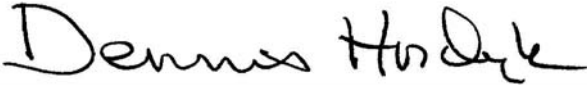


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MEMORANDUM

DATE: March 19, 2007

TO: Vice Presidents for Finance/Administration

FROM: Dennis Hordyk 
Assistant Vice Chancellor
Financial Services

SUBJECT: Revenue Management Program – Interim Guidelines for Operations and
FY 2006-2007 Closing

The implementation of the CSU Revenue Management Program (RMP) is progressing well. Almost every campus is now fully operational within the California State University Trust Fund, the Wells Fargo banking implementation should be completed during the month of April, new investment managers have been selected, the new executive order outlining the fiscal delegation of authority will soon be completed and, finally, we have started to outline the requirements for new CSU policies, standards and definitions.

We continue to work with the necessary state agencies to resolve questions about appropriate governance over our new operations in the CSU Trust Fund. Recently, the Department of Finance confirmed that guidelines for CSU FISMA audits would transition from the State Administrative Manual to the new CSU policies, standards and definitions, once those are completed. Since the new CSU policies, standards and definitions are to govern all fund management outside the state treasury, the Department of Finance also has indicated they are not required to review and/or approve the new CSU operating policies.

While much has been accomplished there is still much to complete - most importantly the delegation of fiscal authority, the new CSU policies, standards and definitions, fund balance policy, investment management, etc. In order to assist campuses during this interim period the FOA RMP steering committee met, along with key staff from the Chancellor's Office, to identify issues, solutions and guidelines that needed to be addressed immediately, particularly where existing policy and guidelines are no longer

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

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applicable to our operations within trust, and where new policy and guidelines have not been finalized.

Enclosed please find the CSU Revenue Management Program – Interim Guidelines for Operations and FY 2006-2007 closing. These guidelines have been prepared and reviewed by the FOA steering committee and reviewed and endorsed by the Executive Vice Chancellor/CFO, and will remain in effect until superseded.

I have asked George Ashkar, Senior Director, Financial Services - Accounting, to convene the Financial Standards Advisory Committee as soon as possible to assist in the implementation of these guidelines. And, as you know from my email communication last week, it is important to expand the participation at this meeting and ensure appropriate representation from campus budget offices.

Last, but certainly not least, I'd like to take the opportunity to commend you and your staff on the implementation of the Revenue Management Program. During the last year your staff has implemented numerous material changes in business processes including:

- ◆ transferring campus operations to trust
 - ◆ transferring all payroll activity to trust
 - ◆ closing the state revolving fund
 - ◆ changing all banking activity to Wells Fargo
- AND
- ◆ timely closing of 2005-2006 in the midst of these changes

This is truly a remarkable achievement.

Enclosure

c: Executive Vice Chancellor Richard P. West
Financial Officers Association
Financial Standards Advisory Committee
Budget Officers

Revenue Management Program Interim Guidelines for Operations and FY 2006/07 Closing

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Review and Confirmation of Existing Policies

- 1) Section 6.00 of the Budget Act¹
 - a) While section 6.00 of the budget act specifically pertains to state support appropriations, the CSU policy at this time is to apply the rule set established in section 6.00 of the budget act to the CSU Operating Fund (CSU Fund 485). These rule sets also apply to any CSU Operating Fund interest earnings regardless of how the campus distributes them.

- 2) CSU Hospitality Policy (EO 761)
 - a) This interim guideline amends the existing CSU Hospitality policy.
 - i) Replace “General Fund Appropriations” with “CSU Operating Fund.” Replace “Special Funds” with “CSU Funds within SCO Fund 0948 other than CSU Fund 485”.
 - (1) The use of CSU Operating Fund monies (CSU Fund 485) for hospitality expenses will be exactly the same as it was for state general fund support appropriations.

- 3) Receipts Policy (EO 919)
 - a) EO 919 sections that apply to auxiliary organization receipts are still in effect.
 - b) Sections of EO 919 that differentiate between General Fund, Dormitory Revenue Fund, and State Trust Fund receipts are no longer valid.
 - i) All such receipts shall be recorded in the CSU Trust Fund (0948).

- 4) Data Quality Review
 - a) The year-end CSU Data Quality Review is no longer required.
 - i) Campuses are required to continue the variance analysis as part of the GAAP reporting process.
 - (1) Campuses are encouraged to conduct a variance analysis prior to and/or as part of the year-end close in order to facilitate a more accurate GAAP variance analysis.

