MINUTES
NORTHERN ARIZONA UNIVERSITY
BOARD OF DIRECTORS MEETING
WEISS GALLERY, OLD MAIN
NAU CAMPUS
FLAGSTAFF, AZ
OCTOBER 24, 2008
BARBARA MCLOUD ’78, PRESIDING

BOARD MEMBERS PRESENT: Vice President Marc Atonna ’95, John Clark ’77/’81, Wayne Connelley ’76, Joy Gaeraths ’98/’05, Bart Graves ’79, Yvette Martin ’92, President Barb McCcloud ’78, David Moline ’73, Dick Nothstein ’59/’63, Kimberly Ott ’82, Veronica Perez ’94, Marvin Peterson ’61/’70, Foundation Board President Colleen Ragland ’68/’71, Jennifer Reichelt ’98/’00, Doug Rutan ’71, Dan Slayton ’78, Bruce Turner ’79, David Will ’61/’64, VP for Advancement Mason Gerety (left after his presentation), NAU President John Haeger (his presentation & tax status discussion), ASNAU President Brad Busse, Executive Director Neil Goodell ’76/’96, Ex Officio Bob Crozier ’53/’71, and Ex Officio Joe Rolle ’41.

BOARD MEMBERS UNABLE TO ATTEND: LaTrice Brewster ’92, Heidi Shoen Harvey ’72, José Herrera ’96/’01, Paul Peterson ’00, and Athletic Director Jim Fallis.

PAST PRESIDENTS PRESENT: Cliff Alexander ’94, James ‘Buck Clark’ ’50/’54, Charles Pilon ’59/’66, and Past Presidents’ President Nancy Serenbetz ’75.

GUESTS PRESENT: Associate VP-Student Affairs Sarah Bickel, Interfraternity Council President Jason Simpson, Residence Life Coordinator Gretchen Wesbrock, and Past Board Member Armando Ronquillo.

STAFF PRESENT: Judi Burk.

CALL TO ORDER
President Barbara McCloud called the meeting to order at 8:20 p.m., Friday October 24, 2008. She welcomed those in attendance.

The agenda was changed to allow Interfraternity Council President Jason Simpson to speak first because he had a class at 9:00 a.m. He spoke about re-establishing the Winter Carnival and having snow sculptures. He said he presented this idea to the Greek community which is very excited about reviving the tradition. Jason said they have formed a phone tree to get the word out as soon as there is a good snowfall. Greek Pride was selected to be the theme this year. David Will passed out some old photographs of snow sculptures – he has been very active in working with various Greek organizations on campus. Several Board members had suggestions for Jason, e.g., contacting maintenance about dumping snow where the snow sculptures would be built.
BOARD MEMBERS SWEARING IN
Joe Rolle swore in two of the new Board members who were unable to be present in July, including Bart Graves and David Moline.

APPROVAL OF MINUTES FROM JULY 18-19, 2008 BOARD MEETING.
Dick Nothstein moved to approve the minutes. Marc Attona seconded and the motion passed unanimously.

CHAIN GANG UPDATE
Members of the Chain Gang came into the meeting. Gretchen Wesbrock said there are currently 17 Chain Gang members. The group started out with 8 members this fall and just brought in 9 more “links” (those who have not been initiated yet). She introduced Scott Leppla, who is co-advising the Chain Gang. The Chain Gang members introduced themselves and all were very excited about being in Chain Gang and mentioned traditions as being important to them.

NAU PRESIDENT’S REPORT
President Haeger provided an update on the budget situation at the university. He said NAU can accommodate budget cuts in several ways:

- reduce travel
- capture salary savings on vacant positions
- initiate administrative reorganization
- cancel some position searches

He said the key is to do no harm and maintain the momentum of the institution, making sure it continues to move forward. Enrollment is up this year so there needs to be faculty in the classrooms. President Haeger noted there are two programs that have increased NAU’s reputation within the state and also out of state. One is the Finish-in-Four program and the other is the tuition guarantee. The Finish-in-Four program is moving into partnerships with several community colleges to encourage students and to help them lay out a plan for finishing in four years by having the correct courses.

