Consolidated Financial Statements

University Co-operative Society

As of and for the fiscal years ended June 27, 2021 and June 28, 2020
with Report of Independent Auditors

HOLTZMAN

Report of Independent Auditors

To the Board of Directors of
University Co-operative Society

We have audited the accompanying consolidated financial statements of University Co-operative Society and Subsidiary (the “Co-op”), which comprise the consolidated statements of financial position as of June 27, 2021 and June 28, 2020, and the related consolidated statements of activities and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

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

Auditor’s Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Co-op as of June 27, 2021 and June 28, 2020, and the results of its activities and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Holtzman Partners, LLP

Austin, Texas
September 30, 2021

University Co-operative Society

Consolidated Statements of Financial Position

	June 27, 2021	**June 28, 2020**
Assets		
Current assets:		
Cash and cash equivalents	**$ 814,340**	$ 1,644,307
Accounts receivable:		
Trade, net	**118,164**	91,291
Other	**794,445**	135,536
Merchandise inventory, net	**2,353,724**	2,696,971
Prepaid expenses and other	**234,611**	354,955
Total current assets	**4,315,284**	4,923,060
Property and equipment, net	**10,451,461**	10,900,079
Intangible assets, net	**83,591**	139,163
Total assets	**$14,850,336**	$15,962,302
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 800,978**	$ 2,445,597
Accrued expenses	**638,026**	533,159
Current portion of long-term debt	**130,620**	858,117
Deferred revenue	**183,338**	–
Total current liabilities	**1,752,962**	3,836,873
Deferred rent	**60,548**	46,749
Long-term debt, net of current portion	**5,174,505**	7,286,228
Total liabilities	**6,988,015**	11,169,850
Net assets:		
Without donor restrictions	**7,442,321**	4,372,452
With donor restrictions	**420,000**	420,000
Total net assets	**7,862,321**	4,792,452
Total liabilities and net assets	**$14,850,336**	$15,962,302

See accompanying notes to consolidated financial statements.

University Co-operative Society

Consolidated Statements of Activities

	Fiscal year ended June 27, 2021	Fiscal year ended June 28, 2020
Net assets without donor restrictions:		
Revenue:		
Net sales	**$ 13,965,849**	$ 20,698,196
Cost of merchandise sold	**(7,773,167)**	(11,826,484)
Total gross margin	**6,192,682**	8,871,712
Operating expenses:		
Personnel costs	**3,904,357**	5,773,863
Building occupancy costs	**596,136**	808,952
General and administrative	**1,208,489**	1,893,729
Other selling and promotional costs	**186,250**	418,116
Total operating expenses	**5,895,232**	8,894,660
Increase (decrease) in net assets without restrictions from operations	**297,450**	(22,948)
Other income (expense):		
Non-operating income	**3,571,159**	450,092
Depreciation and amortization	**(619,406)**	(899,755)
Interest expense	**(245,822)**	(366,927)
Total other income (expense), net	**2,705,931**	(816,590)
Income tax benefit	**103,510**	926
Change in net assets before university gifts and gain (loss) on sale of property and equipment	**3,106,891**	(838,612)
University gifts	**(40,169)**	(147,933)
Gain (loss) on sale of property and equipment	**3,400**	(281,949)
Change in net assets before membership discounts	**3,070,122**	(1,268,494)
Membership discounts	**(253)**	(215,916)
Change in net assets	**3,069,869**	(1,484,410)
Net assets, beginning of the year	**4,792,452**	6,276,862
Net assets, end of the year	**$ 7,862,321**	$ 4,792,452

See accompanying notes to consolidated financial statements.

University Co-operative Society

Consolidated Statements of Cash Flows

	Fiscal year ended	
	June 27, 2021	**June 28, 2020**
Cash flows from operating activities:		
Cash received from customers	**$ 13,965,849**	$ 20,698,196
Cash received from rental and other activities	**3,675,361**	453,213
Cash paid to suppliers and employees	**(16,333,454)**	(20,924,208)
Interest paid	**(288,136)**	(369,125)
Net cash provided by (used in) operating activities	**1,019,620**	(141,924)
Cash flows from investing activities		
Purchase of domain name	**–**	(3,282)
Purchases of property and equipment	**(111,816)**	(260,468)
Net cash used in investing activities	**(111,816)**	(263,750)
Cash flows from financing activities:		
Proceeds from line of credit	**3,009,276**	3,750,000
Payments on line of credit	**(5,559,276)**	(3,575,000)
Proceeds from notes payable	**4,320,757**	2,021,300
Payments on notes payable	**(3,508,528)**	(287,469)
Net cash provided by (used in) financing activities	**(1,737,771)**	1,908,831
Net change in cash and cash equivalents	**(829,967)**	1,503,157
Cash and cash equivalents, beginning of year	**1,644,307**	141,150
Cash and cash equivalents, end of year	**$ 814,340**	$ 1,644,307
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 288,136**	$ 369,125
Cash paid for taxes	**$ 10,693**	$ –

