ADVANCEMENT
FOUNDATION
HUMBOLDT STATE UNIVERSITY

MINUTES
OF THE
FINANCE COMMITTEE

MAY 20, 2015
Nelson Hall West 213 Conference Room

Present:
Guy Aronoff
Ken Davlin (by phone)
Nick Frank
Joyce Lopes
Dan Johnson (by phone)
Duncan Robins

Not present:
Chuck Petrusha

Guests:
Amber Blakeslee
Brian Frasher
Mary Kay Hartman
Arne Jacobson
Brian Mitchell
Kyle Plitt, RVK (by phone)
Jamie Rich
Nick Woodward, RVK (by phone)
Craig Wruck

1. Call to order

The meeting was called to order by Committee Chair Duncan Robins at 1:33 p.m.

2. Visitor comments

Kyle Plitt discussed RVK's interview with TIAA-CREF to evaluate their Social Choice Bond Fund. After review, it is apparent the Fund includes more fossil fuel exposure than was initially thought, and that this investment does not meet the Foundation's requirements. RVK intends to continue to search for appropriate funds in this category.

Duncan noted that if fossil fuel free bond funds are scarce, the Committee would need to consider additional equity fund investments in order reach the 10% investment green target the Board of Directors has set.

3. Approval of Minutes from the February 23, 2015 meeting

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

RESOLVED, that the Minutes of the February 23, 2015 meeting are approved.

4. Third quarter financial statements

Accountant Brian Frasher presented the financial statements for the third quarter of FYE 2015. It was noted that Operations Support to Campus is over budget at $186,449, due to the expenditure of $45,000 in matching donations for the I-5 bus accident scholarships approved by the Board of Directors at their April 25, 2014 meeting.

Charitable contributions year-to-date through the end of the third quarter are $3,093,823, reflecting $1,766,157 in contributions for the quarter. There is a $2.6 million negative variance in net results from the prior year, due largely to investment losses and a draw down for endowment distributions.

Total assets have increased $2.2 million over the prior year.

5. Budget for FYE 2016

Joyce Lopes and the Executive Director presented the Budget for FYE 2016.

State law requires the Foundation (as well as all of the University's other auxiliaries and self-support operations) to reimburse the University for services provided by the University such as accounting, management, and administration. The University has been significantly under-charging for these services for some time. The amount the Foundation pays each year under its Business Management Services Agreement with the University will increase in order to reimburse the University more fairly for the value of services provided. The University is concerned that these increases could be disruptive for the operations of its auxiliaries and self-support operations and is still considering how much to charge and how quickly to implement the increases.

Joyce discussed the Foundation's Business Management Services Agreement and how the reimbursement amount is calculated. Currently, the Foundation reimburses the University $82,000 per year for all administrative services. Apparently that amount was an initial estimate arrived at without research or a full appreciation of the scope of the Foundation's needs. In addition, the operations of the Foundation are becoming more complex and more demanding especially as improvements are made in the donor experience.

Amber Blakeslee, University Budget Director, explained the research that went into the development of the new reimbursement model, explaining that it is driven by the actual number of transactions an entity requires during the year. The intention was to move away from a subjective charge toward a more standardized approach. The new model is similar to the model successfully used by Cal State East Bay, except that transactions and costs are analyzed over three-year periods in order to help avoid steep annual fluctuations

In arriving at the amount to be reimbursed for services delivered, State law and CSU policy allow the University to take into account the value of services provided by the Foundation to the University. The exchange of value is quite subjective and difficult to determine with precision. The University has chosen to implement a 20% discount across all of its auxiliaries and self-support operations to account for exchange of value and will annually review this discount to determine its reasonableness.

The Foundation accounts for 11.81% of total transactions for the University, and is projected to cost the University $324,000 for next year. Less the 20% discount for exchange of value, the Foundation would be expected to reimburse the University $259,000, which is an increase of $177,000 over the $82,000 charged this year.

The discussion turned to how to pay the Foundation's increased expenses and balance the Budget for 2015-16. The Committee examined the Administrative Fee revenue. Current practice is to charge a 4% fee when contributed funds are actually expended. This practice has been in place for many years and has consistently failed to produce sufficient revenue to cover even the current administrative costs. The back-end nature of the fee makes it difficult to forecast revenue since it is based upon expenditures not revenue. In addition, University personnel find that the back-end fee makes it difficult for them to know exactly how much funding is available for program use.

