

The CSU, Chico Research Foundation

California State University, Chico

Minutes for the Annual Meeting of the Board of Directors

Thursday, December 9, 2010: 1 p.m. to 3 p.m.
Kendall Hall, Room 103

MEMBERS PRESENT:

Sam Allen, Drew Calandrella, Jonathan Day, Richard Ellison, Sandra Flake, Lori Hoffman, Dan Hunt, Richard Jackson, Katie Milo, Paul Zingg

MEMBERS ABSENT:

Rick Coletti, Jane Dolan

ALSO PRESENT:

Jan Burnham, Karen Finley, Carol Sager, Cindy Wolff, Fred Woodmansee

A. CALL TO ORDER AND INTRODUCTIONS

Provost Flake called the meeting to order at 1 p.m.

B. PUBLIC COMMENTS

The Chair asked if there were any public comments and there were none.

C. APPROVAL OF MINUTES

Action Taken: The minutes of the Annual Meeting held on September 9, 2010 were unanimously approved (motion by Richard Ellison, second by Jonathan Day).

The minutes of the regular meeting of the Board on September 9, 2010 were also unanimously approved (motion by Richard Ellison, second by Jonathan Day).

D. FOUNDATION PRESIDENT'S REPORT

Provost Flake reported that the Faculty Recognition and Support Committee recommended five faculty recipients for awards given annually in the categories of Outstanding Professor, Teacher, Academic Advisor, Faculty Service and Research Mentor. These awards are funded by the Research Foundation.

The Provost announced that Vice Provost for Research Katie Milo will be retiring from her position and returning to teaching in the Journalism Department. A national search will be conducted to fill the position.

Flake received a letter of resignation from Board member Jane Dolan. Due to other commitments, Jane will not be able to complete her term on the Board. The Provost will work with the President in identifying another community appointment or two for the Board.

The Provost also announced that Richard Jackson resigned as Executive Director of the Research Foundation as of January 15, 2011, and that this would be his last Board meeting. She read a tribute to Richard, citing his long history with the campus and his accomplishments in building the Research Foundation to the healthy organization it is today.

There will be some organizational changes in the months ahead. Originally the Foundation's primary reporting line was to the Vice President for Business and Finance, and secondarily to the Provost. A few years ago, the relationship was switched, and main reporting line has been to the Provost. Effective in January, the main reporting line will go back to the Vice President for Business and Finance. The University will be looking at how services are aligned on campus with a view to achieving synergies and efficiencies and leveraging expertise. For example, financial and HR resources exist both in the auxiliaries and Stateside (supervised by the VP for Business and Finance), which presents some opportunities for realignment. More information on new directions and goals for the Research Foundation, including support for the research mission, will be forthcoming as we proceed with the transition in leadership.

E. UNIVERSITY PRESIDENT'S REPORT

President Zingg, fresh from meetings in Long Beach, talked about California's dire financial and employment situation. "Tuition fees" (which is what it is called now) are expected to go up, and it will be more difficult to accommodate the students who are eligible to attend the CSU. General Education reform at Chico State is progressing well. On the campus's capital construction schedule are the Arts and Humanities building (to replace Taylor Hall), a reimaging of the proposed First Street parking structure, and a Physical Sciences facility. The President will deliver a State of the University address on February 1st.

F. FINANCIAL REPORTS

Budget-to-Actual Report and Significant Activity

Richard Jackson reported that the financial statements he distributed showed projected activity through the end of the second quarter (12/31/10). Investment income, one of the two revenue drivers that provides support for the operations of the Administrative Office, continues to be in the tank. The other important source of income for both the Administration and RESP offices is administrative fees. Sponsored Programs' administrative fee revenue in particular will be affected by the

expected movement of Campus Program accounts from the Foundation to the University as a result of a recent audit finding. At the half-way point through the year, the Administration Office is at 48% of its income projection and 50% of its budgeted expenses for the year.