¹ AB 1801 Chapter 47/2006, General Sections Statewide: “SEC. 6.00. No more than \$100,000 of the funds appropriated for support purposes under Section 1.80 or any other sections of this act may be encumbered for preliminary plans, working drawings, or construction of any project for the alteration of a state facility unless the Director of Finance determines that the proposed alteration is critical and that it is necessary to proceed using funds appropriated for support purposes. Any approved critical project costing more than \$100,000 shall be reported to the Chairperson of the Joint Legislative Budget Committee or his or her designee, not less than 30 days prior to requesting bids for the project. The report shall detail those factors that make the project so critical that it must proceed using support funds. No project described by this section may cost more than \$400,000.”

Year-end Accruals

Discussion Points

As the CSU begins to operate within the State University Trust Fund there will be significant changes in several business practices. A fundamental change is that the campus is now responsible for cash management and liquidity. Good business practice requires the establishment of prudent reserves in order to sustain operations. The campuses' Fund 485 net income (revenues less expenses, plus/minus transfers) will close to fund balance. The CSU will continue to report to the State Controller's Office (SCO) for State University Trust a pre-closing trial balance of total Fund 0948 activity that includes all campuses and the CO. The following specific guidance is provided.

- 1) Campuses are not to accrue at June 30, for purposes of State legal/budgetary basis reporting, expenses related to payments of faculty payroll that are by contract deferred until July and August of the subsequent fiscal year.
 - a) By statute, these costs are funded in the subsequent year.
- 2) Campuses are not to accrue at June 30, for purposes of State legal/budgetary basis reporting, ANY OTHER payroll expense, as the amounts of such accruals are considered to be immaterial from the perspective of the State and their calculation creates unnecessary delays in campuses' year-end legal closing.
 - a) Positive pay
 - i) The June pay period is included on the July pay tape.
 - (1) These costs shall be charged to the subsequent year.
 - (a) The 12 months of charges for CSU positive pay will include pay periods June thru May, rather than July through June.
 - (b) CSU legal close process must be completed within approximately 8 business days from June 30.
- 3) Positive pay transactions described in (a) and (b) immediately above can be identified by pay period for the GAAP accrual and the SCO GAAP template. By not processing ANY payroll accruals as part of the legal basis year-end close, ALL prior pay period activity can easily be identified and accrued for GAAP year-end reporting. This process will establish a consistent approach across all campuses.
- 4) Continue to accrue valid operating expense obligations.
- 5) Campuses are not to pre-pay or encumber State University Grants (SUG); match CY SUG expense with State University Fee (SUF) revenue recognized in CY.
- 6) Campuses are not to pre-pay or encumber deposits to the CSU Risk Management Authority (CSURMA).

CSU Fund Balance Policy for CSU Operating Fund (CSU Fund 485)

Discussion Points

As indicated in the previous item, the CSU will now have a fund balance in its CSU Operating Fund. This is a significant shift in culture for CSU budget and financial management. These fund balances will NOT be completely reallocated to campus units each year. A portion will need to be retained as a designated balance in order to ensure sustainable funding for operations.

The CSU is in the process of developing its Fund Balance Policy, which will ultimately include all fund categories in the California State University Trust Fund (SCO Fund 0948). At this time the following applies to CSU Operating Fund (CSU Fund 485) only.

The following policies are effective for 2006-2007 fiscal year-end.

- 1) Campuses will have a fund balance in the CSU Operating Fund (CSU Fund 485).
 - a) Entire fund balance will be reserved via a “pre-closing” year-end entry in the CSU “Reserve” FIRMS Object Codes.
 - i) ONLY three Object codes will be used for 2006-2007. The offset to each will be Object Code 304099, “Fund Balance Offset for Designated Reserves”, NOT Object Code 305002, “Fund Balance – Continuing Appropriations”.
 - (1) Reserve for Encumbrances²
 - (a) Amount supported by SAM06 @ June 30.
 - (b) FIRMS Object Code 304018.
 - (2) Designated for program/project/organizational unit.
 - (a) This object code is intended to capture funds campuses are planning to allocate out (i.e. roll forward) in the subsequent year for specific programs, projects or departments.
 - (b) FIRMS Object Code 304016
 - (3) Designated for Operations and Contingencies.
 - (a) FIRMS Object Code 304015
 - (b) This object code must have a balance that is greater than zero, in an amount to be determined prior to year-end by each campus.
 - (4) The CSU Fund Balance in Fund 485 = 304018 + 304016 + 304015
- 2) Budget implications
 - a) Campuses must ensure budget allocations for future years take into consideration year-end fund balance designation entries.

² Encumbrances are commitments related to unperformed contracts for goods or services (non-personnel expenses). Encumbrances at year-end do not constitute expenditures or liabilities.

Annual CSU Interest Pay Back to the State Treasury

Discussion Points

As part of the negotiations between the Department of Finance and the CSU in regards to CSU depositing its student fee revenue outside the State Treasury³, and recording it in State University Trust, the CSU agreed to pay any lost interest earnings (at SMIF rates) back to the state each year. In Fiscal Year 2006-2007, each campus' portion of the estimated pay-back to the state was reduced "off the top" of its 2006-2007 final budget allocation.

