

CHICO STATE
ENTERPRISES

Finance and Investment Committee

Meeting Minutes

Wednesday, September 8, 2021, 12:00 pm

<https://csuchico.zoom.us/j/83401380282?pwd=N1ZSK0ZvaXRuNjBsUENnRFduZk54Zz09&from=addon>

Meeting ID: 834 0138 0282

Passcode: 389478

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Committee Members Present: Anita Chaudhry, Annabel Grimm, Tod Kimmelshue, Bob Kittredge, Ann Sherman

Members Absent: None

Other Board Members Present: Debra Larson

Also Present: Mary Sidney, Olivia Williams, Vance Kelly, Michele Flowerdew

1. **Call to order at 12:01 pm**
2. **Approval of Minutes from May 5, 2021
(Kittredge/Grimm)
Motion carried (3/0/0)**
3. **Public comments and announcements – none**
4. **Finance and Investment Committee Report**
 - a. **CSE Year-End Financials** – Kelly reviewed the 2020-21 fiscal year-end financial statements through June 30, 2021, noting that CSE had a positive year. Total revenue was 134% of budget. He noted that the University Foundation asked that CSE lower their business services fees per the MOU. There was a slight decrease in administrative fees vs. budget resulting in 61% of the budgeted amount. Investment income came in at 422% of the projected amount but the majority are unrealized gains and will show up on the statement of changes. Kelly summarized that the overall total revenue was \$6.3M in actual total revenue vs. the \$4.7M budgeted amount which is 35% higher than budgeted.

Kelly reviewed expenses, noting that wages and expenses were slightly higher than budgeted. Regarding office operations, he shared that CSE replaced some antiquated computing equipment. CSU MOU expenses came in very close to budget. There was a slight overage in financial audit and tax services and contract software maintenance fees due to cost increases from the software provider. He noted a significant overage in IT/Audit/Other services due to increases in software contract costs. These overages

were the result of unbudgeted outside consulting fees, training, salary studies, and recruiting assistance. Total expenses were budgeted at \$4.5M with actuals at \$5.0M, or 12% over budget.

Kittredge asked for additional information on facility fees, which ended the fiscal year at 87% of budget. Sidney explained that the revised invoice amounts for 2018-19, 2019-20, and 2020-21 increased significantly, however after further review and discussion, CSU, Chico ultimately honored the original invoiced amounts for 2018-19 and 2019-20. Due to COVID restrictions, facilities weren't fully available. The outcome of discussions about this resulted in the 2020-21 facility fees being prorated. For 2020-21, the facility fee initially proposed invoice was significantly over budget, close to a \$600k expense, but the university was able to utilize the Higher Education Emergency Relief Fund (CARES Act) monies toward those fees, allowing CSE to remain very close to the budgeted amount. Kittredge inquired as to the status of the above discussion on a prospective basis. Sidney explained that she and the university are working on an exchange of value concept in lieu of paying or reducing facility use fees. An example of this would be when a faculty applies for a grant, there are administrative and overhead fees that are incurred that are not covered by said grant, but CSE provides those services regardless. Sidney indicated that these non-covered expenses are significant, easily more than a million dollars per year. Other items that were considered were human use administration, animal use administration, and biohazards. Sidney and the team are currently closely documenting these expenses and will meet again with the university to discuss this further.

Kittredge inquired about the budget for the current year and how the above-mentioned changes to facility fees will affect or delay that budget. Sidney proposed moving forward with the proposed budget with the understanding that the facility usage fee/exchange of value proposition details are yet to be finalized. Kittredge indicated some concern over not having a finalized budget for approval. Sidney noted that the allocations of the F&A funds won't occur until spring of 2022. She recommended approval of the current budget with a "TBD" in the facility fees line item. By the December 2021 FIC meeting, the agreement may be finalized and could be added to that budget line for approval at the discretion of the committee. In response to questions from Kittredge and Larson, Sidney explained that the new formula for F&A going forward would be finalized by February 2022 and subsequently presented to the Board for approval. Kittredge asked if there has been any indication of why the F&A revenue came in higher than budget this fiscal year. Sidney responded that the leading indicators, in terms of proposal submissions that precede this, show that CSE is seeing an increase in the volume of sponsored program activity. There was a slight slowdown during COVID restrictions until faculty were allowed back on campus, at which time they continued work on their research and technical reports. Sidney added that she was pleasantly surprised by this.

Kelly briefly reviewed the principles of fund accounting. He specified that the funds of CSE are organized as follows: General, Plant, and Bond, Board Designated, Auxiliary Activities, Sponsored Programs, and Campus Program. He noted that there was activity for North State Public Radio (NSPR) solely in the first quarter in accordance with CSE's agreement with CapRadio. NSPR will not have activity in future quarters.