Carol Sager presented the half-year results for RESP. Indirect is close to target with projections, and more indirect will be recognized as spending increases (as it typically does) at the end of the year. Expenses are holding at 50% half way through the year.

Jackson highlighted recent significant financial transactions regarding the Foundation's use of funds. The Foundation will have to pay \$5K for the deductible on the damage to the 25 Main St. building (hopefully from the 25 Main repair reserve). The Foundation will loan the Farm \$66K on a five-year note for the purchase of a front-end loader. This purchase was necessary because their equipment was old and dysfunctional. The Farm found a used one in good shape, saving them the cost of a new one (\$110K). The College of Engineering, Computer Science and Construction Management has committed to a \$5K annual payment on the College's \$97K Environmental Lab loan.

We have been notified of insurance dividends coming from the joint self-insurance and group-purchase insurance programs the CSU auxiliaries below to (i.e., the CSURMA-AORMA JPA). As of July 1, the Foundation will receive about \$50K in Workers' Compensation and Liability program rebates. As discussed at the last meeting, these are funds that would have been left on the table (gone to an insurance company's bottom line) with a traditional insurance program.

The Foundation's Cash Position

Jackson reiterated the theme from prior meetings: the Board needs to be mindful of the Foundation's cash position and its important role in the Foundation's financial stability. As discussed in the June budget meeting, the funds in the Board Designated Fund (which holds monies allocated by the Board but not yet spent, Incentive Funds as yet unspent, and residual funds from Contracts and Grants) are supporting the cash shortage in the Foundation's General Fund (whose cash is invested in the College Park houses and other property being held for the University). The Campus Program Fund (which holds the funds for a variety of faculty activities or departmental projects) is supporting the cash deficit that stems from the Contracts and Grants receivable due from funding agencies. That receivable was \$7.5M at 6/30/10.

These cash transfers or loans between funds to support the Foundation general operations and RESP can be seen on page 25 of the audited financial statements. The more that grants grow, the more we will need

our cash flow to support it. We will be talking later about the impending transfer of selected funds from the Campus Program Fund to the campus. This transfer of funds from the Foundation was agreed to by the campus in response to a CSU audit finding. This will diminish the cash available to bankroll the Contracts and Grants receivable, which is a requirement of being in the business of sponsored research.

As of today, the Foundation's cash position is \$4,895,892, and it has an outstanding accounts receivable of \$4,761,990, which total \$9,657,882. If the cash were to drop by \$1.5 million with the transfer of the Campus Program Funds, and the receivable were to go back up to \$7.5M, we would be close to our max.

As mentioned earlier, another consequence of fewer Campus Program accounts is the reduced fee income into our budgets, which will affect the debt service ratio commitment we need to maintain for our bonds on the 25/35 Main Street buildings.

The University is aware of this situation and has indicated it is making plans for the sale to the University of the College Park houses and other properties the Foundation is holding on its behalf.

Change in Foundation Signatories

Lori Hoffman reported that Joyce Friedman is retiring. She is the Director of the AS Business Office, which is under contract to do the processing of Foundation checks. Joyce's signature has been the facsimile signature that appears on Foundation checks. Going forward the facsimile signature will be Lori Hoffman's, and for those checks over \$5K that require a second (or "wet") signature, Fred Woodmansee will sign. There will also be back up signatories – Susan Jennings in the AS Business Office, and Michelle Korte in the University's Financial Services office. Going forward, Lori will be taking a look at the Foundation's Signature Policy and suggesting changes.

G. BOARD ACCEPTANCE OF AUDITED FINANCIAL STATEMENTS

Richard Jackson reported that the Audit Committee, on September 23, 2010, met with representatives of Matson & Isom Accountancy Corporation and management staff regarding the audit of the 2009 -10 financial statements. The Committee consisted of Dan Hunt, Jonathan Day, Jane Dolan (absent), Rick Coletti (absent), Lori Hoffman (absent) and Richard Jackson. The auditors reported that the Foundation's financial statements present fairly, in all material respects, the financial position of the Research Foundation. Their report included a supplemental section on Federal compliance, a result of the Federal grants we have. This compliance audit dealt with new rules and disclosures this year due to the Federal stimulus funds and the recovery

act. Net assets went from \$34M to \$32M due to the transfer of \$3M in property to the University (specifically, the Gateway Science Museum). Revenues went from \$40M to \$38M: whereas Federal grants were up \$2M, State grants were off by \$4.8M.