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

As of and for the fiscal years ended June 27, 2021 and June 28, 2020

1. Organization

The University Co-operative Society (the “Co-op” or “Company”) is a 501(c)(3) nonprofit organization that was organized on June 20, 1925, under the laws of the State of Texas. The Co-op sells goods and services on-line and through its retail stores to the faculty, staff, Board of Regents, and students of The University of Texas at Austin (“UT”), other members of the Co-op, and the general public. The management of the Co-op’s affairs is vested in the Board who are trustees of the Co-op. In the event of dissolution of the Co-op, its net assets would pass in trust to the Board of Regents of UT to be invested in an endowment so that the interest and proceeds shall be award to scholarships for students at UT.

In July 2009, the Co-op formed its wholly-owned subsidiary University Stores, Inc. (“USI”), a Texas for-profit corporation. USI closed the San Antonio store as of December 2018 and closed the Plano store as of March 2020.

2. Summary of Significant Accounting Policies

Definition of Fiscal Year

The Co-op reports its results of operations on a 52- or 53-week fiscal year ending on the last Sunday closest to June 30. Fiscal years 2021 and 2020 were 52-week years.

Basis of Accounting and Consolidation

The consolidated financial statements include the accounts of the Co-op and its wholly-owned subsidiary. The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes and supplemental schedules. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Co-op considers all highly liquid investments acquired with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, because of the short maturity of these instruments.

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Trade accounts receivable are recorded at net realizable value and represent amounts due from customers. Other accounts receivable predominantly represent credit amounts due from vendors for returned items. The Co-op continually assesses the collectability of outstanding trade accounts receivable and vendor credits and if deemed necessary, maintains an allowance for estimated losses resulting from the non-collection of trade accounts receivable and vendor credits. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, and other collection indicators. Actual customer collections could differ from the Co-op's estimates. The allowance for doubtful accounts was not significant at June 27, 2021 and June 28, 2020.

Concentration of Credit Risk

Financial instruments that potentially subject the Co-op to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Co-op maintains its cash and cash equivalent balances in highly rated financial institutions, which at times may exceed federally insured limits. The Co-op has not experienced any loss relating to cash and cash equivalents in these accounts. As of June 27, 2021, 87% of the gross accounts receivable balance comprised amounts due to the Co-op primarily from tax authorities for amended filings and from vendors for returned items. These receivables arise from a broad national vendor base and the Co-op routinely assesses the financial strength of its textbook vendors. The Co-op does not maintain collateral for its receivables and does not believe significant risk exists with respect to receivables. No customer represented more than 10% of total revenues in fiscal year 2021 and three customers represented 30%, 29%, and 11% (70% in total), of trade accounts receivable as of June 27, 2021.

Fair Value of Financial Instruments

The Co-op's financial instruments with carrying amounts approximating fair value due to their short-term nature include cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses. The Co-op's debt is not measured at fair value on a recurring or nonrecurring basis and is carried at initial proceeds less unamortized deferred debt issuance costs.

Merchandise Inventory

Merchandise inventories, which consists of goods for resale, are stated at the lower of cost or net realizable value. Cost includes the acquisition cost of purchased goods determined by the weighted-average cost method. Net realizable value is the estimated selling price less reasonably predictable costs to sell. Management estimates a reserve for obsolete inventory based on a review of specific inventory items at risk for obsolescence. No obsolescence reserve was considered necessary as of June 27, 2021 or June 28, 2020.

2. Summary of Significant Accounting Policies (continued)

The Co-op estimates a shrink reserve based on quarterly trailing sales. The shrink reserve was $30,223 and $56,208 at June 27, 2021 and June 28, 2020, respectively.