A "Contribution Administration Charge" was proposed to replace the old distribution fee. The proposed Contribution Administration Charge would be a 5% fee charged on new contributions as they are received. It was noted that the proposal would result in greater transparency for donors and programs, since the fee is directly related to the costs involved in processing, accounting, and stewarding new contributions. The Philanthropy staff indicated they believe it would be easier to explain a front-end fee to donors who sometimes are unaware of the existence of the current back-end distribution fee.

The proposed 5% Contribution Administration Charge is projected to produce about $165,000 for fiscal year ending 2016. This compares to $30,000 in revenue budgeted for the 4% distribution fee in the current year.

It was noted that the Contribution Administration Charge would apply only to new contributions, including contributions to permanent endowments, but that it would not apply to existing endowment balances, which would continue to be subject to the 1.5% annual administrative charge.

Continuing with the proposed budget, Joyce noted the $175,000 item formerly called "Support to Campus" has been relabeled "Support to Philanthropy" to more clearly indicate its purpose. She reminded the Committee that this is used at the discretion of the University President to help offset the nearly $860,000 the University spends each year on the Office of Philanthropy.

In addition to the Operating Budget, staff prepared an Endowment Budget and a Non-endowed Funds Budget. It was noted that the new budgets are not fundraising goals, but are designed to project and track anticipated cash flows during the year to help the Committee and Board better understand how funds move through the Foundation during the year.

Two policy changes will be required in order to implement the Contribution Administration Charge included in the proposed budget: 1) a Contribution Processing Fee Policy to provide for the new fee, and 2) changes to the existing Management of Non-endowment Accounts in order to eliminate the current 4% distribution fee. The Executive Director presented drafts for the consideration by the Committee. He noted that the word "trust" was proposed to be eliminated in the new policies in favor of "account." Since none of these accounts are fiduciary trusts, referring to them as accounts in the policy will help avoid confusion as to the fiduciary level of responsibility required.

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

> RESOLVED, that the Budget for 2015-16 be recommended to the Executive Committee for approval, along with the two policy changes necessary to implement it.

6. Real Estate Holdings

The Executive Director reviewed the real estate holdings, specifically the Annex, which the Foundation purchased at the request of the University, and the Samoa Blvd. property, also known as IESCO. When they were both purchased in 2008, the intent was to convey them to the University. However, the economic crisis made State funding unavailable and the University's plans have changed. The Finance Committee and the Board of Directors should begin to consider the ultimate disposition of these properties.

Both properties are currently leased to the University by the Foundation and both leases expire in 2018. The properties are currently being carried on the Foundation balance sheet at the value for which they were acquired in 2008.

The Annex has a book value of $1,675,000. Since it is contiguous to the campus, the University is interested in retaining the Annex property long term for potential future expansion. However, because the property is owned by the permanent endowment as a principal investment, it is not possible to simply convey the property to the University. If a source of funds can be identified, the property could be purchased from the permanent endowment and ownership could then be transferred to the University.

The Samoa Boulevard property has a book value of $2,535,000. The University has less reason to retain this property. The acquisition was fully financed with a $2.535 million promissory note

held by CSURMA (the CSU insurance exchange) for which the Foundation is responsible. In 2013 the University made a $535,000 principal payment on the promissory note. There is a $2.0 million balance due in 2017. Upon disposition of the property, the University would expect to be repaid for the principal payment, as well as for significant capital maintenance investments it has made to the property at no cost to the Foundation.

The two properties currently generate approximately $238,000 in revenue for the Foundation including $139,000 in interest income for the permanent endowment. The Committee will need to carefully consider these factors as the disposition of the properties is determined.

7. Other business

The California State University has a requirement that expenditures be made from the source of the funding to the greatest extent possible in order to provide transparency and accountability. The University has had a practice of allowing periodic lump sum transfers of Foundation funds to University accounts from which expenditures are then made. In order to more fully comply with the CSU requirements, the University is implementing a "Spend from the Source" initiative beginning with the new fiscal year. This change will affect University personnel responsible for authorizing expenditures and ordering payments who will now have to keep track of both their University and Foundation resources. However, Spend from the Source will provide much greater accountability for donor funds and others. One side effect of Spend from the Source is that Foundation account balances may grow as funds remain in the Foundation instead of being transferred to the University.

There was no other business to come before the Committee.

8. Adjournment

The meeting was adjourned at 3:14 p.m.