In their Report to the Board, the auditors made some Internal Control Recommendations having to do with improved procedures with computer passwords, better review of user access to the financial computer system, added security with encryption controls, more testing of offsite back-up tapes, and a disaster recovery plan with procedures to recover financial data.

The Committee recommends that the Board accept the audited financial statements, which received an unqualified opinion.

Action Taken: The Board voted unanimously to accept the audited financial statements (motion by Drew Calandrella, second by Dan Hunt).

Dan Hunt, acting Chair of the Committee, reported that the staff was excused at the end of the meeting so that Jonathan Day and he could talk privately with the auditors about any concerns. The auditors reported no problems, and complimented the expertise of the staff which worked to keep the cost of the audit down. Dan commented that this audit is similar to the one done for Mid Valley Title Company, and the Foundation's audit is significantly less costly.

H. CAMPUS PROGRAMS ACCOUNT AUDIT AND ACTION ON TRANSFER OF ASSETS

Lori Hoffman referred to the attachment on this Action Item, which requests approval for the "Transfer of Program Accounts Balances from Research Foundation to Campus State Trust Accounts." The document provides background on this matter, citing EO 1000 and EO 1052 which were issued by the Chancellor's Office, and relays information on the Auxiliary Audit finding. The Office of the University Auditor identified a number of Research Foundation Campus Program accounts (i.e., accounts that support faculty and departmental activities) that, in their opinion, were more appropriately placed in University campus Trust accounts. This finding resulted from a cursory review of a sample of Foundation Campus Program accounts, and reflects the view that "all funds on a campus are public funds."

The campus asked the auditors for more time to review the 268 program accounts, and the auditors returned to assist the campus in doing a detailed review. There are points on which the campus has disagreed with the auditor's assessment of where the funds can be housed, and these are being negotiated.

Subsequent campus review of these accounts identified approximately \$1.5M in Foundation assets (account balances) which should be transferred to campus state accounts. The balances will still be available to Project Directors. Project Directors have been given the option of spending down the balances in the Foundation accounts and closing the accounts in lieu of a transfer to the state Trust account.

Richard Jackson mentioned that this is a system-wide concern – the feeling that the auditors have exceeded their authority and created policy that strips campuses of the flexibility they need to be able to use their auxiliaries as intended by Title 5 and former CSU policies such as EO 919. Former Vice Chancellor Richard West has been asked by the Chancellor to come back and chair a committee of campus Presidents and Vice Presidents to do a review of EO 1052 and make recommendations as to the appropriate use of auxiliaries.

Action Taken: The Board unanimously approved transferring up to \$1.5M from the identified Campus Program Accounts to a campus State Trust account (motion by Richard Ellison, second by Drew Calandrella).

I. INCENTIVE DISTRIBUTION AND CAPACITY BUILDING FUND

The Provost reminded the Board that \$100K of the \$400K in Incentive funds was allocated for Capacity Building – that is, they were to be spent specifically on building capacity for additional research and result in the awarding of additional grants to the campus. Only \$20K remains from the first two years of funding, which is available for the Provost to use for training or to hire grant writers. Last year's \$100K needs to be spent by June 30. The decision hasn't been made yet whether to allocate another \$100K this year: we will first wait to see how productive last year's allocation was. If all of the money wasn't used, it can be reallocated.