Property and Equipment, net

Property and equipment are carried at cost or, if donated, at the estimated fair market value at the date of the donation less accumulated depreciation. Major additions and betterments are capitalized. Repairs, maintenance, and minor replacements that do not materially improve or extend the lives of the respective assets are charged to operating expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the remaining terms of the respective leases or the remaining useful lives of the improvements.

Intangible Assets Subject to Amortization

Intangible assets include lease premiums, copyrights, and a domain name. Amounts are subject to amortization on a straight-line basis over the estimated period of benefit and are subject to annual impairment consideration. Costs incurred to renew or extend the term of a recognized intangible asset are capitalized as part of the intangible asset and amortized over its revised estimated useful life.

Long-Lived Assets

Long-lived assets, which consist primarily of property and equipment and intangible assets, are reviewed for impairment whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if impairment exists. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. If the asset is determined to be impaired, the impairment loss is measured based on the excess of its carrying value over its fair value. The Co-op determines fair value based on discounted cash flows using a discount rate commensurate with the risk inherent in the Co-op's current business model for the specific asset being valued. No indicators of impairment were identified during the fiscal years ended June 27, 2021, or June 28, 2020.

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

The Company records underwriting, legal, and other direct costs incurred related to the issuance of debt as a deduction from the debt liability and amortizes these costs to interest expense over the term of the related debt on a straight-line basis, which approximates the effective interest rate method. Upon the extinguishment of the related debt, any unamortized capitalized deferred financing costs are recorded to interest expense.

Unredeemed Gift Certificates

Upon issuance of a gift certificate, a liability is established for its cash value. The liability is relieved and revenue is recorded upon redemption by the customer. The total liability related to unredeemed gift certificates was approximately $114,000 and $125,000 as of June 27, 2021, and June 28, 2020, and is included in accrued expenses in the accompanying consolidated balance sheets.

Cost of Merchandise Sold

Cost of merchandise sold includes cost of inventory sold during each fiscal year (net of discounts) and freight-in costs.

Advertising

The Co-op expenses advertising costs as incurred. Advertising expenses were approximately $186,000 and $418,000 for the fiscal years ended June 27, 2021, and June 28, 2020, and are included in other selling and promotional costs in the consolidated statements of activities.

Sales Taxes

The Co-op records sales and other taxes collected from customers and subsequently remitted to government authorities as sales tax payable. The Co-op relieves the sales tax payable balances from the balance sheet as cash is remitted to the tax authority. Revenue is recorded net of sales tax.

University Gifts

University gifts are declared periodically at the discretion of the Board. All university gifts are recorded at the time of declaration.

2. Summary of Significant Accounting Policies (continued)

Net Asset Classification

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Co-op and changes therein are classified as follows:

- Without donor restrictions – Net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited by Board designation.
- With donor restrictions –
    - Net assets subject to donor-imposed stipulations that are met by actions of the Co-op or the passage of time. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to net assets without restrictions and reported in the consolidated statements of activities as net assets released from restrictions.
    - Net assets subject to donor-imposed stipulations that are maintained permanently. The Co-op has not received any permanently restricted contributions to date as of June 27, 2021.

Income Taxes

The Co-op is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income, if any. The Co-op did not incur significant tax liabilities due to unrelated business income in fiscal year 2021 or 2020. The Co-op files Form 990 tax returns in the U.S. federal jurisdiction and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

USI is subject to federal income taxation as a C corporation and files income tax returns in the U.S. federal jurisdiction and the state of Texas. USI uses the asset and liability method of accounting for income taxes as set forth in the applicable guidance. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in the period that includes the enactment date. A valuation allowance is established against the deferred tax assets to reduce their carrying value to an amount that is more likely than not to be realized.

2. Summary of Significant Accounting Policies (continued)

The Co-op and USI account for uncertain tax positions based on a “more-likely-than-not” threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. At June 27, 2021, and June 28, 2020, the Co-op and USI do not have any unrecognized tax benefits resulting from their tax positions.

The Co-op and USI recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. No such interest or penalties were recognized during the periods presented. The Co-op and USI had no accruals for interest and penalties at June 27, 2021 or June 28, 2020.

