

MINUTES

FORTY-NINER SHOPS, INC.

AUDIT COMMITTEE

Friday, September 16, 2022 – Zoom Conference Meeting
(Exception Made Due to ongoing Covid-19 Safety Precautions)

Members Present: Dr. Wendy Reiboldt, Chair Mr. Jeremy Harris
Mr. Milton Ordoñez Mr. Isaac Julian

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 10:01 a.m. by Chair, Dr. Wendy Reiboldt

B. Approval of the Agenda: September 16, 2022

Motion to approve the Agenda for September 16, 2022

M/S Mr. Ordoñez / Mr. Harris

By acclamation the Agenda for the meeting of September 16, 2022 was hereby approved.

C. Approval of Minutes: June 17, 2022

Motion to accept the Minutes as presented.

M/S Mr. Ordoñez / Mr. Harris

By acclamation the minutes of June 17, 2022 were hereby approved as presented.

D. NEW BUSINESS

• **Exit Conference 2021-2022 Fiscal Year End Audit**

- Mr. Gray was unable to attend the meeting that morning, so Mr. Portillo would be reviewing the final audit report to the committee members.
 - He began by discussing that it was in 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 \$22,900,172 – compared to \$24,165,154 at the end of the prior year.
 - Total Liabilities and Net Assets are \$22,900,172 with an increase of Net Assets of \$5,068,334
 - Current Liabilities are at \$3,233,138 (includes current year portions of both pension and accrued post-retirement liabilities).
 - Non-Current Liabilities is \$6,072,860 which includes our long-term pension obligation and accrued post-retirement benefits.
 - This amount is down significantly from the \$12,406,176 primarily due to the forgiveness of the PPP Loans received over the pandemic.
 - Enterprise Operating Revenues came in at \$26,943,864 as opposed to \$11,753,861 as the campus continues to re-populate back to conditions before the COVID pandemic.
 - Enterprise Operating Expenses total \$27,041,112
 - Enterprise Operating Income came in at a loss of only \$97,248
 - Non-Operating Income (Expense) saw a significant loss of close to \$2 million due to increased market instability throughout the past year.
 - A non-operating Pension and Post-Retirement Benefit Related Change of \$5,312,796 was notated due to the change in periodic costs to the benefit plan.
 - There was a substantial increase in Net Assets without Donor Restrictions of \$5,068,334 when compared to the net decrease of \$561,460 from 2021.
 - Mr. Portillo reviewed the Statement of Functional Expense matrix noting that the G&A is at \$4,203,561 and total expenses were \$16,439,336
- Note 1: Summary of Significant Accounting Policies
 - He reminded the committee of an upcoming Accounting Pronouncement pertaining to leases that would go into effect starting December 15, 2022.
 - Under this new guidance, lessees are now required to recognize the lease assets along with the liabilities on the balance sheet for all leases that have terms longer than a year.
 - Furthermore, these leases will then be classified as either operating or finance with this classification affecting the pattern of expense recognition in the income statement moving forward.
 - The Shops are currently reviewing the impact of this new standard, if any, on our future financial statements.
 - Note 4: Investments
 - The current market volatility is seen when reviewing the Shops investment activity for this year as opposed to last year with marked decreases included.
 - Note 8: Paycheck Protection Program (PPP) Forgivable Loan
 - This note details the 2nd of the PPP loans received in April 2021 and how the loan was initially recognized as a liability, however, with the forgiveness of the entire amount it is now detailed as non-operational income.
 - Note 14: Post-Retirement Medical Benefits
 - Earlier in the year, Mr. de Wit conducted an Actuarial Analysis of the VEBA Trust and an adjustment was made in the amount of almost \$2.2 million.
 - Note 18: Concentrations, Risks and Uncertainties

- Mr. Portillo explained that they had continued to include the ongoing COVID-19 pandemic situation in this section as it could still pose a significant risk to the operations if another surge occurs in the future.
- Communication with Those Charged with Governance:
 - There were no material weaknesses or significant deficiencies in operations.
 - Additionally, there weren't any disagreements with Management in the course of this audit and no difficulties experienced in performing the audit.
- A recommendation was given to consider lowering idle cash balances as it was noted that the Shops had over \$4.6 million in one financial institution at year end which exceeds the FDIC insured limits of \$250,000 which could pose a potential credit risk.
- Since the final Audit Report had come in later than anticipated, Mr. Copley asked to schedule a meeting with Mr. Portillo and Mr. Collier after this meeting was adjourned in order to discuss these financial statements in more depth.

Motion to accept the annual audit report has been received and approved with recommendation to the Board pending a final review with Mr. Copley and Mr. Collier

M/S Mr. Harris / Mr. Ordoñez

By acclamation the Audit report was hereby approved to recommend to the Board pending that final review meeting

E. Adjournment

There being no further business, the meeting was adjourned at 10:27 a.m.