

**PRESIDENT'S BUDGET ADVISORY COMMITTEE  
MINUTES  
May 3, 2007**

**MEMBERS PRESENT:**

Larry Furukawa-Schlereth	CFO, Vice-President for Administration and Finance, Co-Chair
Eduardo Ochoa	Provost, CAO, Vice-President for Academic Affairs, Co-Chair
Elaine McDonald	Chair of the Faculty, Math Department
Tim Wandling	Chair Elect of the Faculty, Chair, English Department
Elizabeth Stanny	Past Chair of the Faculty, Business Administration
Elaine Leeder	Dean, Social Sciences, AABAC Representative
Katharyn Crabbe	Vice-President for Student Affairs and Enrollment Management
Janice Peterson	Senior Director for University Budget, A&F, CRC Representative
Letitia Coate	Associate Vice-President for Administration and Finance
Bucky Peterson	Vice-President for Development
Henry Amaral	Staff Representative, Facilities
Dan Condron	Vice-President, University Affairs
Andy Merrifield	CFA Representative

**STAFF PRESENT:**

Ian Hannah	Administrative Project Manager, Administration and Finance
Bill Ingels	University Treasurer
Katie Pierce	Associate Vice-President for Academic Resources

**MEMBERS ABSENT:**

Nadir Vissanjy	President, Associated Students
Steven Campbell	Vice-President for Finance, Associated Students
Sam Scalise	Chief Information Officer, Administration and Finance
John Kramer	Professor, Political Science Department

**GUESTS PRESENT:**

Brian Orr	Senior Accountant, Financial Services - Administration and Finance
Kathy Mahler	Budget Manager, Administration and Finance
Tandy Whitaker	Budget Manager, Administration and Finance
Laura Lupei	Administrative Project Manager, Administration and Finance
Scott Miller	Director, Writing Center
Robin Draper	Associate Vice-President for Development
Robert Girling	Professor, Business Administration Department, APC Representative

**AGENDA**

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| I:   | CALL TO ORDER AND APPROVAL OF THE AGENDA  |
| II:  | APPROVAL OF THE MINUTES (April 17, 2007)  |
| III: | REQUESTED ADDITION TO AGENDA: UPDATE ON CIHS                                    |
| IV:  | EXTERNAL AUDIT REPORT: FINANCIAL STATEMENTS FOR THE PERIOD ENDING JUNE 30, 2006 |
| V:   | PROJECTED ENDOWMENT EARNINGS DISTRIBUTION                                       |
| VI:  | DIVISION STRATEGIC PLANNING AND BUDGET PLANNING REPORTS                         |

**I: APPROVAL OF THE AGENDA**

(Please see the May 3, 2007 Agenda Packet for this document)

Eduardo Ochoa brought the meeting to order at 8:10 am. Elaine McDonald asked to add an Agenda item on an update on CIHS of financial plans per deadlines described at the previous meeting. The amended Agenda passed unanimously.

**II: APPROVAL OF THE MINUTES: *April 17, 2007***

(Please see the May 3, 2007 Agenda Packet for this document)

The approval of the minutes was postponed until the May 24th meeting to reflect specific questions and answers related to CIHS.

**III: UPDATE ON CALIFORNIA INSTITUTE ON HUMAN SERVICES**

Schlereth described that an increased line of credit associated with working capital related to grants and contracts has been completed. Three inter-fund loans have been created, one from the Housing program, one from the Parking program, and one from the Miscellaneous Trust program. \$1m from each of these programs is funding the cash deficits in the grants and contracts program. Hopefully, as the receivables are collected, this line of credit should be reduced, with priority to pay off the inter-fund loan with the Miscellaneous Trust accounts first, followed by the loans with Parking and Housing.

A team of people will be reviewing the systems of internal control of the overall grants and contracts program in the schools of Social Sciences, Science and Technology, Education, and the Provost's office. All meetings have been scheduled within the next couple of weeks.

The details of the financing plan and the funding strategy to address the \$2.1M deficit in the grants and contracts program are still being developed.