Functional Allocation of Expenses

The Co-op has allocated expenses, comprised of cost of merchandise sold, operating expenses, depreciation and amortization, and interest expense, as follows on a functional basis:

	Fiscal year ended June 27, 2021	Fiscal year ended June 28, 2020
Program		
Cost of merchandise sold	**$ 7,773,167**	$ 11,826,484
Personnel costs	**2,176,361**	3,436,274
Building occupancy costs	**487,428**	686,625
Depreciation and amortization	**414,711**	740,736
Other expenses	**1,065,858**	1,885,027
Total program expenses	**$ 11,917,525**	$ 18,575,146
Management and general		
Personnel costs	**$ 1,727,996**	$ 2,337,589
Building occupancy costs	**108,708**	122,327
Depreciation and amortization	**204,695**	159,019
Other expenses	**574,703**	793,745
Total management and general expenses	**$ 2,616,102**	$ 3,412,680
Total expenses	**$ 14,533,627**	$ 21,987,826

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The standard also expands the required quantitative and qualitative disclosures surrounding leases. In July 2018 this standard was updated and improved through ASU 2018-10 and ASU 2018-11. In June 2020, the FASB issued ASU 2020-05, which changed the effective date for entities other than public business entities to annual periods beginning after December 15, 2021. Early adoption is permitted. This standard will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. However, per ASU 2018-11, the Co-op can elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. Management is currently evaluating the effect of these provisions on the Co-op's financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. In November 2019, the FASB issued ASU 2019-10, which changed the effective date for entities other than public business entities to annual periods beginning after December 15, 2022. Early adoption is permitted. This standard will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management is currently evaluating the effect of these provisions on the Co-op's financial position and results of operations.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. While accounting for contributions primarily affects not-for-profit entities, the clarified guidance applies to all entities (including business entities) that receive or make contributions, except for certain transactions such as transfers of assets that business entities receive from government entities. For private entities in which the entity serves as the resource recipient, this standard is effective for annual reporting periods beginning after December 15, 2018. For private entities in which the entity serves as the resource provider, this standard is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. This standard has been adopted beginning with the reporting period ended June 27, 2021.

2. Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The guidance is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. This standard has been adopted beginning with the reporting period ended June 27, 2021.

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The amendments in this Update modify the definition of the term collections and require that a collection-holding entity disclose its policy for the use of proceeds when collection items are removed from a collection. The amendments in this update are effective for fiscal years beginning after December 15, 2019. Early application of the amendments is permitted. Entities are required to apply the amendments in this update on a prospective basis. This standard has been adopted beginning with the reporting period ended June 27, 2021.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes. The amendments are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Company's financial position and results of operations.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update require not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities and to disclose additional information about contributed nonfinancial assets to provide additional transparency about their use in the entity's programs and other activities. Retrospective application is required. The amendments in the update are effective for annual periods beginning after June 15, 2021. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Organization's financial position and results of operations.

Subsequent Events

Subsequent events have been evaluated through September 30, 2021, which represents the date the financial statements were available to be issued. See specific subsequent events disclosed in Note 14.

3. Liquidity and Availability of Resources

The following table represents the Co-op's financial assets available to meet cash needs for general expenditures within one year of June 27, 2021.

		June 27, 2021
Current financial assets, at year end		
Cash and cash equivalents	**$**	**814,340**
Accounts receivable, net		**912,609**
		1,726,949
Financial assets available to meet cash needs for general expenditures within one year	**$**	**1,726,949**

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

4. Property and Equipment

Property and equipment consist of the following:

		June 27, 2021		June 28, 2020
Land	**$**	**1,155,694**	$	1,155,694
Buildings		**14,888,159**		14,885,917
Furniture & office equipment		**3,019,517**		2,996,172
Leasehold improvements		**2,150,387**		2,110,706
Construction in progress		**18,036**		26,300
Total cost		**21,231,793**		21,174,789
Less accumulated depreciation		**(10,780,332)**		(10,274,710)
Property and equipment, net	**$**	**10,451,461**	$	10,900,079

Estimated useful lives are from 5 to 50 years for buildings and improvements and 5 to 7 years for furniture and office equipment.

For the fiscal years ended June 27, 2021 and June 28, 2020 respectively, depreciation and amortization expense for the above assets was $563,834 and $843,770, and is included in depreciation and amortization expense in the accompanying consolidated statements of activities.

5. Intangible Assets

Intangible assets consist of the following:

	Useful Life	June 27, 2021	June 28, 2020
Lease premiums	18-22 years	**$ 1,710,429**	$ 1,710,429
Copyright	10 years	**9,870**	9,870
Domain name	15 years	**3,282**	3,282
		1,723,581	1,723,581
Accumulated amortization		**(1,639,990)**	(1,584,418)
Intangible assets, net		**$ 83,591**	$ 139,163

The Co-op periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in either a diminished fair value or revised useful life. Amortization expense relating to the Co-op's intangible assets was $55,572 and $55,985 for the fiscal years ended June 27, 2021 and June 28, 2020 respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of activities.

