

The CSU, Chico Research Foundation

California State University, Chico

Minutes for the Board of Directors

Wednesday September 14, 2011
Kendall Hall Room 103, 1:00 pm to 3:00 pm

MEMBERS PRESENT:

Sandra Flake, Paul Zingg, Richard Ellison, Dan Hunt, Drew Calandrella , Jonathan Day, Rick Coletti

MEMBERS ABSENT:

Lorraine Hoffman, Tim Colbie

ALSO PRESENT:

E.K. Park, Carol Sager, Fred Woodmansee, Stacie Corona, Karen Finley

- A. **CALL TO ORDER** – Sandra Flake
The Provost called the meeting to order at 1:16 pm.
- B. **PUBLIC COMMENTS** None
- C. **MINUTES** - Sandra Flake
Motion to approve the minutes of June 6, 2011. (Hunt/Zingg) Motion carried.
(7/0/0)
- D. **FOUNDATION PRESIDENTS REPORT-** Sandra Flake
Provost Flake invited E.K. Park to provide a brief recounting of his history in higher education. He also spoke of his interest in research and his discipline in computer science.

Provost Flake announced additional changes in Academic Affairs: the appointment of Fraka Harmsen as the new Dean of College of Natural Sciences; the retirement of Phyllis Fernlund from the College of Communication and Education with this position being filled by Interim Dean Maggie Payne; and, the appointment of Mike Ward as Interim Dean of the College of Business in addition to his duties as Dean of the College of Engineering, Computer Science and Construction Management. Dean Hopkins has gone to the Brooklyn campus of CUNY.

The campus has been invited to participate in the conversation regarding a reorganization of Academic Affairs. This will take advantage of transitions to look at the possibility of a reconfiguration which could reduce the number of colleges,

but also bring programs together and improve offerings. Academic Affairs is also implementing the new general education program.

E. UNIVERSITY PRESIDENTS REPORT- Paul Zingg

President Zingg added to the introduction and welcoming of E.K. Park noting that he will be a new lens through which we can view the campus.

President Zingg discussed the effects that SB8 and other external impacts have on the campus and the challenges they present bring to our campus lives. He stated he is confident the campus will respond quickly.

President Zingg also gave a budget update for 12/13. The system is going to submit a growth budget. With the lack of salary increases since 2007 it has become an obstacle that has affected hiring, faculty retention and the morale. The Trustees are trying to resurrect the Compact for Higher Education, which would be guaranteed state funding for a guarantee enrollment.

The Chancellor's Office is waiting to see if the additional 100+ million dollars is cut from the CSU budget before the end of this calendar year. This cut will bring the total cut from the CSU budget this year to 650 million dollars.

Discussion followed regarding enrollment levels. It was noted we are on target for FTEs, around 14,400 and the residence halls are full. There are more freshmen this year.

F. QUARTERLY FINANCIAL UPDATE

1. Budget to actual projections for 9/30/11 and significant activity report

Fed Woodmansee stated that he will have the budget projections at the December meeting. The first quarter does not reflect much activity and efforts are on producing the financial statements.

2. Write Off Bad Debt

Karen Finley excused herself from the meeting for the following discussion. Carol Sager discussed the impact of the Private Industry Council's (PIC) bankruptcy on the Research Foundation's financial statements. As a result of this bankruptcy, the Foundation is having to write off \$555,000 in bad debt. A claim has been filed with the bankruptcy court which should allow some funds to be paid. In addition, some equipment purchased may be purchased on the stateside.

Sager explained that PIC had contracted with the University to do some research. This was comprised of federal pass-through stimulus dollars and all but one of the contracts were two year contracts. Three-quarters of the way through the contracts PIC declared bankruptcy. The University is at the top of the list of creditors in the bankruptcy suit. Calendrella asked if this was a performance issue and Sager stated this was not a performance issue, but

an issue of unavailability of funds. At this time the university does not have enough information to accurately state what happen. There is some belief that PIC was over extended and had made too many commitments and had spent dollars that should have been allocated to meet its obligations to the Research Foundation. Per emails from PIC's Executive Director in August 2010, PIC would not be able to fund year two of one of the contracts, and Sager confirmed back that was fine and inquired about the other initiatives. He confirmed they were fine. In February 2011, PIC declared bankruptcy. Sager feels her staff did what they needed to do and the faculty delivered great programs. The upside is most of this money went to fund release time for faculty to support instructional programs. A good share of this actually went over to the University and reimbursed the University for faculty time so it wasn't a total loss. It helped to expand the budget of the University and we did achieve the goals of the programs.