In terms of determining the appropriate level of working capital in the cost structure in grants and contracts, the Faculty Sub-committee on Sponsored Programs (FSSP) and involving others from ORSP, will be meeting to analyze the 2007/08 budget year for sponsored programs. This group will provide advice for a financial structure for appropriate re-imburement and feeding into this will be advice from the Deans from the Schools which conduct research, (Education, Social Sciences and Science & Technology) as well as the NASA Center and the Anthropological Studies Center. This group will help to understand the level and type of grants and contracts we have in order to help drive the working capital reserve and the operating reserve.

KPMG has been retained to continue examining other contracts and a team of representatives from the federal government are reviewing items as well.

Schlereth added that an attempt is being made to manage the issues with CIHS without impacting the University's budget plans going forward.

#### **IV: EXTERNAL AUDIT REPORT: FINANCIAL STATEMENTS FOR THE PERIOD ENDING JUNE 30, 2006**

(Please see the May 3, 2007 Agenda Packet for this document)

Schlereth mentioned that this is an important item that should be presented, not only in the PBAC but in many other forums because this makes it possible for any member of the campus community to truly understand the financial position of the institution. There has been a lot of speculation about whether or not the institution is in a precarious position and the amount of money available to the campus to spend on various purposes. There has also been a lot of conversation by the CFA at the system level. Included in the packet is some information provided by Richard West from the system level. The financial statements for our campus were audited externally by KPMG in accordance with Generally Accepted Accounting Principles (GAAP). In order to do this, Brian Orr, Senior Accountant in Financial Services, as the individual responsible for preparing the financial statements for our campus, has come to present the financials. Orr provided a PowerPoint presentation on the 2005/06 SSU Audited Financial Statements.

He described that KPMG LLP is the external auditor and it is their responsibility to provide an Independent Auditor's Report of Sonoma State's financials. For June 30, 2006, KPMG's opinion was that the "Financial statements present fairly, in all material respects, the financial position of the University and the respective changes in financial position."

For the purpose of this presentation, Orr focused on the Statement of Net Assets (similar to a Balance Sheet), which includes the University's assets, liabilities, and net assets. The Statement of Net Assets consists of the University net assets in one column and its' four auxiliaries (Student Union, Associated Students, Sonoma State Enterprises, SSU Academic Foundation) in a second column. The figures provided in the presentation represent the University column.

The total assets of the University equaled \$252.7 Million for 2005/06. This is comprised of \$172.1 M in capital assets and \$80.6 M in current & non-current assets. The \$80.6 M is comprised of \$14.5 M in cash, \$35.5 M in investments (with Met West and SMIF), \$27M in accounts receivable, and \$3.4M in prepaid expenses & student loans (Perkins) receivables.

Schlereth added that \$14.5 M labeled as cash results primarily from Student Fee dollars that are paid in advance for the upcoming fall semester. The Revenue Management Program was not officially enacted as of 6/30/06 and therefore these funds could not be invested. Now, as effective 7/1/06, with the Revenue Management Program in place, the dollar value attributed to cash should be less in future years.

Robert Girling asked, are there any restrictions on these assets and secondly, are the CIHS funds included in the accounts receivables. Orr responded, yes, the CIHS funds are included in the financials and there are some restrictions on the cash and investments. Schlereth added that the funds are not permitted to be invested in equities or in certain other types of assets that are prohibited by the State of California. The State prefers secure and highly liquid investment vehicles. This would not necessarily be true for the auxiliary organizations. CIHS account receivables at year end was around \$6.6 M and has

risen to around \$8.7 M currently. Girling asked for further clarification on the CIHS accounts receivables. Schlereth stated that these funds are monies owed to the University, overwhelmingly in the area of payroll, generally by the State as well as some from the federal government. Work has been performed but money has not been reimbursed by the agency. Girling followed up, asking what controls are in place for speeding up the payment of those receivables? Some agencies, particularly the Department of Education of the State of California are notoriously slow in paying. Unfortunately, interest is paid on needed funds while collection is awaited. President Armiñana has written elected officials and others in State government in an attempt to push the Department of Education to pay more rapidly. Some agencies are very good in timely payment, such as the Department of Transportation. Letitia Coate added that with some of the accounts receivables, the difficulty is simply the ability to get the bills out the door because the complexity involved with each bill is great. When you have \$20 M in activity that needs to be billed at a constant basis, it takes a large workforce to manage that level of volume. Schlereth added that this is a significant problem to deal with and this is why one of the recommendations made at the previous meeting involved attempting to establish a proper level of working capital. Girling asked how SSU compares to other agencies and campuses in terms of receivables. Schlereth responded that our receivables in areas outside of grants and contracts are consistent with other campuses of our size within the CSU. With regards to grants and contracts, SSU is way higher because our volume of grants and contracts activities far exceeds the volume of these activities at most campuses of our size. Our receivables are audited every two years (via FISMA) and we have an excellent collection rate. Coate added that it must be understood that some costs within CIHS will not be able to be billed. Schlereth stated that the interest costs of the working capital dollars are also charged internally to the fund that is carrying those receivables and the earnings on the interest are provided to the fund from which they came.