President Haeger spoke briefly about the SPEED (Stimulus Plan for Economic & Educational Development) program. The purpose of this program is to invest heavily in university infrastructure and in other parts of the state’s infrastructure – roads, K-12 schools, etc. The hope is that stimulating the construction industry and building infrastructure will help bring the state out of its economic situation.

President Haeger thanked Board members for their efforts in the naming Max Spilsbury Field, revitalizing Chain Gang and renovating the Logging Wheels.

In response to a question, President Haeger indicated he would stay at the meeting for the discussion of the tax status of the Alumni Association. He said the Alumni Association isn’t going away. He said in his mind there needs to be a discussion about what is in the long-term best interest of the Alumni Association.

NAU FOUNDATION REPORT
Colleen Ragland reported the Foundation Board is very busy working on bylaws and the memorandum of understanding with the university. She said they are in the initial stages of a capital campaign. Mason Gerety said he continues to be very excited about University Advancement even in down times. He said there would be some reduction in
smaller gifts for the next 18-24 months. But, he said it is a great time to be in the very early phases of the campaign because they are really looking at multimillion gifts. There are numerous prospects available for the university to engage.

Mason pointed out and said he wanted to be really clear that the alumni staff has been spectacular to work with and they are an incredibly dedicated group of individuals. He said it has been extremely positive for him to be involved with them. They are always above and beyond and he said there should be absolutely no doubt about the quality of the alumni staff.

He noted he and others are in the process, with a couple of members of the Alumni Association board, of redefining a communications strategy for alumni outreach. An alumni survey will be completed through the social research lab where they will be talking to alumni stratified by several factors and seeing how they want the university to communicate with them. After this is completed he said they will be putting together a comprehensive communication strategy using the results to make sure we are getting the highest return on our investment.

Mason said the first consultant relative to the campaign has come to campus. It’s a group called Blackbaud. They perform data modeling, data mining, and predictive modeling of potential gifts from individuals, foundations, and corporations that are part of our database. He said the results were extremely exciting, the prospects are extremely good and it will allow us to be very data driven in how we go forward in terms of fund raising.

Mason reported a campaign consultant has been engaged – Marts and Lundy – and representatives will be coming to campus next week. He said he has seen the draft report and it is very pointed and will give clear direction for moving forward. To sum up, Mason said there are tremendous opportunities on the horizon. He said in the sixteen years he has been at NAU it hasn’t been in as good a place as it is right now even though we are looking at a couple of tough budget years. Mason said the university is really in spectacular shape and said he appreciates the support and engagement of the Alumni Association in helping to get to where we are and pushing through the next 5-10 years.

**ASNAU REPORT**

ASNAU President Brad Busse said he ran for ASNAU president on the idea that he would be a students’ president who would care about student issues and always find time for his fellow students. He said he really cares about bringing back the pride and tradition of the university. He said ASNAU is proposing a student fee of $25 per semester that would fund ASNAU, thereby relieving the president’s office of the budget that is graciously provided to ASNAU. He estimates this would create about $510,000 per year in funding. He reported they have been able to register 1,337 new voters on campus and 3,000 students have pledged to vote. He said they are not telling students how to vote, but simply want them to seek information to make informed decisions.

Brad said a presidents’ council has been started and said it is a great networking tool for all the clubs and organizations on campus to come together and really build that student coalition to work on common goals and issues important to them. They meet every other Thursday at 7:00 p.m.
**WELLNESS CENTER UPDATE**

Associate VP – Student Affairs Dr. Sarah Bickel gave a history of how this project came about and where it stands at this point. The project started in 2007 with conversations in the enrollment and retention area on how they could make sure to continue the student experience – what kinds of activities and amenities are needed to provide facilities and worthwhile events for students. The committee knew that the current recreation center was outdated and too small. They also talked about the health center. Two of the services that are most used by students are the recreation center and the health center. Both of these facilities are over capacity. There is also a problem with intramural sports. She said the NAU students are very participatory and there is an issue of finding enough playing fields for these activities. So, the committee in thinking of all these needs recognized they all revolved around health and wellness issues. At this time last year the committee approached student leaders about the concept of a wellness center combining a health center, a recreation center, a counseling center, and distributive learning resource center all in one unit and create and design a new building. The students supported the concept. A financial plan was developed to see how much it would cost and what student fees would be required to support such a facility. As the design process started, it began to expand in scope adding the employee wellness center, lockers to serve the Lumberjack Stadium, and also a place for the High Altitude Training Center. The committee then entertained the idea of adding two floors of classrooms to this facility. The proposed facility is expected to open in 2011.