The Foundation's lawyer, who is the 2nd most experienced bankruptcy lawyer around, told us that most claims get funded for \$0.10 on the dollar and to expect \$50,000 and %75,000. Dan Hunt asked if it is usual to have such a long period between billing and receiving payment. According to the documents it was 20 months between billing and the declaration of bankruptcy, is this normal? Sager replied, most of the time for this program was used for faculty release time which is billed at the end of the semester. In this case there was a communication breakdown with the College of Nursing which set the billing back. Because these were federal pass-through dollars they were not concerned as the dollars should have been available when the billing came through. Hunt also asked if the Foundation knew if there was a problem before PIC filed bankruptcy. Carol stated the Foundation did not know before the bankruptcy was filed and it is common for a company not to pay an invoice for a year. They became aware there was a problem when it was seen in the newspaper. Hunt wanted to know if it was known if PIC had received the funds. Carol replied these funds went to the State of California to Nortec, then Nortec was funding PIC. At this point it is not known what the outcome of the PIC audit was or whether there will be a federal audit. This is an information item only and does not need to be acted on.

3. Status of ECC Environmental Lab Loan

The Provost explained this was a loan that was made back in the late 1990's from the Foundation to the College of ECC under the auspices of the prior Dean. There were some early payments made on the loan and then thereafter the payments ceased and the loan has been accruing interest. The current Dean of the college is not responsible for this loan but made a proposal to pay it back incrementally very slowly. ECC is a college that has fairly significant funding issues that they are attempting to address while dealing with the budget crisis at the same time. The Provost stated she committed to using discretionary Research Foundation funds that she has

available to to pay off this loan and therefore the loan will be cleared. She believes it to be around \$107,000 with interest and the loan will be cleared. That will be money that the Research Foundation has added to its resources as opposed to the resources available to the Academic Affairs and it is one completion from a path of the past. The Provost asked if there were any questions. She added that she doesn't want the Dean to have to continue to try and figure out how to come up with so much a year over a period of time and she doesn't want the Research Foundation to have to eat the interest. She stated she would prefer to do what's right-- that is clear the loan. Any college is under the auspices of Academic Affairs so ultimately she is responsible.

G. ACTION ITEMS

1. **New State Rate** – E.K. Park shared the news that the new state rate has gone up to 44% from 38%. This will allow an increased F & A rate and the Foundation to collect 23% for off campus projects and 10% for IPA. This was approved by the DHHS in August 2011. Now we have to determine the rate for state level contracts and state level grants which is currently 24%. RESP is recommending an increase to 30% for on campus projects and 23% for off campus projects. Park stated that he would like to see very few exceptions to the rates and they would be reviewed on a case-by-case basis. To maximize the collection allows us to have money to invest into research and more money to invest into the campus facilities and other areas. We have also increased our rate of collection successfully over the last several years. These rates need to be in grant and contracts as they are the cost of doing business and the university's costs. The federal rate is in place what is being asked today is to approve the state rate. This is an action item.

Motion to approve the state rate of 30% for on campus and 23% for off campus projects. (Day/Zingg) Motion approved (7/0/0)

2. **Transfer of Funds** – The Provost explained that an approval of transfer of funding is being requested. The history of this request dates back to the late 1990's when a formal agreement was made between the University and a faculty member on the campus, the faculty member was a tenured faculty member and the University, with the approval of the CSU Office of General Counsel, signed a formal agreement to assign this individual to a full-time research position with his agreement to reimburse his annual salary with benefits to the University Foundation. This was a 5-year agreement and then following 5 years that agreement was continued annually through the college. In 2009 Human Resources and Academic Affairs discovered this situation. They were not aware of it until that point in time and acted to end that agreement immediately. As they have been closing off this matter in consultation with the CSU Office of General Counsel, it was determined that the funding that was paid to the Foundation should have been reimbursed to the State. In other words, the faculty member was reimbursing salary and that

should have been reimbursed to the State. To clear this matter, the Provost stated she is proposing to transfer \$240,491.00 from a Research Foundation account, the discretionary account for Academic Affairs, to the University Foundation where the funds were originally deposited. The University Foundation will reimburse an Academic Affairs account that is part of the general fund. We are talking about moving Research Foundation money ultimately into State general fund. That Research Foundation money is money the Provost has control over to spend on discretionary uses; she will still have control over those resources to spend on appropriate uses in the general fund which is to support academic programming. It is to correct an error that occurred many years ago. The Provost stated she is asking that the Board approve this transfer and she brought a copy of the motion. It is for the approval of a transfer of \$240,491 from account 84022 in the Research Foundation to the University Foundation where the funds will be paid to a State general fund account in Academic Affairs. It makes the University whole for funds that should not have gone into the [University] Foundation but should have gone to the University in the first place.

