ADVANCEMENT
FOUNDATION
HUMBOLDT STATE UNIVERSITY

MINUTES OF THE EXECUTIVE COMMITTEE MEETING

August 6, 2015
Nelson Hall West 213

Present:
Heather Bernikoff-Raboy (by phone)
Judy Dvorak (by phone)
Alisa Judge (by phone)
David Kalb (by phone)
Joyce Lopes
Jason Ramos
Duncan Robins (by phone)
Craig Wruck

Guest:
Laura Fisher
Mary Kay Hartman
Brian Mitchell
Kimberley Pittman-Schulz
Lisa Rossbacher
Frank Whitlatch

A meeting of the Executive Committee of the Humboldt State University Advancement Foundation was held on Thursday, August 6, 2015, at 2:00 pm, in Room 213 of Nelson Hall West. Committee Chair Heather Bernikoff-Raboy presided.

1. Call to order

    The meeting was called to order by Committee Chair Heather Bernikoff-Raboy at 2:00 p.m.

2. Visitor comments

There were no visitor comments.

3. Approval of Minutes from January 13, 2015 meeting

Upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the Minutes of the January 13, 2015 meeting are approved.

4. Approval of fiscal year 2015-16 budget

Finance Committee Chair Duncan Robins introduced the budget discussion noting that the Finance Committee has taken a more sophisticated budgeting approach with the help of enhanced information provided by the University. He reported the Finance Committee deliberated on the business of the Foundation, the roles of the University and the Foundation in regard to University Advancement, and the services the University provides to the Foundation. The Finance Committee recognized that in addition to the direct expenses of the Foundation's operations, the budget must also support the five key functions of the Foundation as adopted by the Board: 1) Steward assets, 2) Deploy assets, 3) Raise assets, 4) Achieve strategic alignment, and 5) Serve as ambassadors for the University.

Chair Robins asked Committee Member Joyce Lopes to review the budget process and to introduce the Finance Committee recommendations noting that while formulating the proposed budget the Finance Committee had to take into account significant programmatic and policy changes being implemented by the University.

Spend from the Source

"Spend from the Source" is a University initiative that went into effect July 1, 2015. A best practice for transparency and donor accountability is to hold the organization that initially accepts a charitable contribution responsible for administering and expending the contributed funds rather than transferring money to another organization for expenditure. In addition, the California State University generally requires that funds be spent as close to the source of funding as possible. Past practice at Humboldt State had been to make periodic lump-sum transfers of charitable contributions to the University with subsequent expenditures made from University accounts. Under Spend from the Source, charitable contributions will be held by the Foundation until expended.

This change will encourage greater transparency, allow better accountability for donor funds, and reduce transfers among campus business units. Spend from the Source will have an impact on University personnel who are responsible for authorizing expenditures. It will also have an impact on the Foundation's financial statements because contributed funds will remain in the Foundation longer.

University Reimbursement

All University self-support operations and auxiliary organizations are required reimburse the University for the value of services the University provides to the self-support operations or auxiliary organizations. In the past the amount of the reimbursement required of the Foundation had been based upon estimates of time spent, but will now be calculated based upon the actual number of transactions performed by the University for the Foundation. An “exchange of value” discount from the reimbursement amount is allowed for non-itemized value that the Foundation provides to the University.

Using the new methodology, the value of services provided to the Foundation by the University for fiscal year 2015-16 is projected to be $323,000. After a 20% discount for exchange of value, the University reimbursement for fiscal year 2015-16 was to be $258,000, an increase of $176,000 over the previous year. This reimbursement amount was pending at the time the Finance Committee formulated the fiscal year 2015-16 budget and therefore is the University reimbursement expense included in the proposed budget. However, the University subsequently decided to phase in the new reimbursement over three years in order to allow its self-support operation and auxiliary organizations time to adjust to the increase. Accordingly, the reimbursement amount for fiscal year 2015-16 is expected to be $141,000.