Schlereth added that, in terms of the vast bulk of receivables, as of 7/1/07 we do earn interest on our student fees receivables, therefore providing an incentive to collect these receivables as rapidly as we possibly can and invest these funds. Now there is a real earnings loss going forward for delayed receivables. Our policy for billing students becomes more important in terms of balancing the interest earnings possibility with the need to be sensitive to student finances. Some of this is governed by the law but some institutions prefer students to pay their bill at the time they register for classes (such as at the SRJC). This method is more the norm than the exception. Other institutions, such as ours, allow the student to register and then bills the student later, creating an opportunity cost. Katharyn Crabbe added that if students were required to pay at the time of registration, the campus would know early on for each semester what the enrollment numbers would be. At SSU, many students need to be dis-enrolled, causing for the enrollment number to drop by the number of students who do not pay their student fees. McDonald added that if students are required to pay at registration, they will wait longer to register, causing for some enrollment to take place at the very last minute.

Tim Wandling requested clarification in the presentation to address how it relates to the budget book and would appreciate a straighter line to be drawn between the expenditure plan and the audited financials. Schlereth responded that it would be very difficult to go from the expenditure plan that is prepared looking at a cash basis to the audited financial statements which are prepared in accordance with Generally Accepted

Accounting Principles (GAAP). The expenditure plan does not match necessarily to the expenditure categories of GAAP. Elizabeth Stanny stated that a more relevant presentation would reflect how the budget plan relates to the actual expenditures. Schlereth mentioned this analysis is done by comparing how the expenditures in each division matched with the budget and could be presented at the beginning of the fiscal year. Schlereth added that every Dean has this information readily accessible to them at any moment through Peoplesoft. At the University-wide category it is a little more complicated because benefits and utilities are handled centrally. Coate added that each division can run a year-to-date report in Peoplesoft for legal basis on actual expenditures in each program or area. She also noted that it is not consistent in terms of how each department, school, or division enters their budget into Peoplesoft as some provide much more detailed budgets than others. Ochoa added that this involves a lot of the work currently conducted by department deans, department chairs, and directors that is at a level of work and detail not suitable to be compiled and presented at the PBAC level.

Girling mentioned that he is a representative of the Academic Planning Committee and an issue they are struggling with there is to make the connection between budgetary categories and expenditures and the academic programs. The objective of this committee would be exactly that, what is the connection between how we spend our money and the results we are looking for in terms of the variety of programs this campus carries out. If the situation is such that the data being presented does not help achieve this objective, then another way has to be found to present the data. If the formulas and the way in which the budget comes to the campus is inappropriate for the academic mission of the CSU then communication needs to occur with the Chancellor's Office.

Wandling requested to have the PBAC look at budgeted dollars compared to actuals in University-wide in specifics by category in order to understand the variations. Schlereth stated that this is absolutely appropriate and the best time to do this would be after we close the books. The budget schedule will be adjusted accordingly.

Andy Merrifield mentioned that one of the reasons that detailed questions are being asked is that there is substantial question among the faculty that the priorities of this institution are satisfactory to the faculty. Priorities of spending on campus may not be spent with their best use to achieve the mission of this University. Perhaps some people's interpretations of the University's mission are different than others. Secondly, the faculty are primarily interested in the discretionary monies on this campus and where these funds are going since we do have control over these funds. There are concerns about the priority of this institution and we should be discussing these at a more macro level than at ABAC.

