MINUTES

FORTY-NINER SHOPS, INC.

AUDIT COMMITTEE

Friday, September 18, 2020 – Zoom Conference Meeting
(Exception Made Due to Covid-19 Issues & Campus Safety Precautions)

Members Present:	Mr. Jeremy Harris, Chair	Dr. Praveen Soni
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 10:02 a.m. by Chair, Mr. Jeremy Harris

B. Approval of the Agenda: September 18, 2020

Motion to approve the Agenda for September 18, 2020

M/S Dr. Soni/ Mr. Harris

By acclamation the Agenda for the meeting of September 18, 2020 was hereby approved.

C. Approval of Minutes: July 10, 2020

Motion to accept the Minutes as presented.

M/S Dr. Soni/ Mr. Harris

By acclamation the minutes of July 10, 2020 were hereby approved as presented.

D. **NEW BUSINESS**

- **Exit Conference 2019-2020 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 $25,648,289 – compared to $25,665,041 at the end of the prior year.

- Total Liabilities and Net Assets are $25,648,289 with an undesignated deficit of $1,158,172
- Current Liabilities $4,717,254 (includes current year portions of both pension and accrued post-retirement liabilities).
- Non-Current Liabilities is $13,327,850 which includes our long-term pension obligation and accrued post-retirement benefits.
    - This includes the Payroll Protection Program Loan for $2 million that was received in April 2020 when the campus shutdown for the Covid-19 pandemic crisis.
- Enterprise Operating Revenues $30,623,876 which is down over $7,000,000 from last year due to the 4th quarter Covid-19 campus closures of 49er Shops locations.
- Enterprise Operating Expenses total $32,610,645
- Enterprise Operating Income came in at a loss of $1,986,789
- Non-Operating Income (Expense) of $145,572
- There was a decrease in Net Assets without Donor Restrictions of $2,240,506
- For end of year 2020, Net Assets without Donor Restrictions comes in lower than the previous year at $12,320,438.
- Mr. Gray reviewed the Statement of Functional Expense matrix and noted that this is the second year the Shops have done this as per the requirements for all non-profits.
    - G&A is at $4,088,188 and the total expenses came out to $19,522,149.
    - This number is down by $1.5 million overall from the prior year due to employees lay-offs, location closures, and expense reductions starting in March 2020.

- Note 1: Summary of Significant Accounting Policies
    - Under the Basis of Presentation, this is the second year that the financial statements are being presented in accordance with the Financial Accounting standards for not-for-profit organizations.
    - Under Use of Estimates and Assumptions, Mr. Gray spoke about the Payroll Protection Loan which has been calculated as an estimate for this year.
        - The Shops are currently applying for a loan forgiveness program in which we could qualify for a minimum of 24% forgiveness all the way up to 100% forgiveness.
        - The tax implications for how this kind of SBA loan should be allocated in regards to revenue and expenses has not been definitively defined yet which is causing a lot of confusion especially for non-profits.
        - Since it is a loan and there is a possibility of complete forgiveness of this loan, Mr. Gray postulated that it would be a gain contingency and as such these are not recognized in the financial statements until they are fully realized.
        - Since we haven't even applied for the loan forgiveness, it will not be recognized in this year's report and will more than likely appear in next year's financial statements.
    - In regards to Recently Issued Accounting Pronouncements, some of these have been pushed back due to the Covid-19 pandemic crisis.

- There is a new pronouncement for Revenues from Contracts with Customers in which it requires an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers.
  - This updated standard will replace most existing revenue recognition guidance and permits the use of either a full retrospective with cumulative retrospective or retrospective with cumulative effect transition method.
  - This new standard is effective for fiscal years beginning after December 15, 2019 and the Shops are currently evaluating whether the standard will have any effects on the financial statements moving forward.
- The second new guideline relates to leases and states that lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months.
  - Leases will then be classified as either finance or operating, with the classification then affecting the pattern of expense recognition in the income statement.
  - This new standard will be effective for fiscal years beginning after December 15, 2021.

- Note 3: Inventories
  - There is a marked decreased difference when you compare the inventories from the past year in regards to New Textbooks, Computer Equipment, and Food Service.
- Note 7: Long Term Debt – Line of Credit
  - For the line of credit with Morgan Stanley/Smith Barney, Mr. de Wit clarified that this is no longer available with the move to the Graystone consulting arm of MorganStanley
    - Mr. Gray stated that they would update this section to say that this account had expired.
- Note 12: Pension Plan (CalPERS)
  - Under this section, it was notated that in February 2020, the Board had approved a contribution of $500,000 in excess of scheduled payments to reduce the unfunded pension liability.
  - The most recent Valuation Reports from CalPERS did not recognize the $500,000 contribution nor consider how this contribution would affect the future positions or activities of this plan. However, this was recognized in the unfunded liability schedule within the audit documents.
- Note 14: Post Retirement Medical Benefits
  - Within this section, it was notated that the Shops chose to forego a formal actuarial evaluation this year.
  - Mr. de Wit added that we had received VEBA actuarial assessments on an annual basis for the past several years and were under no obligation to have this done annually especially as we are near the tail end of being fully funded for the VEBA account.
  - Starting next year, the Shops plan to pull out $400,000 to $500,000 to pay the retiree medical benefits and can continue to do so for the next 20 years under this program.
- Note 15: Self-Insurance

  - Mr. de Wit noted that because so many of the auxiliaries have needed to lay-off employees due to the pandemic, we have seen some reduction to the insurance rates and the rebate we should receive next July should be a little bit higher than the past.
- 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.