangements	-
Net pension liability	-
Net OPEB liability	368,417
Unamortized gain on debt refunding	-
Nonexchange transactions	-
Lease	-
Others	-
Total deferred inflows of resources	368,417
Net position:	
Net investment in capital assets	1,698,015
Restricted for:	
Nonexpendable – endowments	-
Expendable:	
Scholarships and fellowships	-
Research	-
Loans	-
Capital projects	-
Debt service	-
Others	1,337,440
Unrestricted	10,711,383
Total net position	13,746,838

Associated Students of San José State University
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:

Student tuition and fees, gross	-
Scholarship allowances (enter as negative)	-
Grants and contracts, noncapital:	
Federal	459,086
State	367,519
Local	141,023
Nongovernmental	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises, gross	854,002
Scholarship allowances (enter as negative)	-
Other operating revenues	7,374,218
Total operating revenues	<u>9,195,848</u>

Expenses:

Operating expenses:

Instruction	-
Research	-
Public service	-
Academic support	-
Student services	8,240,818
Institutional support	-
Operation and maintenance of plant	-
Student grants and scholarships	70,000
Auxiliary enterprise expenses	-
Depreciation and amortization	280,104
Total operating expenses	<u>8,590,922</u>
Operating income (loss)	<u>604,926</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	59,273
Endowment income (loss), net	-
Interest expense	(83)
Other nonoperating revenues (expenses)	10,916
Net nonoperating revenues (expenses)	<u>70,106</u>
Income (loss) before other revenues (expenses)	<u>675,032</u>

State appropriations, capital	-
Grants and gifts, capital	-
Additions (reductions) to permanent endowments	-
Increase (decrease) in net position	<u>675,032</u>

Net position:

Net position at beginning of year, as previously reported	15,184,352
Restatements	(2,112,546)
Net position at beginning of year, as restated	<u>13,071,806</u>
Net position at end of year	<u>13,746,838</u>

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

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	\$	-			
Repurchase agreements		-			
Certificates of deposit		-			
U.S. agency securities		-			
U.S. treasury securities		-			
Municipal bonds		-			
Corporate bonds		-			
Asset backed securities		-			
Mortgage backed securities		-			
Commercial paper		-			
Mutual funds		-			
Exchange traded funds		-			
Equity securities		-			
Alternative investments:					
Private equity (including limited partnerships)		-			
Hedge funds		-			
Managed futures		-			
Real estate investments (including REITs)		-			
Commodities		-			
Derivatives		-			
Other alternative investment		-			
Other external investment pools		-			
CSU Consolidated Investment Pool (formerly SWIFT)	258,556				258,556
State of California Local Agency Investment Fund (LAIF)		-			
State of California Surplus Money Investment Fund (SMIF)		-			
Other investments:		-			
		-			
		-			
		-			
		-			
		-			
Total Other investments	\$	-	-	-	-
Total investments	258,556	-	-	-	258,556

2.3 Investments held by the University under contractual agreements:

Instruction: Amounts should agree with University's investments held on behalf of Discretely Presented Component Units.

	Current	Noncurrent	Total
Investments held by the University under contractual agreements e.g - CSU Consolidated Investment Pool (formerly SWIFT):	258,556	\$	258,556

