MINUTES OF A MEETING OF THE
BOARD OF DIRECTORS OF FRIENDS OF THE ELEPHANT SEAL
February 20,2013

PRESENT: Donovan Marley, Dave Bauer, Kathy Hurrle, Sharkey Warrick, Tim Postiff, Brandt Kehoe and Bill Goodger

Also present: Megg McNamee, Marcella Boteilho, Lisa Remington and Judy Thompson

The January 16th minutes approved with corrections from Kathy Hurrle

OFFICE/TABLE/TUBE REPORT: Marcella reported that table sales were at $12,676 since January first this year which is an increase of $4,000 from last year at the same time. Donations at the table are down by about $1,000 year to date from last year. Tube contributions are about the same as last year at $2,195. The office shop year-to-date sales are $3,298 which is approximately $800 more than last year.

PRESIDENT'S REPORT: Brandt reported that the webcam is not functioning properly. Tom thinks it is a problem at the BLM site. Tom is the guy to fix it, so there is no point in communicating with the light station people. The computer that operates the webcam is somewhere with State Parks; Brandt has no access. Dave Bauer reported that he thought it was working this morning. Brandt has a prepared proposal for BID money but will hold off presenting it until the webcam is working.

TREASURER'S REPORT: Bill reported that the checking account has a $15,531 the money market account has $64,302 with additional $50,000 in cds.

INTERN REPORT: Bill took both Melissa and Katie on a tour of the rookery and also gave them each the Adams' book on elephant seals. They will prepare a 30 minute report on rescue details (how rescues are actually done) and the background on those rescues.

JUDY THOMPSON **t**hanked the board for nominating her as docent of the year. She also reported on the Education (School Group) Committee and said that she, Ken Dunn and Jill Haney are on the committee. She also told the board that she and Bob Gross did an "in service" visit to Pacheco Elementary. That same group of 3rd graders came to the bluff and was very well prepared and a pleasure to work with.

LISA REMINGTON/STATE PARKS: She asked about whether the Volunteer forms were ready. Marcella said that they were almost complete and still awaiting a few to complete their forms. Marcella will give the ones that are finished to Lisa today and try to get the remaining few completed asap.

Lisa also reported that one of the juvenile female seals came through the fence at the Boardwalk. The Rangers were called and a canine unit responded. The docent present was very upset with dog and how he was deployed. Lisa was particularly disturbed to know that the docent "even grabbed the leash". Lisa reiterated that working police dogs are not to be approached or touched. Lisa suggested that at the next training we introduce the canine unit so that our docents have better understanding of their function, training and general handling. Lisa was then asked why the canine unit was even at the bluff. She explained that it was in response to a "public safety" call. Members of the board were unanimous in their feeling that dogs were NOT an appropriate tool to be used around elephant seals and that that decision should be re-examined. Dogs had never been used before and the Marine Mammal Center always uses boards. Lisa will check into this matter further and will talk to Bob Yerena to see what he says. She'll get back to us next meeting. The board also did not think that canine units should be brought into any portion of the docent training program. The discussion will continue at the next meeting.

MEMBERSHIP REPORT: Donovan reported that membership income at the middle of the first quarter is $4,690 and that there are 81 members who have donated in 2013 (1/3 of which are acquisitions). There are over 500 continuing members from last year whose anniversary dates have not yet come up. 42% of donations have come from acquisitions. The bid for new brochures that he told the board about at the last meeting fell through! Donovan ordered 100,000 brochures from the same people he has dealt with before for a price that will cut about three cents off per copy. Donovan will store the brochures in his garage and bring them to the office in batches of 5,000 when needed.

TRAINING COMMITTEE: Tim reported that there will definitely be a Spring training. Marcella thought there were 6 or more attendees so far. The 2 interns will also attend the training. Dave Bauer commented on the previous "review session" with last year's trainees. He felt it was a very successful session that produced many good ideas and possible modifications. They will conduct peer reviews in March. He also reported that there are no drop-outs so far.

SCHOOL OUTREACH REPORT/KATHY HURRLE: Kathy requested that the board authorize a "working figure" dollar amount that can be budgeted for funding the new school bus programs next year. Kathy had $10,000 in her thoughts. The current thinking is a plan to target the 10 elementary schools with the largest population of financially challenged students. Those numbers should be available by mid-March. In order to make these bluff visits more meaningful to the students, Judy Thompson and her committee hope to be able to prep the students in advance of their visit to the bluff. Kathy's group hopes to visit those schools in late September to make a presentation to the teachers that introduces the idea of our interest and willingness to help subsidize the bus program. It is hoped that the teachers will be interested enough to come up with their own fundraising programs to help defray the costs. Buses from longer distances can cost as much as $500 each. A motion to commit $10,000 for this new trial program was made and carried.

