MINUTES

FORTY-NINER SHOPS, INC.

AUDIT COMMITTEE

Friday, September 10, 2021 – Zoom Conference Meeting
(Exception Made Due to Covid-19 Issues & Campus Safety Precautions)

Members Present:	Dr. Wendy Reiboldt, Chair	Mr. Jeremy Harris
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 9:15 a.m. by Chair, Dr. Wendy Reiboldt

B. Approval of the Agenda: September 10, 2021

Motion to approve the Agenda for September 10, 2021

M/S Mr. Harris / Dr. Reiboldt

By acclamation the Agenda for the meeting of September 10, 2021 was hereby approved.

C. Approval of Minutes: June 18, 2021

Motion to accept the Minutes as presented.

M/S Mr. Harris / Dr. Reiboldt

By acclamation the minutes of June 18, 2021 were hereby approved as presented.

D. **NEW BUSINESS**

- **Exit Conference 2020-2021 Fiscal Year End Audit**
  - It is the opinion of Guzman and Gray that the accompanying financial statements do accurately reflect the financial position of the corporation.
    - Balance Sheets reflect Current Assets totaling $24,165,154 – compared to $25,648,289 at the end of the prior year.
    - Total Liabilities and Net Assets are $24,165,154 with an undesignated deficit of $1,158,172

- Current Liabilities $3,419,868 (includes current year portions of both pension and accrued post-retirement liabilities).
  - The accrued liability did increase substantially from last year because of the accrual for the unemployment benefits for the self-assured fund.
  - In terms of the accrued post-retirement liability, that was diminished as these funds were pulled from the VEBA account which had been designated to pay this obligation moving forward.
- Non-Current Liabilities is $12,406,176 which includes our long-term pension obligation and accrued post-retirement benefits.
  - This includes the first Payroll Protection Program Loan for $2 million that was already forgiven earlier this year along with the secondary Payroll Protection Loan so the balance remains the same.
- Enterprise Operating Revenues $11,753,861 which is down significantly from the previous year due to the campus continuing with distance learning throughout the entire fiscal year.
- Enterprise Operating Expenses total $17,040,585
- Enterprise Operating Income came in at a loss of $5,286,724
- Non-Operating Income (Expense) came in at a higher amount of $4,814,297 due to the 2 Payroll Protection Loans along with the increased investment income and disposal of fixed assets.
- There was a decrease in Net Assets without Donor Restrictions of $561,460
- Mr. Gray reviewed the Statement of Functional Expense matrix noting that the G&A is at $2,814,061 and total expenses were $10,650,850
  - When compared to the prior year June 30, 2020, there is a marked decrease in terms of the Salaries and Wages as well as the Employee Benefits due to the previous year's layoffs.
- *In reviewing the Cash Flows From Operating Activities there was an increase of $4,310,770 from last year's total of $96,164 due to the forgiveness of the Paycheck Protection Loan and overall investment activities.*

- Note 1: Summary of Significant Accounting Policies
  - There was an update this year to the recently adopted Accounting Pronouncements which is a new disclosure for Revenue from Contracts with Customers with the intended purpose of improving financial reporting relating to this kind of revenue.
  - Mr. Gray noted that this year the Bookstore inventory was conducted using more of a retail method through the average unit cost inventory method of accounting on a more regular basis throughout the year.
  - Under the Revenue Recognition there is a new footnote as to the new Revenue from Contracts with Customers and breaks this down into five different steps:
    1) Identify the contract with the customer
    2) Identify the performance obligations in the contract
    3) Determine the transaction price
    4) Allocate the transaction price to the performance obligations in the contract
    5) Recognize revenue when or as the organization satisfies a performance obligation
    - This summary of these revenue streams are broken down into the following activities:

        - Bookstore sales recognized at the point of sale along with web sales recorded upon delivery to the customer or upon customer pick-up at the store.
        - Commission fees which are revenues recognized when cash is received or when contracted amounts are earned.
        - Food services and Dining sales which are recognized at the point of sale.
        - Vending machine sales that are recognized when cash is received.
        - Textbook rental revenue for short term rentals that are recognized at the beginning of the lease term and properly recognized within that fiscal year.
      - There is another pronouncement regarding leases and under this new guidance lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months that can be classified as finance or operating.
        - This new standard will come into effect as of December 15, 2021 and will effect next year's audit statement accordingly.
- Note 8: Paycheck Protection Forgivable Loan
  - This section discusses the second $2 million Paycheck Protection Loan that was approved in 2021 and the terms of this loan which are similar to the first loan that has already been forgiven.
- Note 9: Net Assets Without Restrictions:
  - Mr. de Wit noted that under the Board Designated funds that were disclosed, these were allocated by the Board during our budget process, however, they were slightly adjusted since the first PPP loan was forgiven before the end of the year effectively reducing the amount from $4 million to $2 million.
- Note 13: Post-Retirement Medical Benefits
  - Mr. de Wit noticed an error under the first paragraph where it indicates that there are only 2 active employees that could be eligible to participate in the plan in the future.
    - It was uncertain where that number came from and Mr. de Wit would confirm with the Human Resources staff on what would be the correct amount of employees.
  - Mr. de Wit added that the Shops would probably do another actuarial assessment for the VEBA fund at the end of the year since we hadn't done one over the last few years.
    - Mr. Gray explained that the numbers used to put together the Reconciliation of Benefit Obligations that determine the overall Net Periodic Benefit Costs were more on the conservative side until they had received the updated numbers from this actuarial.
  - This was the first year the Shops had pulled funds from the VEBA account to pay for the retiree medical benefits and plan to continue doing that for the next 20 years under this program instead of paying it out of the operating income.
    - If this account does become overfunded, Mr. de Wit discussed that we could pull out additional funds to pay other designated obligations for cash flow purposes.
- Note 15: Fair Value Measurements

   - Mr. Portillo discussed that he would be revising the tabling format used in this section in terms of the Level 1, 2, and 3 designations in order to simplify these fair value investments amounts on the final document.
- Note 20: Liquidity
   - Mr. de Wit asked Mr. Gray to remove the line regarding the $2 million dollar line of credit as this is no longer applicable.
- Communication with Those Charged with Governance:
   - There were no material weaknesses or significant deficiencies in operations. There were no disagreements with Management in the course of this audit. No difficulties in performing the audit.
- Other Comments and Recommendations:
   - When it comes to the Board designated reserves, it was recommended that if any funds are pulled from these reserves then it needs to be Board approved and specified as such through the minutes.
      - Mr. de Wit explained that we typically review these reserves as part of our budget process, and will be sure to include any changes within those in our Board minutes moving forward.
   - The auditors have reviewed our online sales process and recommended that our Accounting staff conduct routine internal audits to verify that the process and mitigating controls are being upheld.

Motion to accept the annual audit and recommendations as presented.

M/S Mr. Harris / Dr. Soni

By acclamation the Audit report was hereby approved to recommend to the Board.

E. Adjournment

There being no further business, the meeting was adjourned at 11:04 a.m.