

Approved September 9, 2019

MINUTES

Governors present: Doug Guerrero – Chair; Bob Kittredge; Dr. Marcia Moore; Glen Thomas

Governors Not Present: Debra Cannon; Tom Martin

Ex Officio Not Present: Ahmad Boura

Support Staff Present: Jessica Bourne, Executive Director of the Research Foundation; Amanda Bullock and Laura Haskill, Research Foundation; Veronica Rabo, University Advancement,

Guests Present: Bobby LaCour, CPA, Aldrich Advisors

At 9:04 Doug Guerrero called the meeting to order and confirmed that there was a quorum.

Guerrero presented the minutes from the June 13, 2018 meeting for approval. There were no comments or corrections. Bob Kittredge moved to approve the minutes and Marcia Moore seconded the motion. All committee members were in favor.

Kittredge noted that he would like to add a closed session to the agenda after item 5.

Bobby LaCour thanked the board for their time and began with the Report to Audit Committee.

The significant conclusions and issues were as follows:

- Aldrich will be rendering an unmodified opinion on the financial statements.
- Any audit areas that are a greater than normal risk have been addressed and resolved.
- They did not identify any conditions which they considered to be material weaknesses or significant deficiencies in internal controls.
- Aldrich pays attention to certain areas in particular: Investments and contributions are the two biggest areas. LaCour thanked Research Foundation management for their help and role in getting the reporting completed.

Jessica Bourne discussed the impact of the transition from financial systems (IFAS to OneSolution). Next year's audit will look at the controls in place to see if anything has changed with the new software. There is no overlap of the two systems. Aldrich primarily relied on the old software for this year's audit reporting.

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Glen Thomas asked for clarification regarding La Cour referring to Aldrich as “advisors”. La Cour stated that Aldrich does not provide management functions as they are external auditors. They provide best practice recommendations but do not force implementation. All decisions for action come from Research Foundation management and the University Foundation Board.

La Cour said there were no significant changes to accounting policies. La Cour said that the most sensitive estimates affecting the financial statements were: how investments are determined, and calculations for future pledge gifts. Aldrich and the Research Foundation reviewed those to make sure they have a good idea of how those calculations are made.

La Cour noted that there is supplemental information included with the financial statements as required by the Chancellor’s Office. La Cour explained that the supplemental information was included in order to make the reporting standardized for the Chancellor’s Office. They wanted to be able to review the financial statements from all Universities by looking in the same place for the same data.

Last Thursday, the Chancellor’s Office announced a new requirement that every auxiliary include every table in their statements, even when they are all zeros. The deadline for submittal of the financial statements from the Research Foundation to campus is Wednesday, September 19. Michelle Korte, Chico State’s director of financial accounting and reporting, will review the statements and send them to the Chancellor’s Office.

La Cour noted that the project to move student loans from the University Foundation financial statements to the state financials is almost complete. The student loans are the last piece of the clean-up project that is left. The financial statements have become more direct, accurate, and succinct. He anticipates that there will not be any student loans left on the books next year so the report will be a truly philanthropic report. Next year the University Foundation should be in a prime position to have very clean financial statements.

Bourne clarified that there were logistics with the campus and with the Attorney General to close or repurpose the student loans. Bourne issued the final transfer from student loans in August. The next report to the University Foundation Finance and Investment Committee will show the zero balance.

Kittredge questioned whether the deferred gift agreements should be listed under “Current Liabilities”. La Cour stated that the majority of the current liabilities are long term liabilities associated with CRTs and annuities that have to be paid out. They probably more accurately belong under long term liabilities. Most of what is in current is between expected earnings and payouts. La Cour answered that a classified liability sheet will be required next year so this issue will look different in next year’s report.

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Bourne said that the liabilities should trend down as the CRTs age. She will breakout current and long-term liabilities in this year's report. The report will be updated by Laura Haskill, she will add a line for non-current and then a line for total liabilities. Bourne noted that all the existing CRTs are showing that they will yield some profit to the University. Bourne said they reviewed some CRTs this year and made some adjustments because the old formulas were not calculating accurately. The carryforward calculations were not accurate, and they have been corrected for this year's report. It created the \$1 million increase in current liabilities. Thomas asked what the underlying assets are. Bourne said that they are in financial instruments. Moore asked how the carryforward calculations were made. Bourne said the issue was regarding when the percentages from when the CRTs were established.

LaCour noted that between the administrative fees and interest rates the value of gift annuities is minimal.

Kittredge asked about the change in split interest agreement in regard to the change in CRT calculation. Bourne said that the trusts have their own tax identification numbers and report within the University Foundation financial statements. They report as agency accounts within the University Foundation, so debits and credits to those accounts appear backward. Kittredge used Mike Prime's trust as an example (more money than previously, should have been positive). An increase in liability to the University Foundation is an expense of the trust. The financial statements are in-line with the Financial Accounting Standards Board (FASB). After discussion, the committee agreed that this was recorded correctly.

