

May 1, 2011

Members of the University Community:

I am pleased to forward the 2010-2011 Expenditure Plan for Sonoma State University and its auxiliary organizations. As in past years, detailed financial data for each area of campus operations has been provided, as have copies of the external audits completed for the University and the auxiliary entities.

**GENERAL FUND**

The General Fund represents the largest source of revenue available to the campus and includes resources from the Trustees, discretionary dollars from the California Lottery, and funds generated from student and other fees. As the following table indicates, overall the General Fund grew by \$7,381,413 between 2009-2010 and 2010-2011:

	<b>2009-2010</b>	<b>2010-2011</b>	<b>CHANGE</b>
Tax Appropriations	\$51,085,673	\$56,137,723	\$ 5,052,050
Student Fees	\$34,602,137	\$36,931,500	\$ 2,329,363
Lottery Funds	\$ 579,376	\$ 579,376	\$ 0
<b>TOTAL</b>	<b>\$ 86,267,186</b>	<b>\$93,648,599</b>	<b>\$ 7,381,413</b>

Total new resources of \$7,381,413 in 2010-2011 are being deployed in the following way:

Restricted funds, Employee Salary Increases and Benefits	\$ 308,529
Restricted funds, Student Financial Aid	\$ 546,200
Restricted Funds, Student Health Center	\$ 100,000
Increased Utility Costs	\$ 729,000
Enrollment Growth, 216 Full Time Equivalent Students	\$ 2,189,975
Operating Support Augmentation, Prior Year Budget Reduction	\$ 2,173,845
Professional Program Revenue Adjustment	\$ 28,000
Revenue Adjustment to Partially Address Furlough Discontinuance	<u>\$ 1,305,864</u>
	<b>\$ 7,381,413</b>

During the 2009-2010, the campus relied on furlough savings totaling \$4,043,300 to balance the budget. With the discontinuance of furloughs on July 1, 2010, these dollars have been permanently identified from the following fund sources:

Revenue Adjustment Outlined Above	\$ 1,305,864
Utilization of 2009-2010 Furlough Savings Rolled to 2010-2011	\$ 446,059
Federal Stimulus Funds	\$ 1,221,600
Reduction in Administration and Finance Expenses	\$ 727,097
Reduction in Student Affairs Expenses	\$ 279,272
Reduction in University Development Expenses	\$ 40,067
Reduction in University Affairs Expenses	<u>\$ 23,341</u>
TOTAL	\$ 4,043,300

Enrollment growth dollars and operating support augmentations have been allocated to the Divisions based on the marginal cost formula and share of campus budget respectively as indicated below:

	<b>Enrollment Growth</b>	<b>Operating Support Augmentation</b>
University Affairs	\$ 17,958	\$ 21,956
University Development	\$ 28,251	\$ 34,347
Academic Affairs	\$ 1,421,512	\$1,260,830
Student Affairs	\$ 180,235	\$ 231,297
Administration and Finance	<u>\$ 542,019</u>	<u>\$ 625,415</u>
TOTAL	\$ 2,189,975	\$2,173,845

In Spring, 2011, Sonoma State University allocated one-time dollars totaling \$1,317,614 in response to an increase in target enrollment from the CSU by 154 FTES. These one-time dollars have been allocated to the Divisions based on the marginal cost formula as indicated below:

University Affairs	\$ 10,804
University Development	\$ 16,997
Academic Affairs	\$ 855,264
Student Affairs	\$ 108,440
Administration and Finance	<u>\$ 326,109</u>
TOTAL	\$ 1,317,614

### **SELF-SUSTAINING FUNDS**

Sonoma State University has five self-sustaining funds, including the Housing Program, Extended Education, Parking, Instructionally Related Activities and Grants and Contracts. Self-sustaining funds receive no taxpayer support and are expected to reimburse the General Fund for any provided services.

Overall, revenue from the various self-supporting programs, outside of grants and contracts, has grown since the previous fiscal year, projected at about \$33,700,000 in 2010-2011 vs. \$30,565,457 in 2009-2010. This change reflects increases in revenue in the Housing and Instructionally Related Activities Program due to an increase in enrollment along with increases in revenue in Extended Education due to growth in that

area. Other changes in the self-support area include a reduction in Parking Program revenue resulting from a decrease in projected income from parking fines.

