



Audit Committee Meeting Agenda

Friday, September 27, 2019

1:00 p.m. to 2:00 p.m.

Administration Building, ADM 361 A

1600 Holloway Avenue, San Francisco, California

I. Call to Order by the Chair, Rob Strong

The University Corporation, San Francisco State (UCorp) Audit Committee was called to order by the Chair Rob Strong at San Francisco State University, Administration Building, Room ADM 361 A, at 1:04 p.m.

Committee members present

Rob Strong
Anoshua Chaudhuri
Gene Chelberg
Gary Norton

Committee members absent

Others present

Diana Bonilla, UCorp
Tammie Ridgell, UCorp
Judy Leong, UCorp
Kim McCormick, Grant Thornton
Angela Hans, Grant Thornton

Approval of minutes.....Action
(Rob added a line to the minutes and a correction was made [simple typo, correction under Re: Holloway UCorp expended over 500 thousand dollars on the project]). Rob moved to approve the minutes. Gene seconded. The minutes were approved unanimously.

II. Grant Thornton Report/Audit Review

Tammie presented the FY19 Financial Statement:

- The Student Organizations generated approximately \$397,712 in program revenue and contributions.
- Holloway - Construction commenced in October 2018 and the Corporation began receiving construction rent. On the audited financial statements Statement of Net Position there is a lease rent receivable and a lease rent payable related to the Holloway Project new in FY 18-19. With work assistance from the Chancellors office it was determined that the Holloway Project should be treated as operating lease. Based on the accounting treatment for an operating lease of this



type UCorp would need calculate total rent to be received over the 65 years and amortize using straight-line for both the rent revenue and the rent expense. The straight-line method is used to record even amount of rent over the life of the project and not variations of the project. Rental payment is lower in year 1 and 2 because not receiving full rent revenue. When full rent is collected the receivable and payable will start to decrease over the 65 years, however, we are booking full rent that we are expecting to receive. As business partner the Corporation is earning 10% for handling everything and the rest goes to the University. Building to open in 2020.

- Pledged annuities are split interest agreements where the Corporation will receive an amount over the ½ or the remaining annuity once the donor passes. The Corporation will only receive the funds at that point which is why it is classified as a deferred inflow.
- Current assets in fiscal year 2019 decreased. The decrease was attributed to the distribution of investment assets between current and noncurrent during the fiscal year. The Corporation changed its mix of bond funds to obtain more Fossil Fuel Free investments. Accounts receivables decreased in 2019. The decrease in receivables for fiscal year 2019 is primarily related to improving collection of overdue invoices greater than 90 days by following up on outstanding invoices more frequently and working with vendors that have fallen behind. During 2019 the Corporation continued to invoice the campus for more activity between the two entities to better track revenue owed.
- Total operating expenses for 2019 \$17,927,959 and this includes grants and contracts, campus programs, rental expenses, student scholarships, management and general, retail expenses, student organization and depreciation.
- New vendor relationship. The Corporation entered into an agreement with JDB & Sons Construction to lease parking spaces in lot 25.
- Increase in contributions over last year; this is related to receiving new gifts. PG&E contributed \$1.2m to Tiburon programs to study Eelgrass.
- The Corporation under the direction of Beacon Point, its investment consultant, updated its investment policy.

Kim presented the 2019 Audit Wrap Up Presentation and Discussion

- Audit timeline (pg.1 of UCorp AC presentation)
- Summary of Misstatements. Without the audit process these would not have been identified and corrected. Straight-line lease rent with developer and lease rent with the University.
- GT did not identify any inappropriate accounting policies. However, there were concerns with delay of the audit process due to GT being provided with several iterations of the trial balance and financial statements, accompanied by updated reconciliations, over the course of the audit contributing to inefficiencies. Resulting in the audit being done 1 week later than last year.
- The Corporation did not record a receivable from the University related to unreimbursed costs of \$466,743 as the University has informed the Corporation it will not be recording an associated payable. Per Tammie, this was due to the University's budgetary constraints as there is no revenue from Holloway and what does come in is not enough to cover. No payable for campus to record but UCorp will be paid. GT wanted to make sure the audit was made aware.
- Internal Control Matters. Definitions of deficiency in internal control (pg. 9 of UCorp AC presentation)
- Timeliness of post-close entries and financial statement presentation. Over the course of the audit, management updated that trial balance on several occasions with a total of 10 journal entries. This represents a significant reduction in the volume of post close journal entries compared to the 60 posted in FY18 and was attributable to working with the University to adhere



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to an agreed upon August 15 cut-off . This is a positive development. GT recommends management continue to work with the University to ensure a timely cutoff of related party transactions and seek to record the associated post-close entries on a timely basis.

- The Corporation did not properly identify alternative investments and establish an appropriate process to verify the fair value of the new investments within the portfolio. Management explained that this new investment wasn't characterized as an alternative investment by investment advisors during the acquisition phase. GT recommends the fair value of private, alternative investments be verified by management each June 30 period and close attention is paid to any new purchases of investments in the identification of whether it is an alternative investment. Per Tammie, changes have been implemented. When accounting team is doing reconciliation they are to notate NAV so that it can be appropriately classified.

III. Closed Session

There was a closed session with the Audit Committee members and Kim McCormick (GT) and Angela Hans (GT).

IV. Call for Adjournment

Meeting adjourned at 2:27 p.m.