

THE CSU, CHICO RESEARCH FOUNDATION

California State University, Chico

Minutes for the Finance & Investment Committee

Wednesday, March 07, 2018 2:00 – 3:30 pm

Arts 228

COMMITTEE MEMBERS PRESENT:

David Hassenzahl, Eric Bartelink, Bob Kittredge

MEMBERS ABSENT:

None

OTHER BOARD MEMBERS PRESENT:

Robbi Stivers, Ahmad Boura

ALSO PRESENT:

Jessica Bourne, Amanda Bullock, Stacie Corona, Richard Tafalla, Kevin Hansen, Amy Riesen, Michele Flowerdew, Clare Roby, Jennifer Morgan.

1. **CALL TO ORDER** – Hassenzahl called the meeting to order at 2:04 pm and asked for introductions.
2. **PUBLIC COMMENTS** – None.
3. **Approval of minutes from December 8, 2017 – Action Item**

**Motion to approve the minutes from December 8, 2017
(Bartelink/ Kittredge)
(3/0/0)**

4. **Business**

- a. **Quasi-endowments** – Bourne explained that a quasi-endowment is unique because the funds are more flexible than an endowment. The Research Foundation houses 4 quasi-endowment accounts that total \$1.2 million which are currently invested in the Commonfund. The University Foundation has 550 endowed accounts that total \$60 million invested diversely with Arnerich Massina. She recommended that the 4 Research Foundation accounts be transferred to the University Foundation to create efficiency and consistency in the administration of these accounts. In addition, other Research Foundation accounts are being encouraged to explore quasi-endowments to meet program needs. Hassenzahl questioned why certain endowments were created in the Research Foundation. Bourne explained that the money was related to contract work within Research and Sponsored Programs. Kittredge asked about the post-retirement health benefit account. Bourne answered that it is managed through the Research Foundation Administration office and is under the purview of the Board. It was discussed that the owners of each of the 4 accounts are supportive of the suggested move. Bourne explained that the next step would be to create documents for each account to define what the funds are used for, establish restrictions and communicate a 3-5-year commitment. Stivers commented that stakeholders should be made aware of

possible future market fluctuations so that appropriate preparations can be made should a dip occur. Invested funds can usually be withdrawn within 3-5 business days, however, that could be at a potential loss depending on the market. Boura added that deviating from an established investment strategy has associated risks. Projects should assess their budgets to ensure they have sufficient operating funds and can increase earnings by investing what they don't need. Bourne emphasized that the goal is to offer options as well as the opportunity to discuss those options based on the individual needs of the project. Stivers suggested that projects ease into the transition to give the market time to stabilize. Boura added that the University Foundation used this approach when investing their strategic reserve funds. Hassenzahl asked whether the Committee can make a recommendation to move forward with the proposed transfer or if a policy needs to be put in place first. Bourne explained that if the Committee wants to make the recommendation to move all quasi-endowments to the University Foundation, the Policy on Project Cash Management and Loans can be updated to reflect that. Bartelink asked if this policy change would force unwilling projects to move. Bourne replied that would be unlikely, however, all 4 projects are on board with the change. Ahmad added that the final decision will be made by the Board and that education is an important piece of the process.

Bourne shared that the main impact this change would have on the Research Foundation is that it would decrease the cash balance, however, the RF General Fund is currently able to float itself because of the liquidation of the College Park houses. Hassenzahl asked for confirmation that moving these funds would not put the Research Foundation in a deficit. Bourne explained that there should be enough in the RF General Fund. Boura asked how much cash flows in and out of the Research Foundation on an annual basis. Bourne shared that about \$40 million in expenses are paid annually and estimates that \$3 million is needed to float the activity. Kittredge clarified that any funds above the \$3 million needed would be invested. Bourne answered that the excess funds could either be endowed or discussed further to determine a course of action. Boura asked if the \$3 million evaluation is a conservative figure. Stivers shared the importance of liquidity and flexibility in the Research Foundation to assist the University when necessary and recommends approaching this change in phases. Kittredge questioned the ease of accessing invested funds should the need arise. Boura clarified that the funds are easily accessible and can be invested diversely depending on tolerance level. Bourne shared that it is likely that the larger accounts will be quasi-endowed and that the smaller ones will fall under the management of the Investment Policy. Stivers added that it would be unusual to have a situation where the university needed funds from the Research Foundation immediately. Bourne shared that because of the higher endowment balances, the University Foundation will have more leverage and fundraising influence.

b. Investment Policy

- i. Proposed revised policy** – Bourne explained that after consulting the University Foundation's Investment Policy, she is proposing a revised Investment Policy for the Research Foundation. It defines current funds as the cash being held temporarily for the future which should be invested in low-risk instruments. The Research Foundation currently has 3 types of money: operating funds, current funds and Sponsored Programs funds. The University Foundation created a Strategic Reserves account for investing funds above their \$2 million operating

funds minimum in low-risk investments. The University Foundation utilizes its Finance and Investment Committee along with their preferred investment advisors to manage their funds. Hassenzahl questioned whether the \$2 million minimum would include the Research Foundation's funds as well. Bourne clarified that a separate sub-account would exist for Research Foundation funds. The proposed Investment Policy for the Research Foundation defines funds, guides allowable investments for Sponsored Programs, and allows the investment of current funds to be outsourced to the University Foundation by way of an MOU which will define fees and payment. Bartelink asked if this arrangement will complicate audit and tax preparation and Bourne and Boura assured that it will not. Kittredge added that the fiduciary responsibility over the University Foundation's strategic reserve account is extensive. Boura added that it will be up to the financial advisor to create an investment strategy based on need and tolerance.