**TAX STATUS DISCUSSION**

Barb McCloud started the discussion about the tax status of the NAU Alumni Association (NAUAA) *(related memorandum dated October 21, 2008, attached to permanent minutes)*. This discussion first occurred at the April Board meeting and resulted from Foundation auditors conducting the annual review which includes NAUAA financials. Looking at the NAUAA financials is not really an accurate description because the association does not have its own accounting system or its own bank account. Nor does it have a separate check and balance system that is run as a result of the income it receives from royalties and other miscellaneous sources. During the auditor’s review process, it became quickly apparent that the association was in a difficult spot. It is a corporation, it is a governing board of an actual 501(c)(3) corporation that is registered with the Arizona Corporation Commission and is operated by bylaws. Now under IRS regulations a 501(c)(3) public charity has to have certain elements to its existence in order to, in fact, be a public charity as defined by the IRS and in order to receive the benefits of that particular IRS designation. An organization does not just choose to be a public charity, it must set itself up as a public charity but then go to the IRS and ask for that designation. And, in order to maintain that designation, you have to maintain all of the elements that allow you to operate as a public charity. When Foundation auditors reviewed NAUAA’s business it became apparent that the association was not operating as a public charity as defined by the IRS and as was originally represented to the IRS. At that point in time, Brenda Blunt, who was the CPA working on this with the Foundation, prepared a memorandum outlining the situation with a number of options which was presented to the Board in April.

As a result of that information and discussion, Barb volunteered to look at the situation and work with tax partners in her law firm to see just exactly how serious the circumstances were and what solutions would be best for the association. Barb’s legal research provided the basis for the memorandum she sent to the Board on October 21, 2008, which offered three viable options. Barb said what needs to change is the technical manner is which the association operate as a corporation. She said as the Board
considers these options and as it makes decisions as a Board of which direction to take, understand that the way the Board operates on the surface doesn’t necessarily need to change. What does need to change is how the association’s business and financials are managed. To maintain public charity status NAUAA needs to do certain things and the most significant is that it would need to set up a program to solicit donations on a continual basis that would allow an increase in the percentage of overall revenues. It must always be above 10 percent of the total revenue and to the extent it can get to 33-1/3 percent, which will result in less scrutiny from the IRS. Understand that when budgets were previously reviewed and approved they included more than just association funds. Barb said the Board was looking at the budget from the university, at part of the budget Mason has from the university, but that’s not just our budget. What the association really has is about $170,000 worth of annual royalty revenue. Royalty revenue is not what allows us to operate between 10 and 33-1/3 percent, but rather that percentage has to be from donations. So, while NAUAA enjoys its royalty income, the amount received puts NAUAA at a disadvantage because the small amount of money raised from donations is, percentage wise, made less because of the reliance on those royalty programs. The public charity status means NAUAA would absolutely have to come up with some type of donation or fundraising program. NAUAA has always been friend raisers and the Foundation has always been fund raisers and so knowing the unique relationship the Foundation has with the university, the association would have to work very closely with the Foundation and the university. The partners would need to make sure whatever is set up with regard to a donation program is something that sits extremely well within the overall community in which the association operates.

The second option is to move to a private foundation. Barb said private foundations are still 501 organizations but they do not enjoy the same tax status that a public charity does because private foundations are not held to the 10 to 33-1/3 percent requirement from donation income. However, the downside to being a private foundation is there is a considerable portion of the money that is pulled in from royalty and investment income that is taxed. And, while all of this time NAUAA hasn’t been paying tax, it would have to start paying tax.