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

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	500,000				\$ 500,000				\$ 500,000
Works of art and historical treasures									
Construction work in progress (CWIP)	211,193				211,193	92,785		(211,193)	92,785
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	\$ 711,193	-	-	-	\$ 711,193	92,785	-	(211,193)	\$ 592,785
Depreciable/Amortizable capital assets:									
Buildings and building improvements	2,939,391				2,939,391				2,939,391
Improvements, other than buildings					-				-
Infrastructure					-				-
Leasehold improvements			3,080,000		3,080,000			189,875	3,269,875
Personal property:									
Equipment	1,871,259				1,871,259	93,887	(472,961)	21,318	1,513,503
Library books and materials					-				-
Intangible assets:									
Software and websites	134,127				134,127				134,127
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	134,127	-	-	-	134,127	-	-	-	134,127
Total depreciable/amortizable capital assets	4,944,777	-	3,080,000	-	8,024,777	93,887	(472,961)	211,193	7,856,896
Total capital assets	\$ 5,655,970	-	3,080,000	-	\$ 8,735,970	186,672	(472,961)	-	\$ 8,449,681
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)									
Buildings and building improvements	(2,458,848)				(2,458,848)	(120,136)			(2,578,984)
Improvements, other than buildings					-				-
Infrastructure					-				-
Leasehold improvements			(2,613,372)		(2,613,372)	(70,620)			(2,683,992)
Personal property:									
Equipment	(1,758,468)				(1,758,468)	(79,202)	472,961		(1,364,709)
Library books and materials					-				-
Intangible assets:									
Software and websites	(134,127)				(134,127)				(134,127)
Rights and easements					-				-
Patents, copyrights and trademarks					-				-
Licenses and permits					-				-
Other intangible assets:					-				-
					-				-
					-				-
					-				-
					-				-
Total Other intangible assets:	-	-	-	-	-	-	-	-	-
Total intangible assets	(134,127)	-	-	-	(134,127)	-	-	-	(134,127)
Total accumulated depreciation/amortization	(4,351,443)	-	(2,613,372)	-	(6,964,815)	(269,958)	472,961	-	(6,761,812)
Total capital assets, net excluding lease assets	\$ 1,304,527	-	466,628	-	\$ 1,771,155	(83,286)	-	-	1,687,869

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

Lease assets, net
Total capital assets, net

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		20,292			20,292
Buildings and building improvements					-
Improvements, other than buildings					-
Infrastructure					-
Personal property:					
Equipment					-
Total depreciable/amortizable lease assets	-	20,292	-	-	20,292
Less accumulated depreciation/amortization: (enter as negative number, except for reductions enter as positive number)					
Land and land improvements		(10,146)			(10,146)
Buildings and building improvements					-
Improvements, other than buildings					-
Infrastructure					-
Personal property:					
Equipment					-
Total accumulated depreciation/amortization	-	(10,146)	-	-	(10,146)
Total lease assets, net	\$ -	10,146	-	-	\$ 10,146

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense related to capital assets	\$ 280,104
Amortization expense related to other assets	
Total depreciation and amortization	\$ 280,104

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	\$ 209,755		209,755	171,261	(174,304)	\$ 206,712	\$ 206,712	\$ -
2. Claims liability for losses and loss adjustment expenses	-		-			-		-
3. Capital lease obligations:								
Gross balance	-		-			-		-
Unamortized net premium/(discount)	-		-			-		-
Total capital lease obligations	\$ -		-			-		-
4. Long-term debt obligations:								
4.1 Auxiliary revenue bonds (non-SRB related)	\$ -		-			\$ -		-
4.2 Commercial paper	-		-			-		-
4.3 Notes payable (SRB related)	-		-			-		-
4.4 Others:	-		-			-		-
	-		-			-		-
	-		-			-		-
Total others	-		-			-		-
Sub-total long-term debt	\$ -		-			\$ -		-
4.5 Unamortized net bond premium/(discount)	-		-			-		-
Total long-term debt obligations	-		-			-		-
5. Lease Liabilities						10,169	10,169	-
Total long-term liabilities						10,169	10,169	-
5. Lease Liabilities	Balance	Additions	Remeasurements	Reductions	June 30, 2022	Current Portion	Noncurrent Portion	
Total	-	10,169	-	-	10,169	10,169	-	
	\$ -	10,169	-	-	10,169	\$ 10,169	-	