ENDOWMENT PROGRAM: Sharkey Warrick reported that he asked Barry for written references and also spoke with three different organizations that are with SLO County Community Foundation. Everyone he spoke with and every report on the foundation was "uniformly positive". Sharkey also created a report showing the limitations on spending for the first three years. This report indicates that if the market is good, we will be able to draw funds after 3 years. Donovan suggested not touching the funds for the first five or six years in order to let the principal grow and never be in a position to drop below the original balance. Even though future boards will have the prerogative to spend funds it should be set up that that spending should be limited to the bounds of our bi-laws. Kathy expressed concern with the Articles of Incorporation vs the Mission Statement vs the Bi-Laws. Bi-laws changed in 2012 to incorporate our relationship with State Parks. She suggested it might be a good idea to have an independent attorney take a look at these documents to make sure there are no conflicts, especially regarding our agreement with State Parks. Christel has an attorney friend who may be able to take a look at the documentation for us on a pro bono basis. There is also a potential conflict with the provision that the Foundation will take over the money if FES were to abandon or fail to exist anymore. The Foundation would take over the money and see to it that it goes to a use suitable to our mission statement.

Sharkey suggested the following wording in going forward with Barry and the Foundation:

2. PURPOSE. The primary purpose of the Fund is to support the programs, activities and operations of the Friends of the Elephant Seal at the discretion of its Board of Directors. If for whatever reason at some point in the future the Friends of the Elephant Seal no longer exists as an organization, the grants from this Fund shall support research on elephant seals at a college or university on the Pacific Coast of the United States, preferably in California in manner consistent with the terms and conditions contained in paragraph 3. In all cases the purpose shall remain consistent with the ~~current~~ Statement of Purpose of the Friends of The Elephant Seal Bylaws, dated August, 2012, and restated herein as ***Attachment A.*** *Future Boards of Directors of FES must be guided by the purpose outlined in this paragraph and* ***Attachment A.***

Attachment A: *Excerpt from FES ByLaws , dated August 15, 2012,*

Section 4.01 Statement of Purpose of Friends of The Elephant Seal

"The purpose of this Corporation is to engage in any lawful act or activity for which a corporation may be organized under such law. Such purposes for which this Corporation is formed are educational, scientific, charitable and other non-profitable purposes, including, but not limited to, the preservation of the Piedras Blancas Elephant Seal Colony for ecological, educational, scientific, historic, or scenic opportunities; to create and administer volunteer docent programs which will provide environmental education for the public and promote safe viewing of elephant seals and other marine life along the Central Coast of California. "

The Board unanimously moved to accept the above wording and approved Sharkey to move forward. The initial capital contribution from FES will be $30,000. Set up and initial funding is expected to take 50-90 days.

SCHOLARSHIP PROGRAM: Tim Postiff wants some idea of what we could repeat year after year for scholarships. Brandt suggested we put scholarships "on the back burner" for the time being. Meaningful scholarships would start at a minimum of $1,000-2,000.

DOCENT COORDINATOR: Tim reported that Ellen Stoner expects to come to the board meetings once every calendar quarter. Ellen created the last newly formatted docent schedule with few if any glitches (one glitch with Donovan and Barbara's schedule). Ellen also plans to mail out the newsletter once Joan has it basically put together. She will add her contributions to it and is always looking for comments from others. She is keeping track of her hours and any monies spent. Ellen has interviewed about half of docents so far. Problems or comments should be addressed to her. Ellen is seeking new information gleaned since the first training. Brandt, Donovan, Tim, Bill will form a committee to make a list of “new” information for Ellen that can go into newsletter for docents.

ITEMS FOR DOCENT LETTER: March 9 - Condit lecture at Robo Bank at 5: 00 pm. Reminder about availability of minutes and research documents. Sharkey’s report on endowment .

Respectfully submitted by Megg McNamee, recording secretary

Attached: suggested Designated Endowment Agreement, Cover Letter, Spread sheet Spending Report, SLOCCF Due Diligence document

NEXT MEETING WILL BE ON MARCH 20, 2013 AT 1:00 PM

Suggested version for consideration:

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TO: Friends of the Elephant Seal Board of Directors

FROM: Sharkey Warrick, Finance Committee DATE: 7 February 2013

SUBJECT; Due Diligence Review-San Luis Obispo County Community Foundation

Background:

The FES Board has directed the Finance Committee to investigate establishing an Endowment Fund for donors to direct gifts to our organization. The advantages of a Permanent Endowment or Designated Fund are that donors might be more inclined to make major gifts. This is because the Designated Fund will continue to support the mission well into the future after those of us who are here now have passed on.

