



Finance and Investment Committee

Meeting Minutes

Thursday, May 18, 2023, 1:30 pm

25 Main Street Conference Room (Hybrid)

<https://csuchico.zoom.us/j/81986973966?pwd=NkhoZnFOVTNrV1dUVDViU0lVa3lUUT09&from=addon>

Meeting ID: 819 8697 3966

Passcode: 434950

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Committee Members Present: Ron Barker, Anita Chaudhry, Jamie Clyde, Tod Kimmelshue, Bob Kittredge, Mary Sidney

Members Absent: None

Other Board Members Present: None

Also Present: Michele Flowerdew, Karen Franks, Vance Kelly, Dana Pitman

Sidney introduced Jamie Clyde, the new Interim VP, Business & Finance.

- 1. Call to order at 1:30 pm** – Kimmelshue called the meeting to order.
- 2. Approval of Minutes from March 17, 2023**
(Kittredge/Kimmelshue)
Motion carried unanimously (5/0/0)
- 3. Review of Year-to-Date FY22-23 Financial Statements** - Kelly reviewed the General Fund Combined Budget to Actual through March 31, 2023. Indirect cost recovery (F&A) is at 85% realized, slightly higher than where we would expect it to be at this point in the year. Administrative fees total expenses were also higher than budgeted at 85%. Total revenue ended the quarter at \$4.8M and 80% of budget. He reviewed expenses, noting that wages and benefits are at \$3.1M and 73% of budget. Office operations totaled \$188K or 92% of budget. Financial audit and tax services have ended the year slightly over budget at \$124K. Other contract services – IT/Audit/Other ended the quarter at \$226K or \$129% of budget. He indicated that some of these expenses were higher this year due to the contract services of temporary employees. Insurance expenses are also higher than budgeted this year, ending the quarter at \$227K or 122% of budget. Total expenses ended the quarter at \$4.5M, right on target at 77% of budgeted expenses. The total operating activities net was positive at \$235K. He separated out unrealized gains/(losses), noting that they are currently showing a gain of \$581K.

Kelly reviewed the Statement of Net Position (Balance Sheet) as of March 31, 2023, identifying changes compared to the prior year. Cash and investments decreased slightly year-over-year (YOY) at \$17.4M, a difference of -\$4.9M over last year. Accounts receivable had a positive variance of \$3.6M YOY. He explained that those two categories offset each other. Total assets decreased slightly YOY by \$2.0M. He reviewed the liabilities categories, noting that accounts payable, at \$495K, showed a slight increase over the prior year. Unearned revenue has decreased by \$1.3M. Total liabilities have decreased slightly YOY by -\$1.0M. Total net position ended the quarter at \$31.2M, which is a -\$988K difference over the same period of the prior year.

Kelly reviewed the Statement of Revenue, Expenses and Changes in Net Position (Profit and Loss Statement) through March 31, 2023. Grant and contract revenue increased by \$1.2M over the same period last year. Event and membership income increased by \$542K YOY. Investment activity (unrealized gains) is positive at \$791K, showing a variance of \$1.3M YOY. Total revenues and other support show a positive change of \$2.9M YOY. He reviewed expenses, noting that salaries and wages have increased by \$2.4M over last year. Employee benefits have increased by \$831K. Contract services have decreased over last year by \$2.9M. Kelly reviewed the expenses in this same statement. He noted that salaries and wages ended this quarter at \$14.2M, an increase of \$2.4M YOY, showing an increase in activity. Employee benefits increased by \$821K YOY, correlating with the increase in salaries and wages. There has been a slight decline in contract services with a variance of -\$2.8M as compared to the prior year. Operating expenses increased by \$492K YOY. Hospitality, participant costs, and travel expenses have all increased YOY with the relaxation of the previous COVID travel restrictions. Total expenses have increased by \$2.5M YOY. The net position, ending, is -\$988K YOY.

- 4. Review Draft Updated Reserves Policy** - Sidney reviewed a draft Reserves Policy and the philosophy behind the proposed recommendations. She shared that there was a conversation with Kittredge and Barker last week about the reporting of the unrealized gains and losses as they are currently reported and whether CSE should use those numbers as part of the budgeting process. The current reserves policy looks at our net income to determine how much the principal investigators (PIs) should receive as an F&A distribution. That policy, last revised in 2018, doesn't provide clarity on whether to adjust for unrealized gains or losses. It also doesn't align with the F&A Distribution Policy. Sidney is continuing to rebuild the organization with additional staff based on the growth we have experienced, however, there isn't enough revenue to support the strengthening of CSE's infrastructure, so she is utilizing reserves to support the growth. She indicated that the reserves policy should inform the F&A policy. Most of our contracts are cost-reimbursed, which means that CSE uses its reserves to cover expenses until each contract submits expenses for which we can be reimbursed. Thus, accepting cost-reimbursed contracts means that CSE accepts the liability and costs of a project anticipating repayment for those expenses at a later date. Further, the campus has requested that CSE purchase property for the campus, at a cost of \$2.5M, bringing into discussion the need for working capital. Because of these issues, it has become apparent that the sections of the reserves policy that address working capital, capital replacement, and planned future operations need to be modified. Kelly noted that the 16.67% reserves indicated in the current policy for working capital reserves are inadequate to cover CSE's business administration and property management expenses. Thus, moving toward a targeted reserve of 50% is recommended. Additionally, he recommends inserting the phrase "income used to meet reserve requirements will be operating income plus realized investment activity."

Kelly further clarified the proposed reserve requirements using the spreadsheet entitled *Analysis of Proposed Reserve Requirements*. This document looks back over the past three fiscal years, summarizing general fund budget operating expenses and property management, as well as the working capital requirements for sponsored programs' cash needs. Kelly noted that distributing F&A based on unrealized gains, not actual gains, is not sustainable. There was extensive discussion, particularly pertaining to the calculations behind the reserve requirements, and the need for transparency in the calculation. After further discussion, it was decided to move on to the F&A Distribution Policy topic without approval or denial of the proposed changes to the Reserves Policy at this time.

- 5. Review Draft Updated F&A Distribution Policy** – Sidney shared the draft of the revised F&A Distribution Policy. She noted that the intention of the revisions is to define income and remove the market impact for the F&A distributions, both realized and unrealized. Additionally, it is recommended that, as we look at making an F&A distribution, we first look at reserve levels. If the minimum is met, a formula would be applied to determine the F&A distribution amount. This recommendation was also followed by considerable discussion. It was decided that this agenda item would be further discussed along with the reserve policy update, and recommendations to the full Board would be made at a later date.


- 6. FY23-24 Proposed General Fund Budget** – Sidney reviewed the proposed general operating fund budget. Significant growth is anticipated in the indirect cost recovery at 23.5% as well as University Foundation business services at 20.9%. Increasing staff has become critical to support that increased activity. Total revenue is projected to increase by 14.3% in the coming year. She pointed out that the largest increase in expected expenses in the coming year will be wages and benefits due to the staff increases. With the needed investment in the infrastructure, the proposed budget leaves us with a shortfall of -\$566K. This would require utilizing reserves to balance the budget, which prompted the review of the Reserves and F&A Distribution policies. The consensus was that the budget is ready for approval at the next Board meeting.

At the conclusion of this topic, the meeting ceased to have a quorum.

The meeting was adjourned at 3:10 p.m.

The next meeting date is TBD

Respectfully submitted,



Mary Sidney, Secretary