Sonoma State University's grants and contract activity is divided between two areas including (1) those grants directly related to faculty research and (2) those grants related to student outreach. Total grant volume of \$8,600,000, with corresponding indirect cost recovery revenue of \$1,123,000 (13%) is expected from activity in the Schools of Social Sciences, Science and Technology and Education as well as the work of University Support and Preparation Services. Indirect cost recovery revenue is allocated in accordance with an established agreement with the Anthropological Studies Center which receives 50% of the IDC it generates, and to a CSU recommended centralized post monitoring system housed in Administration and Finance. Surplus revenue of approximately \$100,000 in 2010-2011 will be allocated to the Division of Academic Affairs to further support grant activity.

### **AUXILIARY CORPORATIONS**

Sonoma State University has four auxiliary corporations: the Associated Students, the Student Union, the Sonoma State Enterprises, and the SSU Academic Foundation. Auxiliaries are separately incorporated, non-profit corporations, receive no taxpayer support, and are expected to reimburse the General Fund for any provided services.

Revenue in the Associated Students organization and the Student Union is generated primarily by a mandatory student body fee. Sonoma State Enterprises derives its revenue primarily from the sale of goods and services in campus retail and dining venues. Overall in these three auxiliary organizations total revenue will grow from \$13,033,626 in 2009-2010 to \$13,729,858 in 2010-2011 largely due to an increase in campus enrollment which impacts student fees and retail and dining sales.

The SSU Academic Foundation exists to receive and administer gifts, endowments, scholarships, and planned giving that enhance and promote the educational mission of SSU. Operating Fund expenses in the Foundation include such items as auditing and tax preparation fees, insurance costs, and legal fees. In 2010-2011, these items are expected to total approximately \$242,000 and are funded primarily via a contribution from a Foundation discretionary account, and an assessment on endowment earnings.

In a typical year, the Foundation distributes a portion of the dollars earned via the management of pooled endowment funds in accordance with the intent of the donor who created the fund. In 2009-2010 and 2010-2011, this was not feasible since assets supporting the endowment were largely below historical value and the sale of such assets in the depressed economy was seen as not prudent by the Foundation's Board. Thus, in 2010-2011, funds were identified within the University to provide financial support to the campus programs and scholarship accounts in place of an endowment distribution. Sonoma State Enterprises recognized the difficulty of funding scholarships in the current market environment and approved allocating funds for student scholarships in the current and subsequent fiscal years. In addition, there were sufficient funds available as a result of interest earnings on student fee revenue collected and deposited with the CSU System-wide Investment Fund-Trust (SWIFT) to be utilized to support the campus program funds which usually receive an endowment distribution.

The total market value of the University endowment, managed by the Foundation, stood at \$28M on June 30, 2010 vs. \$26M on June 30, 2009, primarily the result of additional donor contributions and an improving financial market environment following a very challenging previous fiscal year. SSU ranks 10<sup>th</sup> among the 23 campuses of the CSU in

endowment size and 3<sup>rd</sup> among the CSU campuses in terms of endowment dollars per FTES.

The Foundation participates in the National Association of College and University Business Officers (NACUBO) and Commonfund annual Study of Endowments (NCSE). For Foundations of similar asset size (\$25M to \$50M), the average investment rate of return for 2009-2010 stood at 12.0%, compared with 9.3% for the Foundation. However, when looking at a longer time horizon, the Foundation's returns are closer to other institutions of similar endowment size. NCSE (\$25M to \$50M) 5 year return was 2.6% vs. 1.6% at SSU, following a volatile period in the financial markets.

### **UNIVERSITY DEBT**

Several of SSU's self support funds have used the CSU System Wide Revenue Bond (SRB) Program to finance a variety of campus construction projects. The campus programs with revenues pledged to the repayment of SRB Program Bonds include: Housing, Parking, Student Union, Health Center and Extended Education.