Katie Milo talked about the distribution of the other \$300K in annual Incentive awards. The awards are calculated using a balance of two factors: the dollar amount of the indirect recovered, and the percentage that indirect was of the total grant expenditures. The percentages can range from 0% to 38% (the full Federal indirect rate), and thus vary as to the extent they cover the cost of grant administration. Of the \$300K, \$200K goes to the units that received the grant, and \$100K is distributed to the Project Directors. The faculty are happy to receive this money, which they use to fund research or to chase grant money in Washington D.C.

J. REPORT BY VICE PROVOST FOR RESEARCH

Katie Milo passed around a list of the winners of the Research Foundation Scholars Awards. The idea with these is to award seed money that will

result in “fundable” faculty research. The hope is that each of these awards will result in external funding for the project.

Milo also reported that project set-ups in advance of receiving funding totaled \$416,527 this quarter (see handout). We needed to proceed with work on the projects and RESP had letters of commitment from the sponsors, so there is negligible risk.

K. REPORT BY EXECUTIVE DIRECTOR

Utilization of 25/35 Main St. Buildings and Cost Savings

Jackson reported on the projects under way to reduce costs and improve space efficiencies in the 25/35 Main Street buildings. They take the form of two initiatives:

- The relocation of Passages from the Carmichael St. facility to offices in 25 Main, and
- The relocation of Foundation storage from rented warehouse space to spaces in the basement area of 35 Main.

These are major undertakings, and involve the relocation and/or downsizing of a number of other projects. The Passages move will save about \$67K in rent, and in addition Passages will be able to contribute rent towards its use of space from its new endowment fund and other fundraising. The relocation of the storage materials required KCHO to consolidate its space and will save about \$22K - \$24K a year.

We have received good cooperation from the projects involved and the respective Deans, especially given the short timeline we are working under, and we have the support of the Provost and Vice President of Business and Finance. The landlord on the Carmichael property gave notice that the lease would terminate on January 31, 2011, so that is the deadline we need to meet. The lease on the storage space ends on April 30, 2011.

Cindy Wolff, a faculty member and Director of the Center for Nutrition and Activity Promotion (CNAP), which is located in 25 Main, was on hand to say that had she the opportunity for more inclusion in the plans for 25 Main, she would have presented her fast-growing project's need for additional space, and would have offered to up her offer of rent.

Richard responded that there is no question about the value of Cindy's program, its potential for growth, and its effective use of space. He has had a number of discussions with Cindy about space, and the additional space she would like, and explained that it is not something the Foundation can accommodate right now. This isn't about who can offer

the highest rent. This is about a strategic decision made by the Foundation, and supported by the Sandra Flake and Lori Hoffman, to move the large Passages program into the building.

This plan does not produce an optimal situation for anyone. Passages is cutting its space needs by some 40%, and other programs being reassigned space in the building are taking drastic cuts. It looks like two programs will have to move out altogether. And CLIC's unexpected decision to stay in the building impacted the Foundation's ability to explore different scenarios. We are on a quick-turnaround with the Passages move, so we don't have the luxury to wait and see what other space availabilities might present themselves in the months ahead so that we could arrange things differently. For the immediate future we don't have any flexibility to negotiate additional space.

Bill Wattenburg

Richard Jackson relayed a story about Bill Wattenburg, an adjunct faculty member of some celebrity who has long-standing funding through the Research Foundation from a private source to do research projects of his design. He is also associated with the Lawrence Livermore Laboratory in Berkeley, and receives additional grants for research work through RESP.

Senator Feinstein's office called the Foundation wanting to get in touch with Dr. Wattenburg to talk with him about an invention he designed years ago. It was a cheap and simple fix in the computer software of new airport scanners which could silence the uproar from travelers objecting to the so-called virtual strip search. Wattenburg was rebuffed when he offered the concept to the Department of Homeland Security officials four years ago. The fix would distort the images captured on the full-body scanners so they look like reflections in a fun-house mirror, but any potentially dangerous objects would be clearly revealed.

L. ADJOURNMENT

The Provost adjourned the meeting at 3 p.m. with the consent of the Board (motion by Dan Hunt, second by Drew Calandrella).

Respectfully submitted,

Richard Jackson
Secretary