Barb said the last option would be to consider whether or not NAUAA really needs to be a corporation because the biggest part of who we are and what we do. Our mission is to support the linkage between alumni and the university. This includes serving as a conduit in both directions and facilitating alumni networking. She said, quite frankly, this can be done without being a corporation – either a public charity or private foundation. This cannot be easily achieved because of our affinity contracts. Barb has reviewed these contracts and the most significant, binding contract, is our Bank of America (formerly MBNA) contract which is where the association receives most of its income. That contract is in effect until 2010, so NAUAA can’t just decide today that it’s not going to be a corporation tomorrow because it has legal responsibilities in its current corporate form. So, if the board decides to go that route, the association would need to come up with a plan of action that would schedule out all of the affinity contracts. We would then know exactly when to give notice that those contracts are not going to be renewed, so that by the time that the 2010 obligation ends, all the rest of the affinity contracts would be ending as well.

She said that probably raises the question for some – does that mean we can’t do affinity contracts anymore? No, it doesn’t but they would have to be executed in a different manner. A memorandum of understanding could be set up with the Foundation asking it
to be the contracting entity for future affinity partnerships. The Foundation would be the entity that signs on NAUAA’S behalf. The Foundation would receive and manage the funds. The other thing Barb said she thinks is important that the Board recognize, and it shouldn’t come as any surprise in light of the economic environment, is that affinity contracts, such as Bank of America, are quickly becoming a thing of the past. Banks are not executing those and as a matter of a fact, she thinks some banks have actually canceled the contracts with some alumni associations across the nation because they just can’t afford to do this anymore. Barb thinks the financial landscape the association has been depending on for the last several years is changing significantly which should be factored into any decisions.

Barb said that after she sent out the memo, Dan Slayton and she spent about an hour with President Haeger, Mason, Colleen, Cheryl, and Neil. They walked through all of this and talked about the different options, and solicited from President Haeger his thoughts and knowledge on the bigger picture related to academic institutions and alumni associations across the nation. This is probably one of the most significant issues that we have faced and it is something we need to make sure we give due consideration and due discussion, but keep in mind that we have a very limited timeframe at hand. There is a tax return due November 17, 2008, and while we can file an extension we do need to be digesting this and making this decision in a very timely manner.

Dan Slayton said he wanted to follow up and make sure everyone understands what is happening. He said this is just business and he reiterated what Barb said, there will be virtually no change to the Alumni Association’s core operation and its relationships. He continued by saying nothing is going to change about our mission, our purpose or what we are supposed to be doing. But, it is significant in the sense, just from a business standpoint, just from what we are looking at in tax dollars and tax penalties, we have to make this decision. Dan said we have to understand that it is a significant decision from that standpoint because we are looking at liabilities – financial liabilities – and that is really the importance of what is being considered. He said he wanted to make sure that people understand this in no way detracts or diminishes our work as an association. Dan said he actually thinks it is an opportunity for us to really get out from under the tax liabilities and financial reporting issues. He said it concerns him that we have been operating in a manner that is not consistent with the IRS regulations – this is an opportunity for us to clarify, clean up and continue to move on and do what we have been doing since 1920.

Several Board members asked for perspectives on each option, noting they were not as familiar with the legalities of each option.

President Haeger said the environment for every non profit has changed dramatically over the past 5-6 years – the new rulers of the world are auditors. He said his take on this is that you want to protect yourself as an alumni organization with absolutely no change to the way you operate. He said very few alumni organizations across the country have 501(c)(3) status – only the biggest – but that’s because they can operate completely independent. President Haeger said the university will help however they can but we do have a tax liability that we have to be sure once a decision is made we need to approach the IRS and try to resolve this.

President Haeger, in response to a question from Cliff Alexander, said the Alumni Association can be funded through auxiliary budget funds. These have to be operated as businesses. He said to reassure the Alumni Association, this can be easily handled by a
memorandum of understanding, which governs the relationship between the university and the Alumni Association – guarantees can be involved in this.

In response to a question about dollars in 2010, Barb said the reality on the money side is that by the time we get to 2010 we will have zero royalty income because the biggest stream of income is Bank of America and it ends in 2010 and it will not be renewed. Bruce Turner questioned how close we are to the 10 percent level and could this be handled by really delineating what might count as a donation and what about gifts in kind? Barb said that when we do affinity programs, the IRS is pretty good at staying ahead of the curve on creative financing.