CSU Executive Order 994 requires the campus Chief Financial Officer to annually review overall debt service coverage ratios (DSCR) associated with the debt incurred via the System-Wide Revenue Bond program. DSCR is defined by the CSU as annual pledged gross revenue from the funds, less annual operating expenses, divided by annual debt service. CSU defines a benchmark for overall campus DSCR to be at 1.35. As of June 30, 2010, Sonoma State University's overall DSCR stands at 1.40, above the CSU benchmark.

2009-2010 OUTSTANDING DEBT	\$ 166.9M
ANNUAL DEBT SERVICE	\$ 9.3M
NET INCOME BEFORE DEBT SERVICE	\$ 13.0M
<b>DEBT SERVICE COVERAGE RATIO</b>	<b>\$13.0M / \$9.3M = 1.40</b>

In addition, Executive Order 994 requires the campus Chief Financial Officer to develop and maintain reserves from project revenues for projects funded by debt issued by the Board of Trustees. The campus reserve policies, at a minimum should address the following needs:

- Maintenance and Repair
- Working Capital
- Capital Development
- Catastrophic Events

Annually, in consultation with the managers of the various funds, the University Treasurer, the Senior Director for Facilities Services and the CFO assesses the adequacy of reserves and the reserve policies for those funds with debt issued by the Board and the necessary adjustments and changes are made to account for changing conditions. Over \$25,000,000 in combined funds from the five pledged programs currently exists in the form of Reserves to shelter the campus from unforeseen events with debt programs.

### **AUDIT ACTIVITY**

The University's financial statements were audited by KPMG in accordance with Generally Accepted Accounting Principles (GAAP). Also in accordance with GAAP, the financial statements of Sonoma State Enterprises and the Associated Students were

externally audited by Pimenti and Brinker. The financial statements of the Academic Foundation were externally audited by Moss Adams, and an external audit was conducted for the Student Union by Macias, Gini and O'Connell.

Sonoma State University and its four auxiliary organizations received an unqualified opinion regarding the accuracy and reliability of the financial statements, as well as the overall integrity of the University's financial management and internal control procedures. There were no material recommendations made by the external auditors for improvement in the campus's systems of internal control or fiscal and accounting practices.

In addition, throughout the 2010-2011 academic year, Sonoma State University participated in four internal audits conducted by the CSU Board of Trustees Internal Audit Team. The Financial Aid Audit (10-40) has been completed and all recommendations have been implemented. Other audits are in various stages of completion: Green Music Center /Faculty Office Building Construction Audit (10-18), the Fund-Raising and Gift Processing Audit (10-64), and the Sensitive Data Security and Protection Audit (11-50). Each of these internal audits propose only minor areas for improvement and advise of no material or significant weaknesses. Each of the issued recommendations are in the process of being implemented. Links to the reports are provided on the SSU Reporting Transparency web site (<http://sonoma.edu/afd/home/transreport.html>) once the reports are published by the Chancellor's Office.

The audited financial statements permit comparison of year-to-year expenditures in the higher education classification of expenditures, as defined by the College and University Audit guide. The following data illustrates how SSU expended the University budget as compared with the previous year:

	2008-2009	2009-2010
Instructional Expenses per actual FTES	\$5,824	\$5,498
Academic Support Expenses per actual FTES	\$1,661	\$1,713
Student Services Expenses per actual FTES	\$1,860	\$1,893
Institutional Support Expenses as a % total operating expenses	10.7%	10.3%
Plant Operations Expenses per square foot	\$7.60	\$5.09

Reduced expenditures per FTES in Instruction reflect furloughs and other budget reduction strategies. Increased expenses in Student Services reflect augmentations made to Inter-Collegiate Athletics. Lower expenses per square foot in plant operations largely reflect the added square footage to the campus as a result of the Tuscany project in the Residential Community and a reduction in SETC union employees following a vote by that union not to accept furloughs.

The audited financial statements also permit comparison as to how Sonoma State University expends the University budget with respect to the CSU as a whole, as reflected below:

	SSU 2009-10	CSU 2009-10
Instructional Expenses per actual FTES	\$5,498	\$5,364
Academic Support Expenses per actual FTES	\$1,713	\$1,496
Student Services Expenses per actual FTES	\$1,893	\$1,575
Institutional Support Expenses as a % total operating expenses	10.3%	11.3%
Plant Operations Expenses per square foot	\$5.09	\$5.51

The data shows that SSU's reductions in expenditures were commensurate with a general reduction in expenditures across the CSU system as a whole.

