



TOPIC: University System of Maryland: Temporary and Conditional Exemption from financial statements audit requirement under Board of Regents Policy IX-2.0 for Harry R. Hughes Center for Agro-Ecology, Inc.

COMMITTEE: Finance

DATE OF COMMITTEE MEETING: September 1, 2011

SUMMARY: At the December 3, 2010 meeting, the Board of Regents granted formal affiliated foundation status to the Harry R. Hughes Center for Agro-Ecology Inc. Recognition of affiliated foundations status confers rights as well as responsibilities outlined in Board of Regents Policy IX-2.0 Policy on Affiliated Foundations. One of the requirements in the Policy on Affiliated Foundations is that each affiliated foundation have an annual audit of its financial statements by an independent certified public accountant.

The Harry R. Hughes Center for Agro-Ecology, Inc. historically has prepared annual financial statements prepared in accordance with generally accepted accounting principles, and has had a 'review' done for those financial statements, costing just under \$3,000 per year. An audit of the financial statements would cost close to double the amount currently being paid for a review. The most recent financial statements report activity of less than \$40,000 per year, and a balance sheet with less than \$100,000 in assets. The organization has limited resources to pay for an audit of the financial statements in the short-term, and does not have enough federal contract and grant activity to require a Single Audit.

All of the other recognized affiliated foundations have substantially larger totals of either activity and assets.

The proposed exemption would lapse at the point the Harry R. Hughes Center for Agro-Ecology, Inc. reports more than \$500,000 of activity (revenues or expenses) or assets, or the point at which a federal Single Audit is required, whichever threshold is met first.

The System's independent auditors, SB & Company have considered this exemption in the context of their audit of the System's financial statements, and staff and the independent auditors have developed a satisfactory approach to satisfying auditing and financial reporting standards and requirements.

ALTERNATIVE(S): The Harry R. Hughes Center for Agro-Ecology, Inc. could be denied the exemption and be required to have an audit of its financial statements annually without consideration of the cost relative to the risks and size of the organization.

FISCAL IMPACT: None

CHANCELLOR'S RECOMMENDATION: That the Finance Committee recommend that the Board of Regents approve for the University System of Maryland a temporary and conditional exemption for the Harry R. Hughes Center for Agro-Ecology, Inc. from the requirement to have an audit of the financial statements as described above.

COMMITTEE RECOMMENDATION:

DATE:

BOARD ACTION:

DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923