Finance Committee Chair Robins reminded the Committee that it has long been recognized that the Foundation was not covering all of its expenses and that it was understood that as the Foundation matured it would begin to shoulder more of the expenses of its operations.

Administrative Service Fee

The Finance Committee also examined the Foundation’s administrative service fee. Historically the Foundation has charged a fee of 4% on expenditures or distributions of charitable contributions with some exceptions, most notably scholarships. The Finance Committee identified several shortcomings to this “back end’ fee including the fact that it produces too little revenue to cover administrative expenses, is difficult to explain to donors and users, has been inconsistently applied, and produces widely variable revenue and less revenue than anticipated.

The Finance Committee proposed a new “Contribution Administration Fee” in the amount of 5% to be charged as contributions are received. Based on projected contributions of $3.25 million for FYE 2016, the Contribution Administration Fee would result in projected revenue of $162,500. It was noted that the Contribution Administration Fee applies only to new contributions, including new contributions to permanent endowments. The Contribution Administration Fee does not apply to existing endowment balances or distributions from endowments although the existing annual service charge of 1.5% on endowment funds remains in effect.

Real Estate Holdings

The Finance Committee considered the potential revenue impact of two of the Foundation's real estate holdings that are currently leased to the University but expire in 2018. The two properties combined produce $78,040 in net unrestricted revenue plus $139,200 in investment return for the endowment. Although there is no change anticipated during fiscal year 2015-16, the future disposition of these properties could have an impact on future budgets.

Proposed Budget

Member Lopes presented the proposed Budget for fiscal year 2015-16, as recommended by the Finance Committee, along with the revised Management of Non-endowment Accounts Policy and the Contribution Processing Fee Policy. After discussion it was agreed that, even though the University has announced its intention to phase in the reimbursement increase over three years, the budgeted expense should remain at $258,000 as recommended by the Finance Committee in order to build financial reserves. Upon discussion, revisions to the proposed Contribution Processing Fee Policy recommended by the Finance Committee were agreed to, including renaming the proposed policy the "Contribution Administration Fee Policy."

After further discussion, and upon motion duly made, seconded and unanimously carried, it was

> RESOLVED, that the revised Management of Non-endowment Accounts Policy is approved.
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> FURTHER RESOLVED, that the updated Contribution Administration Fee Policy is approved.
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> FINALLY RESOLVED, that the Budget for fiscal year ending 2016 is approved as presented.

5. Changes to the Development Committee

Executive Director Craig Wruck noted that the industry has shifted away from the term "development" toward "philanthropy" to describe fundraising activities and that the former Office of Development at the University is now the Office of Philanthropy. In light of this the Development Committee has recommended that the name of the Development Committee be changed to the Philanthropy Committee to better align itself with standard usage.

In addition the Development Committee, at Committee Chair Judy Dvorak's request, has recommended the appointment of Board Member Laura Fisher to Chair the Development Committee.

Upon motion duly made, seconded and unanimously carried, it was

> RESOLVED, that the name of the Development Committee be changed to the Philanthropy Committee.
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> FURTHER RESOLVED, that Laura Fisher be appointed to Chair the Philanthropy Committee.

6. Nursing Scholarship Endowment

In 1991 Sandra Hunt, now deceased, contributed $10,000 to create a permanent endowment to provide scholarships for Nursing students. In her letter of transmittal the donor made clear her intention that the contribution was to create a permanent endowment. The current balance in the endowment account is approximately $19,000.

Since the University no longer offers a Nursing education program, Dr. John Lee, Dean of the College of Professional Studies, has requested that the fund be re-designated to the Pre-physical Therapy Program in Kinesiology, as has been done with other Nursing designated funds, because this is a University program closely related to Nursing. However, the donor's son has requested that the Foundation convert the endowment to a currently expendable fund directed to the Department of Wildlife.