*Sources:*

*6/30/10 Audited Financial Statements – Statement of Revenues, Expenses, and Changes in Net Assets.*

*Figures are from the University column and do not include auxiliaries. Depreciation has been removed from the data . Prior fiscal year data updated for adjustments reflected in current year statement.*

*Gross square footage data is from the CSU Campus Facility Report*

*([http://www.calstate.edu/cpdc/Facilities\\_Planning/Space\\_Mgmt/Reports/campus\\_fr.shtml](http://www.calstate.edu/cpdc/Facilities_Planning/Space_Mgmt/Reports/campus_fr.shtml))*

*FTES data is from CSU Analytic Studies - College Year Reports*

*(<http://www.calstate.edu/as/cyr/index.shtml>)*

## **SUMMARY**

Within the General Fund, 2010-2011 saw improvement from the previous fiscal year with (a) new dollars for enrollment growth (b) resources to augment prior year operating expense reductions and (c) the elimination of employee furloughs. On this final point, in addition to new CSU funds, the campus was able to identify resources outside of Academic Affairs to address prior year reductions funded by the furlough program.

Increases in student enrollment has also meant that the campus self-sustaining funds and auxiliary organizations have improved revenue projections, making it possible to enhance programs and services in these components of campus life. Of particular note is the performance of the University's endowment managed by the SSU Academic Foundation which has rebounded as a result of improved financial markets both in the United States and abroad. The University has also found ways to make sure that student scholarships remain fully funded via support from the Sonoma State Enterprises.

Once again, all of the external reviews contain highly positive comments about the campus financial staff and each audit has brought with it an "unqualified" opinion, the highest possible financial standard of excellence. In addition, our campus has again received an Award for Achieving Excellence in Financial Reporting from the State Controller and internal audits related to internal control, auxiliary organizations, and construction management are highly satisfactory. In addition, Trustee internal audits in a variety of campus operations show no sign of material weakness and offer only minor suggestions for improvement. Finally, the University's debt service coverage ratio remains within CSU benchmarks and adequate reserves exists in those programs which are leveraged in support of campus priorities.

Shared governance and consultation is important within the higher education community and I am proud that the University's Expenditure Plan is a collaborative process involving many dedicated members of our faculty, staff, administration, and student body. I am honored to work with these women and men who constitute the President's Budget Advisory Committee, the Academic Affairs Budget Advisory Committee, the Campus Reengineering Committee, the Fee Advisory Committee, and the Boards of Directors of the Academic Foundation, Sonoma State Enterprises, Associated Students, and Student Union Corporation.

I hope the Expenditure Plan will be helpful to you in understanding the campus budget. I trust you will not hesitate to contact me if you have questions or need additional information and as always, I look forward to seeing you soon.

Sincerely,

A handwritten signature in black ink, appearing to read 'L.F.S.', with a period at the end.

Laurence Furukawa-Schlereth  
Chief Financial Officer and  
Vice President for Administration and Finance

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**2010-2011**  
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TEMPORARY EMPLOYEES ARE UNDERLINED

# Revenue Summary

**SONOMA STATE UNIVERSITY  
SUMMARY PROJECTED REVENUE  
2010-2011**

**ORIGINAL  
BUDGET**

**FUNDING SOURCES:**

Governor's Appropriation.....	56,137,723
Revenue Receipts (See Detail Below).....	36,931,500
Discretionary Lottery Funds.....	579,376

**TOTAL SUPPORT FUNDS. . . . . 93,648,599**

**Revenue Receipts Detail:**

State Tuition Fee.....	33,312,000
Non-Resident Tuition Fee.....	730,000
Application Fee.....	700,000
Professional Program Fee.....	158,000
Health Center Fee.....	1,900,000
Other Revenues.....	91,500
Revenue Management Program Interest Earnings.....	140,000
Allowance for Bad Debts.....	(100,000)