Ochoa agreed that there is a proper scope of review and discussion for the PBAC. For example, PBAC spends a lot of time looking at where the new money is going as opposed to looking at the whole budget in order to look at the correct scale when evaluating things. Schlereth declared that he spent a considerable amount of time and provided a presentation (titled Budget 101) to a variety of forums in an attempt to get to this question. Each fund was described and detail was provided on the restrictions and where the revenues came from for each fund. Also, the Expenditure Plan (with the exception of a valid point brought up by Stanny that reimbursements were not clearly shown) shows how all the monies are being used. The only way he feels the information can be further transparent relates to Wandling's request to show University-wide budget

vs. actuals and Stanny's point to more clearly represent reimbursements in the Expenditure Plan. In addition, in reference to Merrifield's point, Schlereth attempts every year to specifically indicate in the Expenditure Plan, the items that are mandated by the CSU, mandated by the State, discussed by the PBAC, or were a decision by President Armiñana. Schlereth mentioned he does feel there is a weakness in terms of providing the reimbursement items but feels it is hard to provide this while still reflecting our economies of scale model. Coate mentioned that one drawback with having individuals as being paid by particular reimbursed funds is that the non-General Fund entities would then be subject to post-retirement health care costs. Elaine Leeder clarified that this committee was not suggesting that this be adopted as a financial plan but that it be shown in this way.

Stanny mentioned that we should look at what funds are discretionary and not discretionary because it seems that we have created artificial barriers between the auxiliaries and the General Fund, particularly as it relates to Enterprises. Schlereth responded that SSE is probably the fund with the most discretion. Their budgetary decisions are made by their Board, which is composed in accordance with CSU policy. Stanny responded that in line with policy, we want to have optimal corporate governance for the Board with proper views represented and an understanding of the mission of the University and the University's strategic planning process. Ochoa stated that the primary responsibility of Boards is to provide fiduciary oversight to make sure the entity is sound. However, when it comes to prioritizing how they spend their money, obviously they show a lot of deference to what the University proposes to do and clearly the President is very influential on these Boards.

Katharyn Crabbe stated that she hears revealed in the conversation the assumption that the University's mission is the same as a divisional mission when in fact the University's mission is not the property of one division. Merrifield responded that it is not just one division but without Academic Affairs, the other divisions of the University are not particularly worthwhile. Direct education is the primary purpose of this institution and not all divisions are completely equal in fulfilling the mission, but all are necessary.

Orr continued the presentation of the Audited Financials. Total liabilities equaled \$136.5 M in 2005/06, broken out as follows: accounts payable of \$3.2 M, personnel of \$10.9 M, deferred revenue of \$11.7 M, debt of \$100.9 M, and other liabilities of \$9.8 M. Most of the \$100.9 M in debt are long-term debt obligations, comprised primarily of System-wide Revenue Bonds for Housing, GMC SRB I, Parking, and the campus Recreation Center. The campus shows a good coverage of debt with a campus debt service coverage ratio above 1.40.

In 2004/05, net assets were \$95.8 M, compared to \$116.2 M in 2005/06, representing a \$20.4 M increase. This is primarily due to capital state appropriations for various projects. The total net assets of \$116.2 M are comprised of capital net assets, net of debt of \$75.3 M, restricted net assets, expendable of \$19.8 M, and unrestricted net assets of \$21.2 M. The use of all University funds are governed by the Department of Finance's State of California Manual of State Funds and appropriate state statutes.

A breakdown of the \$21.2 M in unrestricted net assets was provided by Orr and described by Schlereth. \$7.7 M in Housing funds consist of reserves to cover their associated debt along with about \$3 M that is sitting for the future purchase of

faculty/staff housing land. \$5 M in Trust Accounts include funds with agreements restricted by each account holder. Miscellaneous course fees would be an example of a trust account. A fiduciary responsibility exists to follow these agreements and follow the intent of the trust. \$3.4 M in Student Union funds relates to reserves to cover associated debt. These monies were decentralized recently from the Chancellor's Office related to the Recreation Center. \$3.4 M in Parking funds consists of reserves for debt and about \$1M is associated with land acquisition. \$1.6 M in Sponsored Programs funds remained at year end but this money no longer remains aside from around \$200,000 that belongs to the Anthropological Studies Center and another \$200,000 in CIHS which will be used to pay the lease payment on a facility that CIHS operates. \$1.2 M in the Lottery Education Fund is a higher amount than would normally be seen in this account because in the 05/06 year it includes \$1 M from the Chancellor's Office related to the GMC and has since been expended for equipment associated with the GMC. \$1 M in Extended Education funds relates to the working capital balance in CERF associated with the Extended Education program. Finally, a negative \$2.6 M relates to General Fund employee vacation accruals as SSU does not accrue vacation directly.

