

**BOARD OF GOVERNORS**  
**AUDIT Committee**  
Wednesday, September 9, 2020  
9:00 a.m. to 10:30 a.m.



**Remote via Zoom**

Approved September 16, 2021

*Present:*

*Committee*

*Members:* **Michael Prime, Chair**; David Heinsen, Bob Kittredge, Tom Martin; Marcia Moore; Doug Guerrero; Glen Thomas; Dave Hodson; Jay Gilbert

*Ex officio present:* Ahmad Boura

*Staff present:* Pam Hollis, University Advancement; Jeni Kitchell, Business and Finance, Vance Kelly, Chico State Enterprises

*Guests:* Bobby LaCour, Connor Phillips; CPA, Aldrich Advisors

## MINUTES

Audit Committee Chair Mike Prime called the meeting to order at 9:04 a.m. and asked for a roll call. Committee members introduced themselves. Prime asked for changes or corrections to the minutes from the September 9, 2019 meeting. Marcia Moore moved to approve the minutes, Tom Martin seconded the motion and the committee voted unanimously to approve.

Bobby LaCour from Aldrich Advisors provided the review report to the audit committee:

Things went very well over all despite the challenges around the global pandemic. We have completed our first entirely remote audits this spring. There were no significant issues.

Review report to the Audit Committee – The audit was performed in accordance with the engagement letter and Aldrich will render an unmodified opinion. They did not find any issues or material weaknesses with internal controls, and they received full cooperation from management.

One item was significantly different from the prior year in the financial statement. A new accounting policy went into place this year regarding revenue recognition applicable specifically to non-profit organizations. As a result of the pandemic, the implementation of that standard was delayed. The non-profit revenue recognition rule deals specifically with contributions. Aldrich went through the exercise of evaluating how the UF recognizes contributions. The policy affects “conditional contributions” where the revenue should not be recognized until that condition is met. Aldrich did not identify any issues with the way the foundation has been recording revenue and this change should not affect what it does in the future. There is slightly different language in the footnotes to the financial statement regarding revenue recognition but no change in process.

Bob Kittredge said that we have an emphasis to the matter in the opinion. In Note One we do not say that it does have no material effect on the financial statements. LaCour said that they can add a statement, either in the opinion or in Note One to the financials. Kittredge prefers that a statement be added in Note One to let the reader know that it did not have a significant effect. LaCour said they will add a statement about the impact to the financial statements or lack thereof.

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LaCour said that there are significant estimates that are part of this financial statement. Anything that is not cash has an estimated component. Fair value estimate of investments, particularly with the alternative investments, can be difficult. Two other items about estimates are pledges receivable (collectability and taking future cash flow to net present value) and deferred gift agreements. For both these items, large estimates come into play. For receivables, there are two things; one is the collectability of the receivable, the other is determining the net present value of that future cash flow. Liabilities on deferred gift agreements (largest estimate of all of ours) estimates the future return of the investments and how long people will live. The unpredictability is high for these.

LaCour said that the disclosures in the financial statements are clear, and we do not have any significant issues with them. We did not have any difficulties in performing the audit. The management representation letter is included in the package as a reference. As part of an audit, management has the right to include a second opinion. That has not happened in this case. Supplemental information to the financial statement is utilized by the chancellor's office. The University Foundation audit is required both by the state and by the chancellor's office. The chancellor's office has a September 18 deadline because they have to combine all the CSUs into one very large financial statement to submit to the state.

Glen Thomas said that last year there was a discussion about liquidity and how the auditor viewed the liquidity position of the UF considering all the additional uncertainty and volatility around the pandemic. He asked "how do you see the environment and uncertainties affecting the foundation?"

LaCour replied that regarding the foundation's liquidity, it looks pretty good right now. Over the past few years, management has done a lot to clean up the UF financial statements. We now have a very streamlined financial statement. A pure philanthropic organization receives donations, disburses them, and invests those they retain. In terms of liquidity, by June 30 issues around the pandemic had levelled. Contributions remain strong and the organization is very well positioned. We are seeing a revolution in higher ed as we move to remote instruction and a reduction in head count. All you can do is continue to do what you have done well in the past, to continue to demonstrate the value of the university. We are clearly in a place of uncertainty. We are getting comfortable with feeling uncomfortable. The reality is that this is not the first time we have faced significant challenges.

LaCour said that \$2 million is set aside for a liquidity reserve last year, with \$2.5 million set aside this year, so you are well-positioned to deal with any hiccups in 2021 that could affect the organization. A bigger threat is 2022, when things may come to a head with some donor fatigue, but you still want to fulfill your obligations to the university. The goal is to continually fund the university at least at the existing level, but ideally at a higher level.

Glen Thomas said that the audit is very vanilla this year, so the prospects for the future are a more interesting topic of concern.

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Ahmad Boura said that the unrestricted gift becomes even more important in times of uncertainty. We know that a dip in the market and a recession are inevitable. We are planning on a three to five-year horizon and he will be talking at the board meeting about these plans.

Mike Prime asked about the issue of non-filing the alternative tax returns in years 2007 through 2011 and wondered if, as the issue moves further into the past, will the footnote be removed from the financial statement. LaCour said that it would drop off the statement next year, although it will always be addressed because of the tax liability of alternative investments that we continue to have.

Kittredge asked about receivables on the balance sheet, noting that they have dropped way off from \$2.2 million to \$200,000 this year. LaCour explained that it was a redemption of assets from investments to cash. It happened at the end of the year, and it was in transit but classified as a receivable. They should have received it before year end but did not actually get receipted until July. Arnerich and Massena showed it as cash in transit on their books, but the UF had not actually receipted it yet.

Kittredge also asked about Fixed Assets – a capital project for \$550 (\$440K shows up on balance sheet as a liability). Boura explained that it is the Omron lab project, where the state fronts the money and the UF reimburses them when the construction is complete.

Kittredge asked about the flow of the monies that come in for student loans. Boura explained that we are not in the loan business. We no longer accept gifts that are intended for loans, we ask the donor to make scholarships instead. The loans we had on the books previously have been transferred to the state. LaCour noted that those footnotes will no longer be reported on the financial statements beginning next year.

Tom Martin moved to approve the financial statements and audit report. Marcia Moore seconded the motion, and the financial statements were approved.

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