Barb said she thinks each option can work. Related to the public charity or the private foundation option, in order to not only comply with the IRS regulations for either one of those but to also comply with our responsibility as registered corporation – we don’t have our own bank account, we don’t have our own budgeting and accounting – and if we are going to stay either one of those we will have to do that. Any of the options are doable but we need to understand we are going to have to take care of business a lot better than we have in the past.

In response to a question about what needs to be decided today, Barb said there is a tax filing due November 17. We can file an extension but at some point in time we are either going to have to commit to attempting the road to public charity status or attempting the road to private foundation status, so that when we file we can inform the IRS if we are going to changing our state of affairs.

Yvette asked about the liability of taxes per year with option 2. Barb said an uncertain assumption is $1,300 to $2,700 per year. She said whether its option 1 or option 2, a business structure would need to be put in place – we would have to have a bank account, we would have to set up an accounting system, and we can’t depend on the alumni staff to do that. Barb said the association would need to hire a bookkeeper. She said whatever option is chosen, our surface operation will not change. We have to take care of business.

After several Board members voiced their opinions and some questioned the option of having a pro and con chart. Dan Slayton indicated that his personal opinion is option 3. He said he didn’t see a downside to option 3. He said we don’t need to be a 501(c)(3) – we don’t need the hassle and we don’t need the liability. We would just simply continue to operate as we have without worrying about financial reporting. President Haeger, in response to a question, said most alumni organizations operate like option 3. If one of the other options is decided upon it would move the Alumni Association away from the university in that there would have to be a business manager, etc. Barb said under option 3 the association can operate without having to have a corporate identity and a corporate form. And as President Haeger has noted, from a financial standpoint we do everything that we do now but would not worry about filing a return every year, and we don’t have to worry about our own accounting or budgeting because we would work in a more integrated manner with the Foundation and the university. Barb said we just wouldn’t have the responsibility or the corresponding risk and liability of trying to run our own corporation.

Neil Goodell said as we reduce the amount of income (in 2010) it might help us meet the rules of option 1 but it would greatly impair our operation financially. President Haeger
made a comment that having just been through several very difficult audits, one of the questions that will be asked at some point is when did you know about this situation? Taking quick action will put us in a better position with the IRS and in a better position with all of the other people who may know. This situation is now fully public knowledge.

After some discussion about whether or not to make a decision based on what has been reported and discussed at this meeting or going through the process of getting more information, Bruce Turner made a motion to move forward with option 3. Bart Graves seconded and the motion passed unanimously.

President Haeger said they will get back to the board about how option 3 will be implemented. We will need to immediately go to work on completing a memorandum of understanding between the Foundation and the Alumni Association so the level of comfort is such that nothing will be lost in taking this step. He said one of the reasons this happened is historical in that the Alumni Association actually preceded the Foundation. After the Foundation was formed it became the organization that coordinated fundraising and so it has the staff that in a sense has the arms-length relationship with the university.

Barb noted this is a great deal of information and said this is just the first step. What needs to be done now is come up with a process that gets us through our November 17 tax filing and in all likelihood, even with this decision being made, we are going to have to ask for an extension because she doesn't think we can get all of this worked out by November 17. Barb said not to be surprised if some of the board gets a call from her asking for assistance, but she will start putting together a schedule so that people have a clear understanding of what we are going to be doing over the next 3 months, 6 months, and going forward.

Barb said this is the perfect segway into our strategic plan discussion because, as Dan mentioned earlier, this is a great opportunity because we have never had a strategic plan and she really feels in order for the board to continue our recent successes and build upon those we really do need a strategic plan. Barb said to facilitate that process, she has been working with Mason and Neil to have a consultant work with the board for the Friday afternoon of the January board meeting. Prior to the January meeting, not only will the board be getting the step-by-step process to put option 3 into play, but you will also be getting draft forms as information for the January meeting. At that meeting the board will actually be formulating goals and action plans. Barb said the board has the perfect laboratory to do that because of our Veteran’s recognition program for next year’s homecoming.

Yvette Martin moved to adjourn the meeting. Dick Nothstein seconded and the meeting was adjourned at 11:15 a.m.

Respectfully submitted by Judi Burk

ATTACHMENTS TO PERMANENT MINUTES:
Memorandum dated October 21, 2008, from Barb McCloud to the NAU Alumni Association Board of Directors on the subject of Public Charity Status.