



Finance and Investment Committee

Meeting Minutes

Thursday, August 10, 2023, 10:00 am

Via Zoom

<https://csuchico.zoom.us/j/83115861017?pwd=YTdhTFY0eE41cEErMkFmdEEyZlhYUT09&from=addon>

Meeting ID: 890 1792 8335

Passcode: 773346

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

Members Absent: Jamie Clyde

Other Board Members Present: None

Also Present: Michele Flowerdew, Karen Franks, Vance Kelly, Dana Pitman, Susan Podesta, Julie Jessen, Chris Martinez (community member), Sean Reese (community member)

1. **Call to order** – Kimmelshue called the meeting to order at 1:01 p.m.
2. **Approval of Minutes from May 18, 2023 (Kittredge/Barker)**
Motion carried unanimously (4/0/0)
3. **Draft Reserves Policy Review** – Sidney shared that she and the management team have been working to review and update Chico State Enterprises' (CSE) policies and procedures. The F&A Distribution Policy and Reserves Policy are two of the policies currently under review and in need of some minor revisions. Intentions while reviewing these policies were to ensure that the policies support the way CSE currently does business as well as to meet the needs of the organization. She explained that CSE is experiencing significant growth. Because much of CSE's activity is cost reimbursed, meaning that we incur costs upfront, invoice the sponsor, and await reimbursement, the demands on working capital and adequate reserves are becoming more important than ever. Kelly further explained that it was important to look at both the Reserves Policy and the F & A Distribution Policy in tandem as they are interrelated. It is important to ensure that CSE is aggressive in its reserves ideology because we are basically the bank for the State of California's cost-reimbursable programs, many of which can take up to 180 days to pay submitted invoices. As an example, Kelly shared that one funder took 360 days to pay a \$400,000 invoice from CSE. It is not uncommon for State and Federal funders to have billing terms of up to 120 days. He noted that there is a considerable amount of deferred maintenance

for the 25 and 35 Main Street buildings. Many things in the building, like the roof and air conditioning units, are antiquated and must have contingency funds put aside for when repair or replacement becomes critical. Additionally, CSE does F & A distributions, so it is important to ensure that we have adequate cash on hand to run the business.

Kelly referenced the red-lined version of the Reserves Policy, noting that Items in bold are new recommendations for the policy. The working capital used to meet these requirements refers to the average annual cash position of sponsored programs over the three preceding fiscal years. Sidney clarified that the income used to meet these reserve requirements will come from operating income plus realized investment activity. The capital replacement and improvement section included the following language: *Capital replacement reserves of the CSE General Fund shall be established annually through a Capital Expenditure Budget approval by the Board, which shall include a three-year projection of capital expenditure needs.* In the section regarding planned future operations, the following language was added: *The reserve shall be equal to the planned future operational expenditures approved by the Board.*

Kittredge asked if the Board has approved a capital and improvement budget in the past. Kelly indicated that he doesn't believe so, but that a capital and improvement budget would go before the Finance & Investment Committee first, and then presented for Board approval. It was then recommended to move on to discuss the F & A Distribution Policy before taking a vote.

- 4. F & A Distribution Policy** – Kelly reminded the Committee that there were significant and unprecedented swings in unrealized paper gains/losses during the pandemic. These were not cash gains, but adjustments in the fair market value of our investments which would only be realized if the stocks were sold. Those paper gains, however, are reported in our financial statements as below-the-line, non-operating income, and are above and beyond our normal operations. To address this, verbiage was added to clarify that F & A distribution will be based on General Fund net income less investment activity. This policy works directly with the Reserves Policy to ensure that CSE has enough cash to operate throughout the year. With the example of working capital calculation, which was included in today's presentation, Kelly clarified that the Fund Balance refers to the General Fund and that clarification will be added to the policy. There was some discussion about the possible eventuality of the Lost Park redevelopment project and what that could mean for CSE, financially. There was a conversation about the policy changes as well as positive feedback from committee members about the edits made to both policies.

A motion was made to approve both the Reserves Policy and the F & A Distribution Policy as presented.

(Kittredge/Barker)

Motion carried unanimously (4/0/0)

There was a discussion about the benefits or drawbacks of having a line of credit from which to draw when business needs warrant. Kelly shared that he has been looking into this possibility and shared some details. More information will be forthcoming.

There was also a discussion about the \$2.3M Orange Street purchase and the possible financial implications. Kelly explained that the short-term loan taken out to fund that purchase was a

conservative and important financial decision for the organization. CSE owns the property at this point but will transfer to the university at some point in the future.

The meeting was adjourned at 1:56 p.m.

The next meeting date will be announced at a later date.

Respectfully submitted,

Mary Sidney

Mary Sidney, Secretary