**TOTAL, Revenue Receipts. . . . . 36,931,500**

# Expense Summary

**SONOMA STATE UNIVERSITY  
SUMMARY PROJECTED EXPENSE  
2010-2011**

	<b>ORIGINAL BUDGET</b>
University-Wide	
Compensation.....	20,471,839
Operating Expense.....	13,959,532
TOTAL.....	34,431,371
 Executive Office	
Compensation.....	354,179
Operating Expense.....	146,339
TOTAL.....	500,518
 University Affairs	
Compensation.....	634,972
Operating Expense.....	67,801
TOTAL.....	702,773
 University Development	
Compensation.....	843,194
Operating Expense.....	123,488
TOTAL.....	966,682
 Academic Affairs	
Compensation.....	31,511,916
Operating Expense.....	2,517,078
TOTAL.....	34,028,994
 Student Affairs and Enrollment Management	
Compensation.....	5,275,384
Operating Expense.....	794,068
TOTAL.....	6,069,452
 Administration and Finance	
Compensation.....	15,141,357
Operating Expense.....	1,807,452
TOTAL.....	16,948,809
 <b>TOTAL COMPENSATION.....</b>	<b>74,232,841</b>
<b>TOTAL OPERATING EXPENSE.....</b>	<b>19,415,758</b>
<b>TOTAL SUPPORT FUNDS.....</b>	<b>93,648,599</b>

# University Wide Items

**UNIVERSITY-WIDE  
SUMMARY OF PROJECTED EXPENSES  
2010-2011**

	<b>ORIGINAL BUDGET</b>
Benefits.....	20,352,709
Unallocated COLA.....	119,130
Utilities.....	3,462,935
Telephone.....	103,605
Postage.....	142,840
Charge Card Fee.....	265,000
Financial Aid.....	6,885,222
Reserve.....	625,000
Risk Pool Premiums.....	1,898,430
MMS Maintenance.....	50,000
Federally Mandated Hope Scholarship Reporting.....	30,000
CSU ASSIST Database Support.....	8,000
GMC Site Rental.....	100,000
Institutional Memberships.....	40,000
CSU Mandatory Assessments.....	30,000
Faculty Development.....	200,000
Graduate Business Professional Fee.....	118,500
<b>TOTAL COMPENSATION.....</b>	<b>20,471,839</b>
<b>TOTAL OPERATING EXPENSE.....</b>	<b>13,959,532</b>
<b>TOTAL SUPPORT FUNDS.....</b>	<b>34,431,371</b>

# Executive Office

**EXECUTIVE OFFICE OF THE PRESIDENT  
SUMMARY OF PROJECTED EXPENSES  
2010-2011**

	<b>ORIGINAL BUDGET</b>
<b>Office of the President</b>	
Compensation .....	354,179
Operating Expense .....	146,339
TOTAL .....	500,518
<b>TOTAL COMPENSATION.....</b>	<b>354,179</b>
<b>TOTAL OPERATING EXPENSE.....</b>	<b>146,339</b>
<b>TOTAL SUPPORT FUNDS.....</b>	<b>500,518</b>

**EXECUTIVE OFFICE OF THE PRESIDENT  
2010-2011**

<b>POSITION</b>	<b>OCCUPANT</b>	<b>BASE</b>	<b>ORIGINAL BUDGET</b>
<b><u>Office of the President</u></b>			
President	Arminana	1.00	291,179
Presidential Aide	Hardisty	1.00	63,000
Temp Help			0
<b>Subtotal, Support</b>		<b>2.00</b>	<b>354,179</b>
Student Asst			0
Work Study			0
<b>Subtotal, Blkts.</b>			<b>0</b>
<b>TOTAL SALARIES &amp; WAGES</b>		<b>2.00</b>	<b>354,179</b>
Operating Expense			146,339
<b>TOTAL OPERATING EXPENSE</b>			<b>146,339</b>
<b>ACCOUNT TOTAL</b>		<b>2.00</b>	<b>500,518</b>

When using OEE for Salaries and Wages, you must provide Staff Benefits at the rate of 38%.