The following table represents the total estimated amortization of intangible assets for the five succeeding fiscal years:

Fiscal years ending	Total estimated amortization
2022	**$ 55,162**
2023	**25,870**
2024	**219**
2025	**219**
2026	**219**
Thereafter	**1,902**
Total amortization expense	**$ 83,591**

6. Accrued Expenses and Other

Accrued expenses consist of the following at:

	June 27, 2021	June 28, 2020
Accrued payroll and benefits	**$ 277,484**	$ 181,789
Accrued property, sales, and Texas margin taxes	**175,480**	156,190
Other accrued expenses	**185,062**	195,180
Accrued expenses and other	**$ 638,026**	$ 533,159

7. Long-Term Debt

Long-term debt consists of the following:

	June 27, 2021	June 28, 2020
Revolving line of credit	**$ 950,000**	$ 3,500,000
Notes payable	**4,435,274**	4,644,345
Discount on debt	**(80,149)**	–
Long-term debt	**5,305,125**	8,144,345
Less: current maturities	**(130,620)**	(858,117)
	$ 5,174,505	$ 7,286,228

In January 2014, the Co-op entered into a loan and security agreement ("LSA") with a financial institution offering a revolving line of credit up to a maximum principal amount of $3.5 million. Borrowings under the revolving line of credit bore interest at the prime rate plus 0.5% per annum with a floor of 4.00%. Interest was payable monthly and any outstanding principal balance was due at maturity. In January 2017, the LSA was modified to extend the maturity date of the revolving line of credit to January 2019. In September 2018, the LSA was amended to extend the maturity date of the revolving line of credit to January 2020. In December 2019, the LSA was amended to extend the maturity date of the revolving line of credit to July 2021. The balance of the revolving line of credit was $3,500,000 as of June 28, 2020.

Under the LSA, the Co-op also entered into a term loan in the amount of $6,551,152. Amounts due under the term loan bore interest at the prime rate plus 0.5% per annum, with a floor of 4.00%. Interest was payable monthly beginning February 2014 until maturity in January 2020. The balance of the term loan was $1,956,013 as of June 28, 2020. In May 2019, the Co-op entered into a second term loan under the LSA in the amount of $1,500,000, of which only $500,000 had been advanced as of June 30, 2019. The remaining $1,000,000 was advanced in July 2019. Amounts due under the term loan bore interest at an effective interest rate of 6.375% and were payable in monthly installments beginning September 2019 until maturity in August 2029. The balance of the second term loan was $1,443,822 as of June 28, 2020.

In March 2021, the Co-op entered into a new loan and security agreement (the "new LSA") with a different financial institution, including a revolving line of credit and a term loan. Proceeds of the new revolving line of credit and term loan were used to repay all amounts due under the previous revolving line of credit and term loans related to the previous LSA. The new LSA offers a revolving line of credit up to a maximum principal amount of $3.0 million. Borrowings under the revolving line of credit bear interest at the prime rate plus 1.75% per annum with a floor of 3.50% (5.00% at June 27, 2021). Interest is payable monthly and any outstanding principal balance is due at maturity on September 30, 2022. The balance of the revolving line of credit was $950,000 as of June 27, 2021.

Under the new LSA, the Co-op also entered into a term loan in the amount of $3,301,157. Amounts due under the term loan bear interest at 4.24% per annum. Interest is payable monthly beginning April 2021 until March 2022.

7. Long-Term Debt (continued)

Beginning April 2022, interest and principal is payable in monthly installments until maturity in March 2031, computed on a 20-year amortization basis. The balance of the term loan was $3,301,157 as of June 27, 2021. The Co-op incurred aggregate debt issuance costs of approximately $82,000 in connection with the new LSA.

Substantially all of the Company's assets are pledged as collateral for these loans.

In August 2017, the Co-op entered into a term loan in the amount of $459,404. Amounts due under the term loan bear interest at an effective interest rate of 6.07% and are payable in monthly installments beginning September 2017 until maturity in August 2022. The balance of the term loan was $114,517 and $212,638 as of June 27, 2021 and June 28, 2020, respectively.

