

MINUTES

BEACH SHOPS, INC.

AUDIT COMMITTEE

Friday, September 1, 2023 – Corporate Conference Room

Members Present: Jeremy Harris, Chair Milton Ordoñez
Alvin Tu

Staff Present: Dr. Miles Nevin, Executive Director, 49er Shops and ASI, Inc.
Gordon Copley, Chief Financial Officer, 49er Shops and ASI, Inc.
Marianne Russo, Board Administrator
Tom Collier, Accounting Manager, 49er Shops
Idris Aydin, Director of Finance and Administration, ASI, Inc.
Stewart Ohanesian, Senior Accountant, ASI, Inc.

Guests: Bobby LaCour, Aldrich Advisors
Dennis LaCour, Aldrich Advisors

A. Call to Order:

The meeting was called to order at 9:04 a.m. by Chair, Mr. Jeremy Harris

B. Approval of the Agenda: September 1, 2023

Motion to accept the Agenda as presented.

M/S Mr. Harris / Mr. Ordoñez

By acclamation the Agenda for the meeting of September 1, 2023, was hereby approved as presented.

C. Approval of Minutes: May 26, 2023

Motion to accept the Minutes as presented.

Mr. Ordoñez / Mr. Tu

By acclamation the minutes of May 26, 2023, were hereby approved as presented.

D. NEW BUSINESS

- **Exit Conference 2022-2023 Fiscal Year End Audit** – Mr. Bobby LaCour reviewed the Audit process from this past year with the committee members.
 - This started with the Executive Summary in which the following conclusions and issues were discussed:
 - Their audit scope was in accordance with what had been communicated in their Engagement Letter given to Mr. Copley and his team in February 2023 and discussed with the committee members back in May at their Entrance meeting.

- They will be rendering an unmodified opinion of the June 30th, 2023, Beach Shops financial statements.
 - Mr. LaCour stated that this was different than their typical process but was needed since they were auditing the Shops for the first time along with taking into consideration the new standard for Leases that had come into play just this past year.
- They have identified no conditions within the Shops that they would consider to be material weaknesses in internal controls.
 - He reiterated that since this was the first year, they were looking more at a higher-level and big picture view of the Shops' operations.
 - ❖ As our relationship and partnership progresses, they plan on delving deeper into the management process that goes into these controls in order to provide recommendations as to what could be improved moving forward.
- All audit areas that had been previously designated as greater than normal risks have been satisfactorily addressed and resolved in the context of the overall fairness of the presentation of the financial statements.
- Aldrich has received the full cooperation of management and staff throughout this audit process and were kept well informed as to any and all developments and plans that could affect the audit scope.
- Next Mr. LaCour presented a letter that had been written for the Audit Committee reviewing their responsibilities under the generally accepted Government Auditing Standards along with certain information related to the planned scope and timing of this audit process.
 - Under Qualitative Aspects of Accounting Practices, it detailed that the Shops have adopted FASB Accounting Standards Update (ASU) 2016-2 regarding Leases as of July 1, 2022.
 - This would be the biggest change to our financial recordings for this year, although based on the assessment made, it didn't create any significant changes to the overall statements.
 - He discussed how accounting estimates are an integral part of the financial statements especially for figures that are not cash based and highlighted the following two areas as being particularly significant for our organization:
 - 1) The first would be in regards to the actuarial present value of the pension liability and post-retirement benefits.
 - ❖ Information provided by CalPERS is based upon market returns about a year in arrears, so whereas in 2022 the Shops looked to be overfunded, this past fiscal year saw a swing to the negative demonstrating a level of variability.
 - ❖ As such, when looking at the financial statements, the committee members may notice that this has been pulled out of the operating portion of the Shops' Statement of Activities.
 - ◆ This was done to better designate this as a non-operational figure to reflect we don't have any control over this amount which can fluctuate over time.
 - 2) The second level of estimation pertains to the allocation of functional expenses.

- ❖ The Auditors spent a good amount of time in reviewing where the organization's expenses were going, how do they get there, and if they needed to be allocated, what was the methodology used.
- He reported that there weren't any difficulties encountered when performing the audit.
- Next Mr. LaCour reviewed some minor corrected misstatements that were found during the audit process.
 - The only significant misstatements occurred when better information was made available as of June 30th, 2023, regarding the CalPERS pension liability.
 - The subsequent adjustment to the journal entries were to true up the value of this liability along with reclassifying designated funds in the amount of \$728,878.
- Under the section designated as "Other Matters", he discussed the supplemental information that has been requested by the Chancellor's Office.
 - He confirmed that Aldrich has evaluated the form, content and methods of preparing the information and determined that it complies with generally accepted accounting principles and that this information is appropriate and complete in relation to the audit of the financial statements.
- Financial Statements Summary
 - Mr. LaCour discussed that when reviewing the June 30th financial statements, the Beach Shops, generally speaking, had a very fiscally positive year overall.
 - The increase in traffic on campus after more than two years of the pandemic contributed heavily to that in terms of operations.
 - Assets are far outpacing liabilities, however, the pension obligation is significantly negative as opposed to last year.
 - Being that this is a long-term liability, the organization is not responsible for paying the full amount now but paying it down over time.
 - Additionally, he pointed out that there was a net gain of \$1.1 million operationally.
 - However, if you consider the adjustment to the pension liability, the gain was minimal.
 - He reviewed the Statement of Functional Expenses which breaks down the Shops' costs both by functional and actual classification and discussed how this document details the most meaningful expenditures that occurred over the year for the organization.
 - The last piece that was mentioned was the Statement of Cash Flows that provides a good representation of the overall health of a company and when looking at this information, the Shops cash flow has increased over this past year putting the organization in very good shape moving forward.

Motion to accept the annual audit report has been reviewed and approved as is 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 as is pending that final review

E. Adjournment

There being no further business, the meeting was adjourned at 9:37 a.m.