Early in our discussions the San Luis Obispo County Community Foundation (SLOCCF) was recommended as an organization which could help us achieve our goals. I discussed this organization with Herb Stroh, an attorney, who recommended SLOCCF. Herb is a member of another non-profit who also has established a Designated Fund with SLOCCF. Herb suggested that the administrative overhead and headache associated with setting up and managing an Endowment would be more than we would want to consider unless we had millions to manage.

Discussions with San Luis Obispo County Community Foundation:

I called Barry VanderKellen, Executive Director, SLOCCF, and discussed our objectives and desires. He offered to come brief the FES Board. His presentation was given to the Board on January 16, 2013 and is included as Attachment (A).

Attachment (B) is a document describing the Investment Policy of the SLOCCF, spelling out the financial goals and objectives of the Foundation. It includes asset allocation targets and types as well their criteria for selection of Investment Managers. While SLOCCF retains the responsibility for overseeing the Investment Policy, actual hands-on money management is performed by third party Investment Managers, selected in accordance with the rules stipulated in the Investment Policy. It must be noted that funds invested with SLOCCF are **not guaranteed or insured by the Federal Government.** However, several layers of private insurance are in place as follows (Direct quote from Barry):

1. Errors & Omissions Insurance - up to $10 million per incident

2. The SLOCCF have retained the consulting services of a group at UBS. UBS is one of the largest financial services firms in the world. Because the consulting group has signed as a fiduciary for the SLOCCF endowment pool, the full faith and credit of UBS backs their endowment pool. This means that more than $640 Billion of UBS assets back the SLOCCF endowment pool. The current credit ratings for UBS are: S&P A; Fitch A;

Moody's A2. Please note that SLOCCF does not invest in UBS investment funds and products**.**

Attachment (C) outlines the current Spending Policy. This establishes the current policies for disbursement of funds from Endowments. It should be noted that this policy will restrict payouts for the first two years while the Designated Fund is establishing a track record. That is because payouts are determined by the trailing 12 quarters (36 months) of history of the invested funds. After the Fund has established a 12 quarter history, the annual maximum payout available to support FES will be 4.25% of the principal value of the Fund under the current Spending Policy. This can be withdrawn annually, all or part, or left to compound with the principal.

Attachment (D) outlines the current fee structure. It will be noted that as our Designated Fund grows beyond $500,000, a reduced administration fee structure is applied. For the immediate foreseeable future while our Fund remains below $500,000, we will pay 1.5% annually ($625 minimum) for Administration and 0.65% investment fee to the investment advisors, for a total of 2.15%.

A hypothetical example *will illustrate the mechanics of an investment in a Designated Fund:*

The Policy makes available 4.25% of the average fund value over the trailing 12 quarters. The Policy does not make available the entire earnings of the fund. The purpose is to retain excess earnings to keep pace with inflation and hedge market fluctuations. At the end of the first year, there are four quarters of earnings and eight quarters of no earnings; the Policy produces very little for spending. At the end of the second year, there are eight quarters of earnings and four quarters of no earnings; the policy produces more for spending. At the end of the third year, there are 12 quarters of earnings thus the fund is at full strength.

To illustrate, assume that an initial contribution to the Fund of $100,000 occurs in month 0 with no further contributions for the next twelve quarters (36 months). Further assume that the Fund earns 10% per year for the next three years. Under the current Spending Policy, $1,485 would be available to spend at the end of year 1, $3,086 at the end of year 2 and $4,809 at the end of year 3.

The spreadsheet (Attachment J appended to this document) serves to illustrate the payout available under this policy.

If, however, the market should turn against us and instead of earning 10% in year 1, the Fund experiences a 10% loss, different rules come into play. The Fund value has in this case been reduced to 90% of the historic dollar value (the value of the original gift). No spending will be allowed until the Fund value is restored to the historic dollar value and then will be governed by the normal payout rules. A bear market of several years duration could thus restrict payouts for some time. These rules are in place to assure survival of the Fund in perpetuity.

Reference Check:

I requested Barry to submit three references, other non-profits who have established Funds with SLOCCF. Attachment (E) is the questionnaire from the Economic Vitality Corporation, Attachment (F) from the Alpha Pregnancy and Parenting Support and Attachment (G) is from the Avila Beach Sea Life Center. All references were uniformly positive about their reasons for establishing the Designated Funds and their support for SLOCCF. Avila Beach Sea Life Center had some concerns which I have outlined in the Interview Report but I believe her concerns were due to a misunderstanding as to how the Spending Policy works.