In February 2018, the Co-op entered into an additional term loan in the amount of $55,035. Amounts due under the term loan bear interest at an effective rate of 4.50% and are payable in monthly installments beginning February 2018 until maturity in January 2021. The balance of the additional term loan was $0 and $10,572 as of June 27, 2021 and June 28, 2020, respectively.

As part of the federal government's response to the economic impacts of COVID-19, in March 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted which, among other measures, provided for the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration. In April 2020, the Co-op applied and was approved for a PPP loan in the amount of $1,021,300. All or a portion of the PPP loan may qualify for forgiveness under the terms of the PPP. Amounts not qualifying for forgiveness bear interest at a rate of 1% per annum and will be repaid in monthly installments of principal and accrued interest through April 2022, at which time the loan matures and all outstanding principal and accrued interest is due. The balance of the PPP loan was $1,021,300 as of June 28, 2020. The Co-op applied for loan forgiveness on November 12, 2020 and notification of forgiveness was received on February 7, 2021.

In January 2021, the Co-op applied and was approved for a second PPP loan in the amount of $1,019,600. All or a portion of the PPP loan may qualify for forgiveness under the terms of the PPP. Amounts not qualifying for forgiveness bear interest at a rate of 1% per annum and will be repaid in monthly installments of principal and accrued interest through February 2026, at which time the loan matures and all outstanding principal and accrued interest is due. The balance of the second PPP loan was $1,019,600 as of June 27, 2021.

7. Long-Term Debt (continued)

The aggregate maturities of the Co-op's debt are as follows at June 27, 2021:

Fiscal years ending	Principal Payments
2022	**$ 130,620**
2023	**1,311,363**
2024	**404,328**
2025	**409,214**
2026	**317,206**
Thereafter	**2,812,543**
Total principal payments on debt	**$ 5,385,274**

For the fiscal years ended June 27, 2021 and June 28, 2020, interest expense on the Co-op's long-term debt was $246,157 and $366,927, respectively, inclusive of non-cash interest expense related to debt issuance costs of $2,055 and $0, respectively.

8. Commitments and Contingencies

Operating Leases

The Co-op accounts for rent expense for its operating leases on a straight-line basis in accordance with authoritative guidance on accounting for leases. The Co-op leases facilities that have terms expiring between 2023 and 2026. The terms of the store leases are considered their initial obligation periods, which do not include option periods. The facility leases generally have renewal clauses of five years exercisable at the option of the Co-op. Most lease agreements contain rent holidays and/or rent escalation clauses. The Co-op includes scheduled rent holidays and rent escalation clauses for the purposes of recognizing straight-line rent over the lease term.

Commitments

The Co-op leases building facilities and equipment under non-cancellable operating leases. The Co-op recognizes expense on a straight-line basis and records the difference between the recognized rental expense and amounts payable under the facilities lease as deferred rent.

Rental expense totaled $154,789 and $317,258 during the fiscal years ended June 27, 2021 and June 28, 2020, respectively, and is included in building occupancy costs in the accompanying consolidated statement of activities.

8. Commitments and Contingencies (continued)

Future minimum payments required under operating leases, by fiscal year and in aggregate, that have initial or remaining non-cancellable lease terms in excess of one year as of June 27, 2021, are as follows:

Fiscal years ending	Operating Leases
2022	**$ 624,407**
2023	**628,196**
2024	**563,356**
2025	**471,082**
2026	**116,630**
Thereafter	**–**
Total minimum lease payments	**$ 2,403,671**

Defined Contribution Plans

The Co-op has defined contribution 401(k) and 403(b) retirement plans (the "Plans") and a custodial account covering individuals who have been employed by the Co-op at least one year, who work a minimum of 1,000 hours per year, and who have attained the age of 21. Participants in the 403(b) Plan are permitted to make elective deferrals of their pre-tax compensation to the 403(b) Plan, not to exceed limits set by Internal Revenue Code Section 402(g). The 403(b) Plan is administered by a custodial trustee under the guidance of the Board.

The Coop has a match program which deposits an amount to each eligible employee's 401(k) and 403(b) accounts, not to exceed 5% of the eligible employee's annual compensation. The Co-op's contributions under the Plans totaled $76,546 during the fiscal year ended June 27, 2021.

The Board has agreed to fund the post-retirement medical benefits for the former President/CEO and spouse not to exceed amounts paid to his successor. A reasonable estimate for the cost cannot be determined; therefore, no liability is recorded in the consolidated financial statements at this time.