Kelly reviewed CSE's Statement of Net Position as of June 30, 2021, for the benefit of the committee. He reviewed assets and liabilities, year over year comparisons, and details for each line item. Total assets increased by \$4.3M year over year. Total liabilities were \$2.3M more than the same period of the previous year. CSE's total net position overall was a positive change of \$2M, due mostly to increases in sponsored

program activity. Larson and Kittredge inquired about the reserve for grant cost reserve for grant disallowance and Kelly confirmed that this reserve is in case the Department of Education disallows any of the submitted grant costs. Flowerdew added that the Department of Aging tends to be the most critical of submitted grant costs. Sidney commended Flowerdew and her team on successful, clean programmatic audits with no material findings. Larson commended the team for the successful audits as well and suggested that the Board should be made aware of them when they occurred, and the results.

Kittredge posed a question about what changes have been made to CSE's investment strategy, wondering about long-term investments vs. private equity investments. Kelley responded that CSE has an agreement with the University Foundation and indicated their investment professionals, Arnerich Massena, manage CSE's investments. Kelly clarified that all the investment instruments are labeled under the single Long-term investments category. Kittredge indicated a desire to discuss this further in the Audit Committee meeting.

Kelly reviewed the CSE Statement of Revenue, Expenses, and Changes in Net Position through June 30, 2021. He noted that revenues for agriculture and enterprise sales in 2021 ended very similarly to 2020 fiscal year-end which was surprising due to the loss of NSPR. He stated that sponsored program receipts were almost \$5M more than the same period 2020, which illustrates the increase in sponsored program activities. University program receipts were significantly impacted from the prior year due to the lack of sales for events like the North State Symphony and other productions/programs due to the pandemic. Total revenues and other support increased \$6.4M year over year. Kelly reviewed expenses, noting that sponsored programs' disbursements increased by \$5.4M year over year. Overall expenses increased by \$4.3M for the year. Kelly concluded that the net position at fiscal year-end increased by \$2M year over year.

Chaudhry asked for additional information on the faculty and grant development line item. Kelly explained that these are the incentive accounts by college and by PI. This is where the F&A distribution goes back. It is currently housed in the Board Designated Fund. These are for faculty, and they expend out of their incentive accounts. Flowerdew clarified that faculty might travel to a conference, purchase a laptop for research, or pay a student for research. Sidney noted that this is the distribution formula that has been in place for many years. She is interested in revising the current process so that it will more directly correlate to projects that generate F&A and cover their costs. This will be shared with PIs, center directors, and the Board of Directors.

Kittredge inquired as to why transfers with CSU, Chico in 2021 are so much higher than in 2020. Kelly will research this line item and provide additional detail to the Audit Committee.

- b. Proposed General Fund Budget for FY21-22** – Sidney shared the proposed budget for FY21-22 as compared to the three years prior. She is forecasting that indirect revenue will increase by 13.4%. University Foundation business services are budgeted at \$40k less than the previous year after considerable analysis to support that reduction. She proposed a 21% decrease in program administration fees as these are related to programs that couldn't operate fully during the pandemic and may take some time to get started again. Regarding investment income, she projects an increase in this area and budgeted 36% over last year's budget. The university has provided funds to support the reorganization of CSE and those have come in significantly over budget for the past three years. This year's proposed budget estimates a number that is closer to

actuals than past budget amounts. In conclusion, Sidney stated that the proposed total revenue is increased by 13.6% year over year.

Sidney reviewed the proposed budget expenses for the committee. She noted that the CEO salary and benefits, as well as the salary for a temporary, part-time consultant, is included in the Wages and Benefits line item, causing it to increase 13.8% over the previous year. Office operations include a modest 5% increase including replacement of outdated technology equipment. Regarding CSU, Chico payments, the most notable line item is the pending campus facility utilization fees line, which will be finalized before the December board meeting. Sidney stated that the contract software maintenance proposed budget has increased as CSE is now paying for Cayuse software implemented last year. In total, expenses are projected to be 10.7% higher than the previous year. In conclusion, the gross operating balance is estimated to be 77.6% higher than the previous year.

There was some discussion amongst committee members regarding having a "TBD" in the line item for facility use fees. Members recommended that a definitive amount be specified before the committee could recommend budget approval to the Board. After considerable discussion, it was decided to use the budgeted amount equal to last year at \$206k.

**Motion to recommend the proposed budget with the change to the facilities use fee line item to the Board of Directors
(Kittredge/Grimm)
Motion carried (3/0/0)**

5. **Next meeting date and time to be announced and communicated electronically**
6. **Adjourn at 1:31 pm**

Approved by FIC Committee subject to edits to be provided by Board Director, Ann Sherman