Bourne requested that the Finance and Investment Committee make the recommendation to the full Board to adopt the revised Investment Policy with revisions as needed. She emphasized that the revised version authorizes the current funds to be invested with the University Foundation and establishes a cash need of \$3 million. Stivers asked to further discuss the cash need valuation before the final decision is made. Kittredge highlighted that this valuation will be assessed annually per the policy.

Roby asked whether projects have a choice to invest their portion of the current funds. Bourne explained that projects have a choice to move funds into a quasi-endowment, however, the current funds will be invested per the revised Investment Policy.

Motion to recommend the revised Investment Policy with amendments to the full Board

(Kittredge/Bartelink)

(3/0/0)

- ii. **Policy of Project Cash Management and Loans** – Bourne shared that the existing policy was adopted in May of 2000 and will now be revised to include information on quasi-endowments and inter-Foundation investing. The proposed revised policy will be brought to the next FIC meeting for review.
- c. **FY17-18 Financials through January 31, 2018** – Bourne stated that Committee members should expect printed budget materials for the next meeting. She presented the schedule of net position which compares the totals from June 30, 2017 to the totals as of January 31, 2018. She highlighted the \$17 million in cash and investments and the accounts receivable balance. The financials are as expected as this point in the fiscal year. Kittredge questioned the difference in unbilled revenue. Bourne explained the Research Foundation Admin office is working with Research and Sponsored Programs to get the financial information recorded in accordance with GAAP. Kittredge asked if the Total Net Position of \$(200,501) in the Sponsored Programs Fund is due to a timing issue. Bourne responded that it is likely a timing anomaly and as accounting practices are modified, it should not be an issue in the future. Boura asked if it is normal to have

\$1.1 million in unbilled revenue at this time in the fiscal year. Bourne explained that there is a lack of comparability because of process changes since last year, but that she is not concerned and expects to have comparability in the next 18 months as data is built. Kittredge questioned why the Sponsored Programs Fund shows \$(3,500,907). Bourne explained that there should be no net assets in this fund as cost-reimbursable grants net \$0 and contract surplus gets distributed. Last year's distribution was postponed and is, therefore, showing as a loss in the Sponsored Programs Fund for this year. Since the money was transferred, it shows as a gain in other areas of the financial statements. Stivers offered to examine the information with Bourne and Flowerdew and document this flow of money to then review with the Committee. Tafalla shared that it is typical for the Sponsored Programs Fund to be negative this time of year. Flowerdew added that fiscal year end is the worst because of outstanding invoices.

Bourne highlighted the gain in net assets in the RF General Fund which is due to the liquidation of the college park houses and indirect cost recovery. Kittredge asked for clarification on the purchase of the college park houses. Bourne explained that the Research Foundation sold the houses to the University for the purchase price, however, they were erroneously depreciated and so the sale shows as a gain. Kittredge asked how much of the profit in the RF General Fund resulted from the recaptured depreciation. Bourne answered that \$362,188 is recaptured depreciation and the remainder of the \$1.6 million is operating profit. The totals will fluctuate depending on the time of year and what invoices have been paid, however, work is being done to accrue these through the course of the year which will create comparability. Kittredge asked if the Faculty Incentive Reserve distribution is accrued. Bourne explained that it is included in the budget for the following fiscal year and highlighted the RF General Fund – Operating Activities sheet where the \$(500,000) distribution is listed as a transfer. Kittredge clarified that there is a year delay between when the contract surplus income is recorded and when the funds are distributed. Bourne affirmed and explained that it should be more easily identifiable in future financials.

Bourne brought attention to the unrestricted funds in the General Reserves. These funds fall under the Reserve Policies which is a topic on the March 12th Board meeting agenda. The operating budget for the Research Foundation Admin Office is currently on track, however, there were unexpected legal fees incurred that were not budgeted. The Committee should expect to see the Office of Research and Sponsored Programs over-budget in CSU, Chico facility use fees due to a timing difference. Kittredge asked why payroll taxes and benefits for the Office of Research and Sponsored Programs is currently at 160% of the budgeted amount. Flowerdew explained that the recent change to the fringe rate was not budgeted. Bourne mentioned the 25/35 Main Budget to Actual report and the Board Designated Fund. Kittredge asked for more in-depth information on this fund in the future. Bourne asked if the Finance and Investment Committee should make a recommendation to the full Board regarding how to distribute the reserves. Bourne shared that after discussion with Stivers, it was decided that it is more appropriate to have the discussion with the full Board.

- d. **Banking transition update** – Bourne explained that the Research Foundation is experiencing the final testing stages of transitioning its bank accounts from Tri Counties Bank to JP Morgan Chase Bank which will create better internal controls and efficiency.

- e. **FY16-17 Tax Return, IRS form 990** – Bourne shared that the RF Admin Office has been working with their CPA to complete the Research Foundation tax returns and IRS Form 990 that are due May 15th and expects no issues getting them submitted on time. The Board will have a chance to review before submission.

The Research Foundation may see an impact from tax reform regarding unrelated business income.

5. Adjournment – 3:36 pm

Respectfully submitted,



Jessica Bourne, Secretary