Litigation

In the normal course of business, the Co-op may become involved in various lawsuits and legal proceedings. While the ultimate results of these matters cannot be predicted with certainty, management does not expect them to have a material adverse effect on the consolidated financial position or results of operations of the Co-op.

9. Revenue Recognition

After adoption of ASC 606 on July 1, 2019, revenues are recognized when control of the promised goods or services is transferred to a customer in an amount that reflects the consideration the Co-op is expected to be entitled to in exchange for those goods. Revenues are recognized net of sales credits and allowances. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Revenue is recognized based on the following five-step model in accordance with ASC 606, *Revenue from Contracts with Customers*:

1. Identification of the contract with a customer
2. Identification of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations in the contract
5. Recognition of revenue when, or as, the Co-op satisfies a performance obligation

Revenue-generating activities consist of retail sales, textbook rentals, and custom publishing activities for various departments of the University of Texas.

Retail Sales

The Co-op recognizes revenue from retail sales when goods are provided to the customer, either in-person at a retail location, or when products are shipped from the warehouse.

Textbook Rental

Textbook rental revenue is recognized when the rental occurs, although performance obligations are satisfied throughout the rental term. Rentals are short-term in nature and are only made for a single semester at a time.

Custom Publishing

The Co-op recognizes revenue from custom publishing services when orders are completed.

9. Revenue Recognition (continued)

Disaggregation of Revenue from Contracts with Customers
The following table disaggregates the Co-op's revenue based on the timing of satisfaction of performance obligations for the fiscal year ended June 27, 2021:

	Fiscal year ended	
	June 27, 2021	**June 28, 2020**
Major Contracts		
Retail sales	**$ 13,737,643**	$ 19,646,237
Textbook rental	**997**	435,777
Custom publishing	**–**	494,660
Other sales	**227,209**	121,522
Total	**$ 13,965,849**	$ 20,698,196
Timing of Revenue Recognition		
Performance obligations satisfied at a point in time	**$ 13,964,199**	$ 20,262,419
Performance obligations satisfied over time	**997**	435,777
Total	**$ 13,965,196**	$ 20,698,196

Significant Judgments

Performance Obligations
A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The Co-op's contracts with customers do not typically include multiple performance obligations and goods and services are sold at their standalone selling price.

Principal and Agent Considerations – Digital Textbooks
The Co-op evaluated principal vs. agent considerations to determine whether it is appropriate to record digital textbook purchase costs paid to the originating vendor as an expense or as a reduction of revenue. Digital textbook purchase costs are recorded as a reduction of revenue and not cost of revenue because the Co-op does not control the goods before they are transferred to the customer.

While the Co-op transfers the product to the final customer, the Co-op is not responsible for establishing prices, does not hold inventory, and does not have any additional responsibilities to the customer once the digital textbook has been purchased.

9. Revenue Recognition (continued)

Shipping and Handling

The Co-op has elected to account for shipping and handling as fulfillment activities, even if those activities occur after control of the goods has been transferred to the customer. As such, the Co-op expenses shipping and handling costs associated with the contract when the associated revenue is recognized. Shipping and handling costs are included in general and administrative expenses in the consolidated statements of activities.

Payment Terms

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days and include no general rights of return. Payment for retail sales is due at the time of purchase. In instances where the timing of revenue recognition differs from the timing of invoicing, the Co-op has determined that contracts do not include a significant financing component.

Contract Balances

The timing of revenue recognition, billings and cash collections can result in billed accounts receivable. At June 27, 2021 and June 28, 2020, trade accounts receivable totaled $118,164 and $91,291, respectively.

Deferred Contract Costs

The Co-op has determined it does not have significant incremental costs of obtaining or fulfilling contracts with customers. Any costs are recorded within operating expenses as incurred.

10. Rental Income

The Co-op leases portions of its buildings to unrelated third-parties under lease agreements. As of June 27, 2021, the property held for leasing, which was included in property and equipment on the consolidated statement of financial position, had a cost basis and accumulated depreciation of $264,054 and $154,829 respectively.

On June 29, 2020, the Co-op executed a lease termination agreement for a tenant. On July 16, 2020, a temporary lease agreement with a new tenant for the same space was executed. On August 20, 2020, the Co-op executed a 5-year lease renewal agreement for the lease of an ATM space at the same street address as noted above.

