

MINUTES

FORTY-NINER SHOPS, INC.

AUDIT COMMITTEE

Friday, June 18, 2021 – Zoom Conference Meeting

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

Members Present: Dr. Wendy Reiboldt, Chair Mr. Jeremy Harris
Ms. Tracey Richardson

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

Guests: Mr. Mark Gray, Guzman & Gray
Mr. Juan Carlos Portillo, Guzman & Gray

A. Call to Order:

The meeting was called to order at 9:02 a.m. by Chair, Dr. Wendy Reiboldt

B. Approval of the Agenda: June 18, 2021

Motion to approve the Agenda for June 18, 2021

M/S Mr. Harris / Ms. Richardson

By acclamation the Agenda for the meeting of June 18, 2021 was hereby approved.

C. Approval of Minutes: September 18, 2020

Motion to accept the Minutes as presented.

M/S Mr. Harris / Ms. Richardson

By acclamation the minutes of September 18, 2020 were hereby approved as presented.

D. NEW BUSINESS

- Entrance Conference for FY 2020-2021 Audit by Guzman & Gray:
 - Introductions between the new chair and board members were done with Mr. Mark Gray, our CPA, and Mr. JC Portillo who is our Audit Manager at the Guzman & Gray firm.
 - Mr. de Wit disclosed that he had a pre-meeting with Mr. Gray and his associates to discuss the extenuating COVID-19 financial circumstances this past fiscal year that have affected the 49er Shops.
 - Mr. Gray reviewed an Entrance Conference presentation to help the committee better understand the different aspects of the 49er Shops annual audit process.

- He began with an overview of the Engagement Letter that defined the audit committee's role and responsibility within the context of this process.
 - Next was a breakdown of the Audit Scope which this year would include the standards for financial audits as contained in Government Audit Standards issued by the United States Comptroller General.
 - ❖ This would more consistently align with the campus who already follow these standards. However, since the 49er Shops don't receive any federal funds, the auditors don't anticipate much of an impact for the process this year.
- Mr. Gray asked if the organization engaged an attorney to defend or protect any rights, claims or lawsuits.
 - Mr. de Wit explained that attorney services were engaged in support of the CalPERS audit which shouldn't affect the operating statement and noted that this audit claim should be settled by June 30th.
- Mr. Gray inquired if there are any known potential loss or gain contingencies.
 - An item that could qualify for this would be the Paycheck Protection Loans which have already been disclosed and documented.
 - Additionally, Unemployment Insurance Liability (UIP) through the CSURMA/AORMA Self Insurance Program has significantly increased due to extended benefits and timeframes coinciding with the pandemic so Mr. de Wit would like to have that included.
- Mr. de Wit reported that when it comes to new significant commitments, leases or contracts that the Shops terminated the existing contracts with Starbucks, Panda Express and Squeeze Me last year.
 - As for this year, we have engaged in a new 5-year agreement with Nestle for a coffee location concept in the University Library.
- Mr. Gray then asked if there were any significant changes in activities, operations, locations, or key personnel.
 - There were significant changes to the amount of employees along with certain staff duties and responsibilities which Mr. de Wit had discussed during the auditors' pre-meeting.
 - Mr. de Wit added that another activity to report was how during the pandemic there were a few occasions in which the management staff had to make cash pick-ups directly to and from the bank since our Brinks Cash Transport service had been eliminated at the beginning of the pandemic.
- When assessing the initial financial statement audit risks, Mr. Gray discussed the following items.
 - As part of the new Government Auditing Standards, the revenue recognition and deferred income would be reviewed this year for potential audit risks.
 - This would include the UBIT reporting for the contract agreement with the Great Plates program.
 - In terms of the reserves, the board did reclassify some of the reserve designations in May during the annual budget review which may need to be analyzed again given the recent PPP Loan forgiveness.
 - This year, Mr. Gray discussed that there was a change from the retail accounting method for the inventory to a strictly estimated cost basis evaluation method.

- No VEBA actuarial assessment was conducted this year with plans on doing one next year since \$400,000 was withdrawn earlier in the year to cover the post-retirement benefits expenses as planned. In addition there is a possibility of withdrawing additional funds before year end given the trust investment growth.
- The CalPERS actuarial assessment and GASB-68 analysis has been conducted and will experience an unfunded liability increase of over a \$1 million.
- Mr. Gray then went over the proposed engagement timeline that would extend through the summer months and end with the exit conference scheduled for early September.
- He ended his presentation by discussing the following new accounting pronouncements that could affect the audit this year:
 - Topic 606: 2014-9 which refers to revenue from contracts with customers in terms of exchange transactions beginning after December 15, 2019.
 - This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and to achieve this a five-step approach must be applied as outlined within this standard.
 - The new standard replaces most existing revenue recognition guidance in US GAAP in order to better understand the nature, amount, timing and uncertainty of the revenue that is recognized.
 - Topic 842: Lessees are required to recognize lease assets and liabilities on the balance sheet for all leases with terms longer than 12 months.
 - These leases will then be classified as either finance or operating with classification affecting the pattern of expense recognition within the income statement.

Motion to approve the 2021 Audit Entrance Conference Presentation as presented

M/S Mr. Harris / Ms. Richardson

By acclamation, the presentation was formally approved

E. Adjournment

There being no further business, the meeting was adjourned at 9:53 a.m.