Executive Director Wruck noted that the creation and maintenance of permanent endowment funds are governed by California's Uniform Prudent Management of Institutional Funds Act (UPMIFA), which provides that only the original donor can create a permanent endowment fund and, once established, others cannot convert a permanent fund into a currently expendable fund.

After discussion, upon motion duly made, seconded and carried with one abstention, it was

> RESOLVED, that the Nursing Scholarship Endowment be re-designated from the Nursing program to the Pre-physical Therapy Program in the Kinesiology Department.

7. Five-year Business Plans

President Rossbacher has asked the University's self-support operations and auxiliary organizations, including the Advancement Foundation, to develop five-year business plans. Staff will create a draft for discussion.

8. Executive Director's Report

Real Estate Holdings

Executive Director Wruck noted that, during the coming year, the Finance Committee will consider the disposition of the Annex and the Samoa Boulevard properties. Both were acquired by the Foundation at the request of the University in 2008. At that time the University expected to be able to secure State funding to acquire the properties from the Foundation. However, with the subsequent economic downturn State funding never became available. Both properties are currently leased to the University. Both leases expire in 2018.

The Annex has a book value of $1,675,000 with annual rental of $139,200 plus an administration fee of $6,000 paid to the Foundation. Since this property was purchased with funds from the permanent endowment, the rental income is treated as endowment investment return. The University is interested in retaining this property because it is contiguous to campus and could be useful in the long term for future expansion. However, because the property is an asset of the endowment fund it cannot be directly conveyed to the University but will need to be purchased from the endowment fund.

The Samoa Boulevard property has a book value of $2,535,000 and generates gross rental income of $138,000 annually and net operating income of $78,040 after debt payments. The purchase was fully financed by the CSU insurance exchange (CSURMA), with a $2,535,000 promissory note. In 2013 the University paid $535,000 in principal leaving a balance of $2,000,000 due on October 31, 2017 for which the Foundation is responsible. In addition, the University has made significant capital expenditures to preserve and maintain the property. The University's future need for this property has become uncertain. The University has indicated that, upon disposition of the property, it will expect to be reimbursed for the principal payment as well the capital maintenance investments it has made in the property.

Unrestricted Funds

Executive Director Wruck discussed a memorandum he prepared at the request of Chair Bernikoff-Raboy regarding the use of unrestricted contributions, which are discretionary funds for the University's use contributed by donors who have not specified how their donations are to be used. These funds have been used for Humboldt Loyalty Fund grants where a small amount of funding can make a significant difference in a program or initiative, for faculty and student travel to allow students to enhance their academic work, and for various donor cultivation activities for the Colleges and the Library. These funds have also been used at the discretion of the President for an array of projects.

In past years unrestricted funds have been committed in advance before all of the contributions were received which led to significant timing issues. In addition, the amount of money raised annually has fallen short of the University's planned allocation resulting in a growing shortfall. In order to address these challenges beginning last year the President agreed to forego the annual allocation to the President's Office, the Division of University Advancement provided a one-time allocation from its University budget, and some Loyal Fund distributions were delayed pending the availability of contributed funds. These actions, along with the President's agreement to forego a second year of discretionary contributions, are expected to allow the unrestricted fund to reach a stable state by the end of fiscal year 2015-16.

The next steps are to develop guidelines for a clear and consistent approach for the distribution and use of unrestricted funds and to revise policies and procedures to be more in alignment with these practices.

Banking Relationship

The Executive Director announced that the Foundation will be moving its banking business from US Bank to Wells Fargo, the bank that serves the University. The new banking arrangement will facilitate the electronic transfer of funds between the University and the Foundation rather than requiring the issuance of checks which is the current practice. In addition, the Foundation will receive pricing based upon the CSU banking relationship which is expected to save $300 per year in checking charges and as much as $10,000 per year is custodial fees. The Wells Fargo accounts will open October 1 and the US Bank accounts will remain open for several months of transition.

9. Other Business

There was no other business.

The meeting was adjourned at 3:40 p.m.