President Zingg noted this all fits under the category of when did the University discover there was a problem and what was done about it. When it was discovered there was a problem, this is the solution to make the University whole particularly differentiating between state funding and non-state funding and in order to create an audit trail and to be audit proof.

Hunt questioned that someone in HR (University) just discovered this in some kind of routine and the General Counsel signed off on it? Flake responded that yes, it was discovered there was an issue regarding the faculty member and they started doing the background work, obtained a copy of a signed agreement between the University's General Counsel, and the Dean of the college. Zingg stated it is not a criminal issue, but an accounting issue. Flake reiterated it was something that had occurred along time ago and that she doesn't know enough about the circumstances to have any idea why it occurred beyond the fact that there was a general agreement that this faculty member needed to be away from campus and so a full-time position to work on research made sense if they were willing to reimburse us for the salary. She stated it's not the action they would take today. They've worked through the various ramifications of the faculty member's position until they got to this point. This is the last step of solving this problem.

Move approval of a transfer of \$240,000 from account 84022 in the Research Foundation to the University Foundation, where the funds will be paid to a Stateside general fund account in Academic Affairs. (Calendrella/Hunt)
Motion approved (7/0/0)

- 3. College Park Houses** – Karen Finley updated the board on the status of the 12 College Park houses that were purchased on behalf of the campus. The

houses have been held until the appropriate time as they can be moved over to University Housing. Four of the houses are now ready. We are asking for approval to move these houses over to the University Housing at the price originally paid by the Research Foundation. This move will bring more than \$633,000 dollars back to the foundation.

Motion to Approve the sale of the four College Park houses to the University. (Ellison/Coletti) Motion approved. (7/0/0)

H. INFORMATION ITEMS

1. **Capacity Building Funds-** Sandra Flake explains that each year there has been \$400,000 in incentive funds that have provided from the research foundation to academic affairs to support and put incentives in to the hands of those who have been generating grants. This is the college and the principal investigators who have brought in the grants. \$300,000 is distributed once all the records are closed for the previous years, primarily the colleges but not exclusively other divisions do write grants also. If they have gotten a grant that has paid indirect cost then we go through a process of making them eligible for some incentive funds to encourage them to continue to write grants. The remaining \$100,00 is set aside into a fund for capacity building. This fund is for Dean and Vice Provosts to be able to give incentives to faculty to get engaged with grant work or to promote opportunities to expand grant work. Then the money that is not used gets pooled in to a fund for the vice provost to use for larger projects or competitive resources. The final report for the 09/10 was handed out to the board. These funds have gone to our listed out on the spreadsheet handed out. Sandra explained where the money went and who benefited from the funds.
2. **SB 8 (aka Richard McKee Transparency Act of 2011- McKee Act)**
Karen Finley explained the new law that has been signed, SB8, or the Richard McKee Transparency Act of 2011. This new law makes CSU auxiliary organizations subject to public records requests. There are a few concerns which are not so much about the information that might be requested, but the amount of requests we expect to receive once this Bill takes effect January 1, 2012. The Chancellor's Office is offering training on this issue to help the campuses deal with the requests and how to respond to them. There have been protections built in to this bill for donor privacy.
3. **Eagle Lake Field Station**
Karen Finley will have more information on this subject at the next board meeting.

4. **Special Setup** – E.K. Park and Carol Sager gave a hand out and discussed the special set ups of \$187,321 as of that day.

5. **GASB 45 Valuation regarding post-retirement health benefits**

Karen Finley explained that GASB 45 is a valuation of post retirement funding which is done every three years. The Foundation had one done in 2007 and just completed its second one with the 2010 census information. This will be covered in greater depth at the audit meeting later in September. When this was done in 2007 this was a fully funded program which is not typical. This report reflects that we are not fully funded due to increases of health insurance costs, the number of eligible employees, and the discount rate has gone down. This is not being deemed as material in the financial statements that are coming out at the end of September. We are hoping to maintain this program, but it not a guarantee and will be in place as long as we can fund it. To qualify for our bridge retirement program you have to have 15 years of service and be 60 years of age. The report reflects that we are 80% funded.

I. **ADJOURNMENT**

The Meeting was adjourned.

Respectfully submitted,

Karen Finley