Kittredge asked about the piece of real estate left as level three. Bourne said it is the same number as last year. It was a gift in 1991 from Neil Tocher. The gift was 10% interest in limited liability partnership which owns real estate. The University Foundation has never received a K1 from the partnership. Evelyn Buchanan is currently working with Tocher to get the required information. Bourne hopes to have an actual number this year. She believes that the current figure is safe, it is likely higher. Worst case scenario, LaCour said that it won't hurt the University Foundation next year if it is not there.

LaCour noted that there are additional disclosures to the financial statements as well as additional information on investments.

Kittredge went back to note 2 on page 12. The net asset value doesn't carry over the Local Agency Investment Fund (LAIF), and the total at the bottom does not tie into the top. LaCour confirmed that the information on page 13 is all new. It was noted that there needs to be a footnote "F" regarding the LAIF.

Kittredge went back to note 1 on page 7 where it says, "In 1997 its function became fully philanthropic". He thinks it would be nice to drop "1997" and just blend it in to the statement. It was agreed that "1997" would be dropped.

Kittredge asked if the University Foundation still has Board Designated Assets. Bourne confirmed that yes the University Foundation does; the Special Endowment Awards, now known as the University Foundation Board of Governors' Awards, are distributed annually from a group of endowments under the control of the board. They are probably the only Board Designated Asset. LaCour said we should include the note this year, but it can be removed next year.

Kittredge asked about page 8 under the description of the levels of fair value. The description of level three is difficult to read. LaCour will look at previous years to see what has been used. He explained that it is actually easier to understand what is not in it than what is actually in it. It is hard to put into words what constitutes as level 3 because it is unobservable. Moore asked if it is possible to give examples of level 3. LaCour said he would.

Kittredge asked about page 9, Artwork and Collections. LaCour noted that it is included because we still have them but it is more for informational purposes.

Kittredge moved to note 5 on page 15; Net Asset Reserves. LaCour stated that this includes the Board Designated Assets. In theory, the board as a whole could unreserve these items.

Kittredge said that in note 6, the endowed funds don't tie into anything. LaCour said that the permanently restricted should tie but will not because of existing deferred gifts. They tie by fund classification, and fund classification isn't shown anymore. He noted that he could add that supplemental fund statement to help it make sense. Bourne said she is going to leave that section as is. She confirmed with the board that there is no need for a fund supplemental statement.

Bourne informed the board that there is no news regarding the IRS penalties that may be imposed for prior late filing of the 990Ts. Thomas and LaCour commented that in this case, no news is good news.

There were no other comments regarding the financial statements.

LaCour presented the Aldrich proposal for services for the next three years. He noted that there is a slight increase in fees due to the additional cost for implementing new reporting standards. There will be additional work to be done next year. The tax fees are basically the same.

There were no questions for LaCour.

The committee moved to a closed session at approximately 10:15.

At 10:22 the meeting resumed. Bourne discussed the legal fee recovery. The Research Foundation incurred costs of about \$100,000 for tax. That is outstanding and will be for a little longer. The University Foundation and the Research Foundation have shared in the burden of the fees. The University Foundation recovery is first priority to make it whole. The Research Foundation should be able to recover those fees. Outstanding issues should be resolved by December 31, 2018.

Guerrero asked the committee for their thoughts on the Aldrich proposal. Kittredge asked Bourne for her opinion. He has been happy with their work so far. It's been smooth and good, he's not looking to change at this point. Kittredge is in favor of the proposal.

Moore moved to accept the proposal for audit services from Aldrich and Kittredge seconded the motion. All were in favor of continuing with Aldrich for the three years for audit services. The committee then asked the Research Foundation staff present for their thoughts on Aldrich. The staff spoke positively about Aldrich.

The committee then discussed the tax proposals from Aldrich and Crowe Horwath. Bourne said that customer service is important for them and they have been hit with penalties for not paying interest correctly, her office will get notices that they have underpaid. Aldrich does not calculate the true amount due, they always calculate less causing issues for the Research Foundation. Right now, Aldrich is filing the 990 and 990Ts.

Haskill and Amanda Bullock take the 990s to about 90% completion. The 990T is very simple for the Research Foundation. They do not work on the one for the University Foundation. That is where they would need Crowe Horwath's expertise. Crowe offers a software that is like TurboTax for 990s. Currently, the Research Foundation pays Crowe \$1,500 a year for the TurboTax like software, this is in addition to the fees to Aldrich. The fees that Crowe is proposing includes the \$1,500 that the Research Foundation is already spending. Bourne has asked Crowe for reduction of \$1,000 per entity because of how much work her staff does on the 990s.

The committee asked if both proposals are inclusive of state and federal returns. Bullock would need to look back at previous invoices to see if Aldrich includes both. She believes that the 990T and additional states are not included. The Research Foundation needs that information to actually do an equal comparison.

The committee would like to receive the comparison and recommendation from Research Foundation staff. As this proposal is for tax services, not relating to audits, the committee and Bourne questioned whether this decision should be made by the Finance and Investment Committee. Bourne will ask Ahmad Boura how he would like to proceed. The committee agreed with this plan.

Guerrero thanked everyone for their time and the meeting was adjourned at 10:44 am.

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