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

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			-	10,169	109	10,278	10,169	109	10,278
2024			-			-			-
2025			-			-			-
2026			-			-			-
2027			-			-			-
2028 - 2032			-			-			-
2033 - 2037			-			-			-
2038 - 2042			-			-			-
2043 - 2047			-			-			-
2048 - 2052			-			-			-
Thereafter			-			-			-
Total minimum lease payments	\$	-	-	10,169	109	10,278	10,169	109	10,278
Less: amounts representing interest									(109)
Present value of future minimum lease payments									<u>10,169</u>
Total lease liabilities									<u>10,169</u>
Less: current portion									(10,169)
Lease liabilities, net of current portion									<u>\$ -</u>

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			-			-			-
2024			-			-			-
2025			-			-			-
2026			-			-			-
2027			-			-			-
2028 - 2032			-			-			-
2033 - 2037			-			-			-
2038 - 2042			-			-			-
2043 - 2047			-			-			-
2048 - 2052			-			-			-
Thereafter			-			-			-
Total minimum payments	\$	-	-	-	-	-	-	-	-
Less: amounts representing interest									-
Present value of future minimum payments									<u>-</u>
Unamortized net premium/(discount)									<u>-</u>
Total long-term debt obligations									<u>-</u>
Less: current portion									<u>-</u>
Long-term debt obligations, net of current portion									<u><u>-</u></u>

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

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	457,813
Payments received from University for services, space, and programs	8,006,946
Gifts-in-kind to the University from discretely presented component units	
Gifts (cash or assets) to the University from discretely presented component units	71,000
Accounts (payable to) University (enter as negative number)	(6,122)
Other amounts (payable to) University (enter as negative number)	-
Accounts receivable from University (enter as positive number)	1,823,932
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	
Correction of prepaid rent accounting treatment for AS House right to use agreement	
Unrestricted	2,579,174
Other assets	(2,579,174)
	-
Restatement #2	
Record Leasehold improvement for AS House renovations	
Net investment in capital assets	(466,628)
Capital assets, net	466,628
	-

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

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	3,138,093	624,809	104,470	294,281	-	4,079,165	-	8,240,818
Institutional support	-	-	-	-	-	-	-	-
Operation and maintenance of plant	-	-	-	-	-	-	-	-
Student grants and scholarships	-	-	-	-	70,000	-	-	70,000
Auxiliary enterprise expenses	-	-	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-	280,104	280,104
Total operating expenses	\$ 3,138,093	624,809	104,470	294,281	70,000	4,079,165	280,104	8,590,922

**Associated Students of San José State University
(A Component Unit of California State University)**

**Other Information
June 30, 2022**

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	1,365,383
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	

Total deferred outflows - others	-
Total deferred outflows of resources	\$ 1,365,383

2. Deferred Inflows of Resources

Deferred inflows - service concession arrangements	
Deferred inflows - net pension liability	
Deferred inflows - net OPEB liability	368,417
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	\$ 368,417

11 Other nonoperating revenues (expenses)

Other nonoperating revenues	10,916
Other nonoperating (expenses)	
Total other nonoperating revenues (expenses)	\$ 10,916



**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***

RSM US LLP

Independent Auditor's Report

Board of Directors
Associated Students of San José State University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Associated Students of San Jose State University (Associated Students) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Associated Students' basic financial statements, and have issued our report thereon dated October 14, 2022. As discussed in Note 2 to the financial statements, the July 1, 2021, net position of Associated Students, has been restated, for the correction of an error. Our opinion is not modified with respect to this matter. As discussed in Note 2 to the financial statements, the Associated Students adopted Governmental Accounting Standards Board (GASB) Statement 87, *Leases*, as of July 1, 2021.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Associated Students' 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Associated Students' internal control. Accordingly, we do not express an opinion on the effectiveness of Associated Students' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-001 to be a material weaknesses.

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. We consider the deficiency described in the Schedule of Findings and Responses as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Associated Students' 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*.

Associated Students' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Associated Students' responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. Associated Students' responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

RSM US LLP

San José, California
October 14, 2022

**Associated Students of San José State University
(A Component Unit of California State University)**

**Schedule of Findings and Responses
Year Ended June 30, 2022**

Finding 2022-001—Scheller House Lease Accounting

As part of Associated Students' adoption of GASB 87, *Leases*, this agreement was reviewed for applicability as a lease and it was concluded that due to there being no exchange of funds between the University and Associated Students it did not meet the definition of a lease under GASB 87; however, this triggered revaluation of the accounting for the agreement from commencement to current year.