10. Rental Income (continued)

After the lease termination, new lease agreement, and lease renewal, the Co-op has the following future minimum rental payments to be received in future years:

2022	**$ 554,610**
2023	**483,768**
2024	**449,730**
2025	**382,786**
2026	**15,615**
Total minimum lease payments	**$ 1,886,509**

11. Net Assets with Donor Restrictions

On September 1, 2005, University Presbyterian Church (the "Church") contributed to the Co-op a tract of land adjacent to two parking lots owned by the Co-op. The land was valued at $420,000 on the date of contribution and was recorded at its fair value. The Co-op constructed a parking garage on the three lots, which was completed in August 2006. In exchange for the contributed land, the Co-op granted the Church an easement to certain parking spaces upon completion of the parking garage for a term of 99 years. In accordance with the reversion clause of the deed, the contributed land must be operated as a parking garage for the term of 99 years or ownership or the land will revert back to the Church. Due to the donor-imposed use and time restrictions, the contribution was recorded as non-operating income classified as a net asset with donor restrictions.

12. Non-operating Income (Expense)

Non-operating income (expenses) consisted of the following for the fiscal years ended June 27, 2021 and June 28, 2020:

	2021	**2020**
Rental income	**$ 1,864,190**	$ 944,591
Gain on parking lot, net	**418,946**	360,733
Sales tax discount	**5,128**	9,074
Other income	**1,871,866**	–
Other expense	**(588,971)**	(864,306)
Total non-operating income	**$ 3,571,159**	$ 450,092

Other income consists of gain on forgiveness of the PPP loan discussed in Note 7, in addition to gains recognized related to the Employee Retention Credit and other tax matters.

Other expense consists primarily of non-operating expenses related to pass-through lease expenses, such as maintenance and repairs, utilities, and other operating expenses reimbursed to the Co-op by lessees.

13. Income Taxes

The components of the consolidated provision for income taxes are as follows for the fiscal years ended June 27, 2021, and June 28, 2020:

	2021	2020
Current:		
Federal	**$ (103,510)**	$ –
State	**–**	(926)
Total current	**(103,510)**	(926)
Total income tax expense (benefit)	**$ (103,510)**	$ (926)

The Co-op's consolidated provision for income taxes attributable to continuing operations differs from the expected tax expense amount computed by applying the statutory federal income tax rate of 21% to income before income taxes, primarily as a result of the application of the valuation allowance, losses generated that are exempt from income taxation, and permanent differences.

Significant components of USI's deferred tax assets and liabilities at June 27, 2021 and June 28, 2020 are as follows:

	2021	2020
Deferred tax assets		
Net operating loss carryforward	**$ 2,441,270**	$ 212,055
Charitable contribution carryforward	**5,572**	5,572
Total deferred tax assets	**2,446,842**	217,627
Net deferred tax asset before valuation allowance	**2,446,842**	217,627
Less: valuation allowance	**(2,446,842)**	(217,627)
Net deferred tax asset	**$ –**	$ –

USI has established a valuation allowance equal to the net deferred tax asset due to uncertainties regarding the realization of the deferred tax asset based on USI's lack of earnings history. The valuation allowance decreased by approximately $2,229,000 during the fiscal year ended June 27, 2021, primarily due to increase of net deferred tax assets, which is a result of utilization of net operating loss by the forgiveness of debt.

At June 27, 2021, USI has U.S. net operating loss carryforwards of approximately $1,547,000, of which $1,200,000 will begin to expire in 2037 if not utilized, and $347,000 will carry forward indefinitely.

13. Income Taxes (continued)

Utilization of the net operating loss and tax credit carryforwards is likely subject to annual limitations due to the “change in ownership” provisions (Section 382) of the Internal Revenue Code. The annual limitations may result in the expiration of net operating losses before their utilization. The net operating loss carryforwards are subject to Internal Revenue Service adjustments until the statute closes on the year the net operating loss is utilized.

The Co-op recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. As of June 27, 2021, the Co-op has recorded no unrecognized tax benefits. Additionally, the Co-op does not expect any unrecognized tax benefits to change significantly over the next twelve months.

14. Subsequent Events

On August 10, 2021, the Travis County Appraisal Review Board granted the Coop retroactive exemptions for Travis County property taxes for tax years 2015, 2016, 2017, and 2018, entitling the Coop to a total refund of $1.4 million. As of the report date, the Coop has received the entire refund.