As you can see, all these funds in the reference check are small and rather new. I have not talked to anyone with larger amounts invested for long periods of time but they can be found by reviewing the reports listed on the website mentioned below.

Financials and Audit Report:

The outside audit reports and IRS Forms 990 are posted on the website of SLOCCF at http://sloccf.org/financial.php. Caliber Audit and Attest are the outside auditors and their report is posted on the website. They have posted a favorable audit report for the last period. Kim Spiller is their lead auditor at (805) 888-0242 and I have received a favorable report from her on the management and financial integrity of SLOCCF and its management. She reports that this is the 4th year of Audit History with her firm. She also reports that Holly Corbett CPA, Director of Finance, who has been with SLOCCF for the past two years has brought in lots of good ideas for financial controls. Kim also indicates that, in her opinion, SLOCCF is very well organized in their financial affairs compared to many non-profits she has seen.

A copy of the front page of the latest IRS Form 990 Tax Filing is included as Attachment (H). Note that it is prepared and signed by Caliber Audit and Attest. Go online to review the complete filing which runs to dozens of pages.

As reported, the net assets of the Foundation were $29,769,904 at the end of 2011.

Preliminary Version of Designated Endowment Fund Agreement:

Attachment (I) is a proposed version of the final agreement which will establish the Designated Fund with SLOCCF, for the Board to consider. Particular attention needs to be paid to the paragraph 2, Purpose, which sets out the restrictions on the use of the disbursements from the Endowment. We can make them very loose so future Boards have great latitude in using the funds and changing the Purposes or we can make them more restrictive so that the use of the funds are not changed in any significant way. The Board should debate this wording carefully to assure that the objectives of the majority are achieved.

{A personal observation: The proposed wording is very loose and in my personal opinion is not binding enough. A future Board could decide that Sea Otters are more important and decide that Friends of the Elephant Seal are henceforth dedicated to preserving Sea Otters. I worry that such a development would lose faith with those who committed large grants or bequests for the Elephant Seals. If we wish to restrict the use of the funds beyond the above preliminary paragraph 2, an attachment outlining our desires should be attached to the agreement to clarify our desires and constrain any future board to act within our original intentions.
SW}

Respectfully Submitted,

Sharkey Warrick
Finance Committee

Attachments:

(A)	Presentation from SLOCCF to FES Board	16 January 2013
(B)	SLOCCF Investment Policy	Rev 2012.doc
(C)	SLOCCF Spending Policy	9 January 2013
(D)	SLOCCF Administration and Investment Fee Schedule	1 January 2012
(E)	Due Diligence Questionnaire-Economic Vitality Corporation	
(F)	Due Diligence Questionnaire-Alpha Pregnancy and Parenting Support	
(G)	Due Diligence Questionnaire-Avila Beach Sea Life Center	
(H)	2011 IRS Form 990, Front page only	
(I)	Proposed Designated Endowment Fund Agreement between FES and SLOCCF	
(J)	Example of the mechanics of the payout dictated by the Spending Policy	

Quarter	Beginning Balance	10% Evenly Received	Sub total	2.15% quarterly	ending balance			PAYOUT AVAILABLE
1	$100,000	$2,500	$102,500	$551	$101,949			
2	$101,949	$2,500	$104,449	$561	$103,888			
3	$103,888	$2,500	$106,388	$572	$105,816			
4	$105,816	$2,500	$108,316	$582	$107,734	Total	Policy Average	4.25%
Year 1						$419,386	$34,948.85	$1,485
5	$107,734	$2,693	$110,427	$594	$109,833			
6	$109,833	$2,693	$112,527	$605	$111,922			
7	$111,922	$2,693	$114,615	$616	$113,999			
8	$113,999	$2,693	$116,693	$627	$116,065			
Year 2						$451,820		
Cumulative						$871,206	$72,601	$3,086
9	$116,065	$2,902	$118,967	$639	$118,328			
10	$118,328	$2,902	$121,229	$652	$120,578			
11	$120,578	$2,902	$123,479	$664	$122,815			
12	$122,815	$2,902	$125,717	$676	$125,041			
Year 3						$486,762		
Cumulative						$1,357,968	$113,164	$4,809

ATTACHMENT J: EXAMPLE OF THE MECHANICS OF THE PAYOUT DICTATED BY THE SPENDING POLICY