Criteria: Per Government Accounting Standards Board (GASB) Concept 4.8-9, assets are resources with present service capacity that the government presently controls. The present service capacity of a resource that is an asset is its existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission. Control of an asset is the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource.

Generally, the government controlling the asset has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit.

GASB 62.12 - Gain contingencies that might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization. Adequate disclosure should be made of contingencies that might result in gains, but care should be exercised to avoid misleading implications as to the likelihood of realization.

Condition: Associated Students and San Jose State University (University) entered into a 30-year agreement in May 2001 for use of space referred to as the Scheller House. At the start of the lease, Associated Students made renovations to the property of \$3,080,000. The University gave the Associated Students a renovation credit for that amount plus 6% interest for the first 10 years of the agreement to be applied annually the stipulated contractual rent. The parties at the time estimated the total amount of the renovations plus interest at \$5,730,712. In May 2001, the Associated Students determined that the \$5,730,712 was prepaid rent to be amortized using the straight-line method over the 30-year lease period. This resulted in \$148,430 recorded as rent expense and a corresponding reduction in prepaid rent each year. In evaluating the transaction further, the renovations completed in 2001 were not capitalized as a leasehold improvement although the renovations met the criteria to be capitalized.

If the University terminates the lease prior to exhausting the renovation credit, the University is required to pay Associated Students for any unused renovation credit. At the end of the initial 30-year term, as listed in the agreement, there are multiple extensions that are available to Associated Students up to a total term of 60 years. Any unused renovation credit at the end of the initial 30-year term may be applied by the Associated Students in lieu of rent until the renovation credit is fully utilized. The unused renovation credit is expected to have a balance of approximately \$1,000,000 at the end of the initial 30-year term; however, there is no indication currently that the lease will be terminated before the renovation credit is used.

Cause: The cause of this error occurred at the inception of the lease and was due to a lack of controls to properly interpret the accounting guidance and evaluate the accounting for this contract.

Effect: This improper interpretation of accounting guidance resulted in a restatement of net assets in the current year financial statements of \$2,112,546 due to removal of the prepaid rent of \$2,579,174 and recording the book value of the leasehold improvements which amounted to \$466,628.

**Associated Students of San José State University
(A Component Unit of California State University)**

**Schedule of Findings and Responses (Continued)
Year Ended June 30, 2022**

Recommendation: We recommend that Associated Students thoroughly review all contracts against the criteria of GASB 87 and other relevant literature at inception of each contract to determine accounting treatment and document their conclusion.

Views of Responsible Officials:

Associated Students agrees with the recommendation and implemented this review process for fiscal year 2021-22.

Finding 2022-002—Lack of Review of Journal Entries by Someone Other than the Preparer

Criteria: Entities should establish controls that would address the risk of management override of controls in the financial statements.

Condition: Associated Students policy calls for the Executive Director to review and approve journal entries prepared by the Associate Director for Finance and Business Services (AD). During our testing of journal entries, we noted that after the departure of the Executive Director, year-end journal entries prepared by the AD were not reviewed by another person to ensure internal controls were not circumvented.

Cause: The cause of the condition was the resignation of the Executive Director in July 2022 and the lack of other knowledgeable personnel to review journal entries prepared by the AD.

Effect: The potential effect of this condition is the risk that unauthorized or inaccurate journal entries could be made by the AD which could be undetected by management.

Recommendation: We recommend that accounting staff that report to the AD prepare and post the majority of the entries and the AD only review journal entries. Further, we recommend that the policy be amended to include that if the AD prepares the journal entries, senior SJSU accounting staff review those entries in the absence of an Executive Director.

Views of Responsible Officials:

Associated Students agrees with this recommendation and has updated its policy effective July 1, 2022.