SAR

SCHOOL FOR ADVANCED RESEARCH
MEETING OF THE AUDIT COMMITTEE
Wednesday, October 22, 2014
SAR Seminar House

MINUTES

MEMBERS PRESENT:	**STAFF**
Joan Fortune, Chair	Sharon Tison
Dorothy Bracey, *ex officio*	Richard Balthazar, Meeting Recorder
Michael Brown, *ex officio*	
Laura Pearl *(by phone)*	
Tsianina Lomawaima *(by phone)*	**GUEST**
Elizabeth Roghair	Jennifer Putnam, CliftonLarsonAllen
Lynn Withey *(by phone)*	

I. CALL TO ORDER
Joan Fortune called the meeting to order at 1:45 pm introduced Laura Pearl as a new member of the Committee, remarking on her career as a CPA and venture capitalist, and Laura greeted the members.

II. APPROVAL OF AGENDA
Joan advised that the agenda would be Approval of Minutes, Report of the Auditors and management response, Executive Session, Schedule meeting for IRS Form 990 review, Discussion of risk management topics, and New Business. *The agenda was approved by consensus*.

III. APPROVAL OF MINUTES OF PREVIOUS MEETING
Elizabeth Roghair pointed out several non-substantive changes and corrections to the draft of the last meeting's minutes. *With those corrections, the minutes of the February 27, 2014 meeting were unanimously approved.*

The Committee followed up on issues from that meeting. Joan advised that she had not yet drafted the paper on reputational risks and that the storage issue remained to be addressed. Sharon advised that Jason Brady had signed off on quarterly reviews by the Finance Committee, a procedure identified as necessary in last year's audit, and the Financial Edge work was done. She also reported that D&O insurance had been increased from $1 million to $5 million but the umbrella insurance had not been increased and the cyber insurance had not been purchased. There was detailed discussion of insuring the IARC collection and ways to estimate an appraisal for quotes. Michael Brown will continue to look into the questions that were raised in the prior meeting.

IV. REPORT OF THE AUDITORS

Opinion

Jennifer Putnam of CliftonLarsonAllen reported an unmodified (clean) opinion on the financial statements representing the financial position of the School as of June 30, 2014 and 2013.

Required Governance Communications

Jennifer reviewed the responsibilities of the auditors and said that there were no changes to significant accounting policies. Jennifer noted three audit adjustments: (1) adjustment of accrued interest on mortgage payable (2) reclassification of Anne Ray Charitable Trust (ARCT) contribution from cash to accounts receivable, and (3) adjustment for unrealized gain on investments not recorded. Additionally, she noted no disagreements with management, no consultation with other independent auditors, no issues discussed prior to retention, no significant findings discussed with management and no difficulties encountered in performing the audit. She then reviewed CLA prepared charts on assets and liabilities, current ratio, revenues and expenses, and cash flow analysis for the years 2012 through 2014

Management Letter

Jennifer then discussed the management letter comments from the prior year audit, noting the only required action remaining is for someone in addition to Sharon Tison to review bank statements and reconciliations and sign off on them. Sharon noted that Bob Lujan, SAR's bookkeeper who reports to Sharon, performed the required review but had not documented that review.

Regarding the current year, CLA will report one material weakness and two significant deficiencies in internal controls. Jennifer reported that the material weakness is due to improperly recording $691,698 from ARCT as cash, when it should have been posted in accounts receivables, resulting in an overstatement of cash at year end. The required adjustment was made to the audited financials. Sharon responded that the original posting was based on prior precedent and Jennifer responded by recommending that any such future questions be based on a careful review of the specifics of the grant agreement.

The first significant deficiency noted by the auditors was no review of cash reconciliations after being prepared by the VP Finance, as was noted in last year's management letter. Sharon reiterated what was noted above, namely that Bob Lujan had indeed reviewed the cash reconciliations but had not signed off on them.

The second significant deficiency was the auditors' finding of a few small errors related to timing and completeness of releases of net asset restrictions. Errors included releases in excess of fund balance, expenditures in 2012 that were not released until 2014, and expenditures related to the current year that should have been released from restrictions and were not.

Discussion

Broad discussion followed on reducing book inventory and storage costs, and a suggestion was made that the AAA Committee consider the issue with the manager of the Press. Discussion continued on procedures for marking down or writing off stock of books and how aggressively this should be pursued. Jennifer advised that SAR's current policy on inventory reduction was sensible and could be substantiated. Lynne Withey stated that publishers had guidelines for marking down value and destroying stock and that she would be glad to discuss those guidelines with Michael Brown.

Elizabeth inquired about the investment balance at year end, and Jennifer pointed out that it did not include the unrealized gain. Sharon added that a new account also had not been included, and Jennifer advised that she would adjust the wording on that matter. Dorothy inquired how the Anne Ray change might affect the public support test, and Jennifer advised that the change in classification had no effect on revenues.

Jennifer stressed that staff and board should feel free to call her at any time for advice on financial questions and suggested quarterly calls to check in on matters. Sharon discussed procedures for early review and corrections, including the dating of deposits on donations and date-stamping mail. Jennifer advised that this concluded her review and expressed appreciation for Sharon Tison's work with their auditing procedures.

Sharon commented on a number of notes to the financials and suggested including a note explaining the decrease in revenues and expenses. She also suggested replacing the term "renovations" with "purchase of adjacent land," requested clarification of several figures, adding "mortgage" before "note payable", and requested a change on p. 14 of the financials under Functional Allocation of Expense to replace "Membership Development" with "Membership Programming."

Joan asked that the auditors make the requested revisions and provide a new draft for Committee consideration and a second review at the same meeting when the IRS Form 990 will be reviewed.

V. EXECUTIVE SESSION

Joan suggested that the Executive Session be moved to after the Form 990 agenda item. After VI. below, Michael and Sharon exited. The Committee then discussed with Jennifer the process of communication with staff and the need for items which might require judgment or interpretation to be discussed or reviewed with the auditors prior to the start of the audit to avoid surprises and after the fact corrections. Despite the findings reported in the Management Letter, Jennifer said she has great confidence in Sharon and staff and complimented Sharon on her cooperation and commitment to doing good work.

VI. MEETING FOR IRS FORM 990 REVIEW

In response to Joan's question, Jennifer advised that the first extension of the due date for the Form 990 would be filed on November 15 by CliftonLarsonAllen. Assuming that the required tax assistance letter is completed by Sharon and returned to CLA in a timely fashion, Jennifer advised that a draft of the 990 would most likely be ready for review by the Committee in mid-December. Joan will advise the Committee when the next meeting of the Committee will be held to review the draft 990 as well as the revised audit.

VII. DISCUSSION OF RISK MANAGEMENT TOPICS

Previous audit committee meetings included reviews of data security and insurance coverages as part of the committee's responsibility to review potential risk exposures. Joan suggested that the next such review cover some or all of the human resources policy manual and procedures. Michael Brown will assume responsibility for determining which topics will be covered and by whom. This review will be conducted at an audit committee meeting to be held in conjunction with the February Board meeting.

VIII. NEW BUSINESS
There was no new business.

IX. ADJOURNMENT
The meeting adjourned at 3:54 pm.