

# A G E N D A

## AUDIT COMMITTEE

REGULAR MEETING  
MONDAY, JUNE 3, 2019, AT 10:00 AM  
BOARD ROOM – GATEWAY COMPLEX

- 1) MEETING CALLED TO ORDER: Dwight Walker, Chair
- 2) ROLL CALL: Dwight Walker, Alan Swanson, Mary Neff (nonvoting), John Kikuchi, Barbara Rothway, Sheldon Solloway, and Chris Yahng  
  
INTRODUCTIONS: Tim O’Keefe, CEO; Rick Chakoff, CFO; Bob Kelso, GRF Board President; Merek Lipson, Resident and Committee Adviser
- 3) APPROVAL OF REPORT: April 1, 2019
- 4) RESIDENTS’ FORUM  
  
The Audit Committee will follow Rossmoor custom and limit comments to 3 minutes.
- 5) ANNOUNCEMENTS
  - a) Recruitment of Audit Committee members: Expiring terms in June— Sheldon Solloway, Alan Swanson and Dwight Walker
- 6) NEW BUSINESS
  - a) MTF Task Force Update—Chris Preminger
  - b) Assessment of External Auditors—Rick Chakoff (Attachment)
  - c) Mutuals as related parties
  - d) 2019 FASB changes and impact on 12/31/19 Financial Statements
  - e) GRF balance sheet reflects “Net assets for the benefit of Walnut Creek Mutual Entities” of \$27.3 million at the end of 2018. Should the Mutual balance sheets be reflecting an asset held for their benefit by the Trust?
- 7) UNFINISHED BUSINESS
  - a) Whistleblower Policy—Employee Handbook Update in Process
  - b) Enterprise Risk Management presentation to GRF Planning Committee
  - c) Code of Conduct Compliance—John Kikuchi
  - d) CDARs use to reduce concentration of cash accounts at Mechanics Bank
- 8) ADJOURNMENT
- 9) NEXT MEETING: Monday, July 1, 2019, at 10:00 a.m. in Board Room at Gateway Complex.

cc: GRF Board

AUDIT COMMITTEE REPORT  
 REGULAR MEETING  
 MONDAY, APRIL 1, 2019, AT 10:00 A.M.

A regular meeting of the Audit Committee was convened by the Chair, Dwight Walker, at 10:00 a.m. on Monday, April 1, 2019, in the Board Room at Gateway Complex.

Members present were Dwight Walker, Chair; John Kikuchi, Alan Swanson, Barbara Rothway and Chris Yahng. Excused absence: Mary Neff and Sheldon Solloway

Roll Call

Also attending were Tim O'Keefe, CEO; Rick Chakoff, CFO; Merek Lipson, Resident/Committee Adviser; and GRF Board members: Bob Kelso and Ken Anderson; Amanda Davis, Senior Accountant; Chris Preminger, Business Ops Manager; Ann Peterson, Rossmoor News Editor; Scott Taylor, BPM and Melodie Olson, BPM

1. APPROVAL OF REPORT: Minutes from January 17, 2019 meeting were unanimously approved with a motion from John Kikuchi, seconded by Alan Swanson.
2. RESIDENTS' FORUM—No comments.
3. ANNOUNCEMENTS—
  - WHISTLEBLOWER GRF POLICY—The GRF board adopted the Policy at the March 28<sup>th</sup> meeting. John Kikuchi and Tim O'Keefe were thanked as champions of this Policy making its way to approval.
  - Notes from the February 4, 2019 meeting (attached) were reviewed with a focus on the discussion about Enterprise Risk Management. The GRF Board has asked Merek Lipson and the Chairman to make a presentation at the July 2019 Planning Committee meeting about ERM and board/management responsibilities.
  - Merek Lipson has announced that he is willing to be considered a full-time member of the Committee to fill the vacancy left by Mary Neff as Treasurer becoming a nonvoting member under the new Charter.
  - Recruitment of new Audit Committee members will be essential with terms expiring in June 2019 for Dwight Walker, Alan Swanson and Sheldon Solloway.
4. REVIEW OF 12/31/18 AUDITED FINANCIAL STATEMENTS—Rick Chakoff introduced Scott Taylor and Melodie Olson from BPM, external auditors for GRF. They proceeded to review the scope of work and conclusions reached from the audit. Most importantly a clean opinion has been issued and no management letter comments issued regarding the 12/31/18 audit. Rick Chakoff and Amanda Davis were commended for their good work and cooperation with the audit process. In reviewing the draft audit report, a number of edits were noted by Committee members and agreed to by BPM and will be included in the final report:

Whistleblower  
 Policy

- Disclosure will be made in the footnotes of the 2015 GRF board designation of \$250,000 for Trust Maintenance needs.
  - Note 2, under “Membership Transfer Fees”—delete “(see Note 8)”
  - Note 6, “Retirement Plans, continued” last paragraph will be updated for new expiration date of collective bargaining agreement.
  - Note 7, “Concentrations” last sentence will be updated for expiration date of collective bargaining agreement.
  - Note 12, “Medical Center” the second sentence will clarify terms of option for one 5-year renewal term.
  - Combining Balance Sheet (draft page 18) “Net Assets for the benefit of Walnut Creek” will be corrected to “Net Assets for the benefit of Walnut Creek Mutuals”.
5. AUDITOR COMMENTS—Scott and Melodie were asked several questions by members of the Committee. The following responses/comments are worth noting:
- Highest risk areas examined were revenue recognition; fixed asset additions and estimated lives; and compliance with debt covenants.
  - Two accounting principle changes will be taking place during 2019 that may have an impact on the 12/31/19 financial statements. They recommended that these changes be contemplated during the 2019 audit planning phase to assess impact on financial statements and/or audit.
  - Concentration of cash accounts with Mechanics Bank, as required by loan documents results in some risks with \$5.9 million only FDIC insured for \$250,000. Rick Chakoff said that he is working with Mechanics to undertake CDAR investments that would yield interest income and reduce risk.
  - Due to immateriality, the auditors did not devote any procedures to Facility Usage Fees. It was pointed out to them that this issue is intertwined with Membership Transfer Fees and that a task force is currently working on identifying issues that may need to be addressed.
  - There was a discussion regarding the treatment of the Mutuals as a “related party”. It was determined that this should be addressed in a future meeting.
  - In response to a question on the use of contracted internal auditors, Scott said that BPM could not offer those services as the external auditor because it would compromise their independence.
6. RECOMMEND ACCEPTANCE OF 12/31/18 AUDITED FINANCIAL STATEMENTS--The Committee unanimously passed a motion made by Alan Swanson and seconded by Barbara Rothway that the 12/31/18 Audited Financial Statements, as modified for edits above, be recommended for acceptance by the GRF Board at its April 25 meeting.

7. REVIEW OF FACILITY USAGE FEE REPORT—Chris Preminger presented the 2018 FUF Report that showed fees collected from lessees during 2018. He indicated that he will be updating it quarterly and the Committee asked that it be included in its distribution. Chris also reported that the MTF task force is working towards a June deadline to report on its activities related to multiple units with same registered occupants and potential impacts on MTF/FUF. The Committee thanked Chris for his efforts on this important project and looks forward to the report of the task force.
8. RECOMMEND MEREK LIPSON AS COMMITTEE MEMBER—The committee unanimously passed a motion made by John Kikuchi and seconded by Chris Yahng to recommend to the GRF Board President that Merek Lipson be approved as a member of the Audit Committee.
9. CODE OF CONDUCT COMPLIANCE—John Kikuchi will be convening a Task Force of Committee members before the next meeting to explore this area.
10. ADJOURNMENT  
There being no further business to come before the Committee, the meeting was adjourned at 11:35 a.m.
11. NEXT MEETING:  
The next regular meeting of the Audit Committee will be Monday, May 6, 2019, at 10:00 a.m. in the Board Room at Gateway Complex.

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Dwight Walker, Chair  
Audit Committee

AUDIT COMMITTEE  
MEETING NOTES  
MONDAY, February 4, 2019, AT 10:00 A.M.

A meeting of the Audit Committee was convened by the Chair, Dwight Walker, at 10:00 a.m. on Monday, February 4, 2019, in the Board Room at Gateway Complex.

Members present were Dwight Walker, Chair; Mary Neff, GRF Board Treasurer; John Kikuchi, and Chris Yahng. Excused absence: Sheldon Solloway, Alan Swanson and Roll Call  
Barbara Rothway.

Also attending were Tim O’Keefe, CEO; Rick Chakoff, CFO; Merek Lipson, Resident/Committee Adviser; and GRF Board members: Bob Kelso and Ken Anderson.

1. A quorum was not present resulting in no actions taken.

2. RESIDENTS’ FORUM—No comments.

3. ANNOUNCEMENTS—

- AUDIT COMMITTEE CHARTER—was approved by the GRF board at its January 31, 2019 meeting. As such, Mary Neff is no longer a voting member of the committee. Bob Kelso was asked to find out if there was any interest by other board members in joining the committee. Merek Lipson was asked to consider becoming a member of the committee.
- WHISTLEBLOWER GRF POLICY—Tim reported that this item is on the agenda for the upcoming Policy Committee meeting and then it will be forwarded to the GRF board for two readings before it can be adopted.