Schlereth pointed out that the campus attempts to maintain a certain level of reserves sufficient for covering the debt to provide a proper coverage ratio. This is in order to give strength to the financial statements, which in turn helps with the bond rating. All of these funds are classified as unrestricted net assets by GAAP standards because the State of California has placed the restriction. However, because we are the State of California, the restriction is placed by ourselves, even though it is an external party to the campus.

Schlereth further explained that parties external to the campus look at the overall health of SSU's financial situation by looking at the audited financial statements. These are the statements that are typically used as was seen in the recent collective bargaining process. These are comparable to other Universities as the same definitions are used and they do not follow unique organizational structures. The audited financial statements are usually the most accurate way to describe the financials of an institution. SSU's balance sheet is healthy. It does have some substantial debt that you would expect to see for a young institution but that debt is more than covered by healthy reserves and a strong enrollment picture.

Scott Miller asked what lines on the statements should we be looking at going forward after this June 30<sup>th</sup>? Schlereth responded that debt is always important to look at as well as the liquidity of the assets and the liquidity of the receivables, as well as making sure there are corresponding reserves to shelter us should enrollment fluctuations take place.

Schlereth mentioned that this was a presentation of the Statement of Net Assets for the University (Balance Sheet) and a presentation of the Statement of Revenues, Expenses and Changes in Net Assets (Income Statement) will be provided at the next PBAC meeting.

Ochoa stated that one of the primary points of this presentation was to look within the confines of Sonoma State to look at what the status and character of the net unrestricted assets are for this campus as this category has been identified in System-wide conversations. This ties to the attachment in the packet of a memo from Richard West to the CSU Presidents, describing in general terms, the overall system-wide picture for

unrestricted net assets. Merrifield responded that Richard West is not correctly reflecting what was said by the CFA. If the bond rating comes from the CSU system-wide financials, SSU's \$21.2 M in unrestricted net assets only represents a small portion of the \$1.2 B of these funds system-wide. He added that at least 5% of the \$21.2M (referencing the lottery funds provided for the GMC) was discretionary in the sense that the CSU had money left over from the lottery and chose to give it to SSU for a specific purpose, just as they could have chosen to use it for a different purpose at another campus. Merrifield's point is that West's letter has some political assumptions in it that are not consistent with earlier statements made by Chancellor Office administration in regards to stating "most" as opposed to previously stating that "all" of these funds were in fact restricted. He also wanted to make clear that the CFA never said the \$1.2 B could go directly into faculty salaries. Ochoa mentioned that the intent of including the letter was to tie the analysis provided of SSU's funds to the concern with unrestricted funds in the CSU in general terms.

Elaine Leeder asked how SSU compares to standards for debt coverage and rating. Schlereth stated that there are rules that limit the debt capacity that any CSU campus may have and SSU is not at its debt capacity. Every project that is completed has to come through his office and he requires a coverage ratio of 1.20 for any particular project. In the current state, SSU has a good campus debt coverage ratio. Although a great deal of caution will be placed in the financing of the next phase of student housing because it is a very expensive project due to rising construction costs. The cost of the project is being juxtaposed with the student need and enrollment expectations. Currently the demand in housing is at 98% occupancy.

**V: PROJECTED ENDOWMENT EARNINGS DISTRIBUTION**  
(Please see the May 3, 2007 Agenda Packet for this document)

Item deferred.

**VI: DIVISION STRATEGIC PLANNING AND BUDGET PLANNING REPORTS**

Item deferred.

Ochoa adjourned the meeting at 10:00 a.m.

*Minutes prepared by Ian Hannah.*