New  
Charter

4. REVIEW OF 12/31/18 PRELIMINARY FINANCIAL STATEMENTS—Rick Chakoff highlighted the areas of the MOD and GRF financial statements where there were significant variances from budget. A discussion ensued regarding the focus of the external auditors on variances from last year vs budget and whether it would be useful for the Audit Committee in its review of quarterly financial statements to see a column for prior year. As the financials were reviewed a number of issues were discussed:

- Newspaper revenue was down again in 2018 by 10%. Continuing decline in this revenue line item has been anticipated and was reflected in the 2019 budget.
- GRF “reserves”, debt capacity and long-term financial needs are being addressed in a study commissioned by the board.
- Member Transfer Fees declined in 2018 with exemptions on the rise and registered lessees on the decline. The recently released “Demographic Report” highlighted a number of interesting data points but failed to identify the number of manors where the same resident is registered. Chris Preminger will be asked to address this exception reporting as a part of the MTF Task Force, which is expected to deliver its report in June.

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- MOD financials reflect a \$260k loss on Mutual Billable despite an increase in billable rates to the Mutuals in 2018. Rick indicated that steps are being taken to manage expenses to regain a breakeven result with Mutual Billable in 2019.
5. RISK MANAGEMENT and GRF—Merek Lipson presented background information about this important area focusing on best practices outlined for ERM—Enterprise Risk Management (attached). He discussed two articles from COSO, Committee of Sponsoring Organizations of the Treadway Commission (attached). A far ranging discussion ensued regarding risk identification, assessment, etc. While there are on-going efforts in this area it is believed that a more defined and disciplined process should be considered. It was concluded that this is a board/management function and that Merek and Dwight will attend the next Board Planning Committee meeting to outline components of ERM. The Audit Committee's role in ERM was identified as follows:
- Understand the organization's internal control environment and overall risk profile
  - Conclude whether effective internal controls are in place.
  - Monitor the progress of corrective action until the organization's internal controls are working properly and mitigating risks effectively
  - Assess whether risk that might prevent the organization from achieving its objectives or maintaining its reputation have been identified
  - Know how the organization mitigates these key risks
6. CODE OF CONDUCT COMPLIANCE—John Kikuchi will be convening a Task Force of committee members before the next meeting to explore this area.
7. ADJOURNMENT  
There being no further business to come before the Committee, the meeting was recessed at 11:45 a.m.
8. NEXT MEETING:  
There will be no Audit Committee meeting in March. The next regular meeting of the Audit Committee will be April 1 at 10am in the Gateway Board Room.

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Dwight Walker, Chair  
Audit Committee

## ▶ SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT continued

### POST-AUDIT MEETING

#### Ask the Internal Auditors

- What was the extent of your work on the audit and were there any changes to the scope of work performed?
- Was there adequate coordination with the external auditors?
- Did management impose any limitations on you?
- Were any significant problems encountered?
- Are you aware of any actual or possible illegal or questionable payments?
- Are you aware of any conflicts of interest between officers or employees and the organization?
- Are you aware of any significant deficiencies or material weaknesses in internal control not identified by management or the external auditors?
- Are you aware of any related party transactions not disclosed in the financial statements?
- What are the department's goals and objectives for this year?
- What will be the scope of your activities this year?
- How will you monitor the organization's code of conduct?
- Do you feel your staffing is adequate?
- What additional work could you do to reduce the work of the external auditors?
- What is your evaluation of the external auditors' services for the past year?
- Are the organization's systems functioning with maximum efficiency at minimum cost?
- What is your assessment of the capabilities of management?
- Are there any other items that should be discussed with the audit committee?

#### Ask Accounting Management

- What was your reaction to the audit findings?
- Were there any disagreements between you and the external auditors? If so, how were they resolved?
- Are the financial statements fairly presented?
- What are the reasons for financial statement variations from the prior year?
- What was the substance of significant issues raised by either internal corporate or outside counsel, and how are these matters reflected in the financial statements?
- Did you consider any changes in accounting principles that were not ultimately adopted?
- Did you seek the opinions of other auditing firms on any accounting or auditing issues?
- Were any problems or difficulties identified as a result of the audit that we should know about?
- What is your opinion of the auditing services performed by the external auditors?
- Were any significant deficiencies or material weaknesses identified and communicated to us pervasive across the organization or were they limited to a specific location or account? Have these been remediated?
- Were there any other deficiencies identified by you that were not reported to the audit committee (whether or not they have been remediated)?
- Were there any errors or adjustments noted by you that were not recorded?
- What is your reaction to the suggestions contained in the external auditors' management letter?
- What actions do you contemplate in response to these suggestions?
- What is your evaluation of the external auditors' services this past year?
- What significant changes do you foresee for the organization this year?
- Are there any other items that should be discussed with the audit committee?