Some campuses passed this "reduction" on to campus departments, while others established a revenue budget line for required interest earnings within CSU Fund 485 for the amount of the reduction, keeping the effect on campus CSU Operating Fund expense budgets neutral.

To assist campuses in recording consistent budget transactions, the following business process will be implemented effective with the 2007-2008 CSU budget process.

- 1) The 2007-2008 campuses' state general fund (Fund 0001) support appropriation will be restored for the amount that was reduced off the top in 2006-2007.
- 2) Campuses will cover their share of the annual state interest pay back from interest earnings transferred into CSU Fund 485 (see CSU Fund 499 discussion below).
 - a) The amount of the annual state interest pay back will be included each year in the Final Budget Allocation memo from the Chancellor's Office Budget Office.
 - b) Chancellor's Office will issue quarterly Cash Posting Orders (CPO) transferring cash from each campus to the CO within CSU Fund 485. The sum of the quarterly transfers will equal the annual interest payback for each campus..

³ AB 1802 Chapter 79/2007 added paragraph (l) to Section 89721:

"SEC. 34. Section 89721 of the Education Code is amended to read:

89721. Notwithstanding any other provision of law, the chief fiscal officer of each campus of the California State University shall deposit into and maintain in local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7, inclusive, of the Government Code, or in the California State University Trust Fund, moneys received in connection with the following sources or purposes:

- (a) Gifts, bequests, devises, and donations received under Section 89720.
- (b) Any student loan or scholarship fund program, including but not limited to, student loan programs of the state, federal government (including programs referred to in Section 89723), local government, or private sources.
- (c) Advance payment for anticipated expenditures or encumbrances in connection with federal grants or contracts.
- (d) Room, board, and similar expenses of students enrolled in the international program of the California State University.
- (e) Cafeteria replacement funds.
- (f) Miscellaneous receipts in the nature of deposits subject to return upon approval of a proper application.
- (g) Fees and charges for services, materials, and facilities authorized by Section 89700 if these fees or charges are required of those persons who, at their option, use the services or facilities, or are provided the materials, for which the fees or charges are made. Fees and charges so received and deposited shall be used solely to meet the costs of providing these services, materials, and facilities.
- (h) Fees for instructionally related activities as defined by the trustees and as authorized by Section 89700 and revenues derived from the conduct of the instructionally related activities. The trustees shall have all authority necessary to administer and use the fees and revenues received and deposited to support such instructionally related activities.
- (i) Fees for parking, health facilities or health services, and for extension programs, special sessions, and other self-supporting instructional programs.

(j) Revenue received by the trustees from the California State Lottery Education Fund pursuant to Section 8880.5 of the Government Code.

(k) Moneys received by the trustees for research, workshops, conferences, institutes, and special projects.

(l) Moneys collected as higher education fees and income from students of any campus of the California State University and from other persons pursuant to Section 89700. The Controller shall have the authority to audit the expenditure of these funds.”

CSU Fund 499 – CSU Internal Service Fund

Discussion Points

CSU Fund 499, Internal Service Fund is new for the CSU. With the initial implementation of the Revenue Management Program, this CSU fund was established (and named) to replace the state Office Revolving Fund in order to continue the Direct Vendor Pay program. The state Office Revolving Fund was a working capital fund that was capitalized each fiscal year from the current state support appropriation in the general fund. However, as campuses closed out their general fund activity, additional uses were identified for CSU Fund 499 that meet the GASB definition of an internal service fund.

The following activity will be recorded within CSU Fund 499:

- 1) Pooled investment activity for SCO Fund 0948, including investment assets, investment earnings (interest, gains and losses), and distributions of investment earnings within Fund 0948.
 - a) All interest earnings for SCO Fund 0948 will be recorded in CSU Fund 499.
 - i) Campus distribution of interest earnings to other CSU Funds within SCO Fund 0948 will be recorded using newly established FIRMS object codes for this purpose (see following item).
- 2) CSU Working Capital Fund: Capitalized on a revolving basis from the CSU Operating Fund (Fund 485).
 - a) Direct Vendor Pay for claimable funds.
 - b) Advances and Replacements (travel, negative payrolls).
 - c) If not recorded in the actual advancing fund.
 - d) Any Reimbursed Activity determined to be necessary by a campus, based upon the campus' review of EO 1000 definitions.

Investment Earnings in SCO Fund 0948

Discussion Points

The CSU is currently in transition regarding all its banking and investment activity. Earnings income on State University Trust Fund 0948 investments is based on its centralized investment program. In an effort to capture data to meet CO and GAAP reporting requirements, campuses' investment accounting processes are to include the following:

- 1) All investment earnings distributions for fund 0948 will be recorded in CSU Fund 499 – CSU Internal Service Fund effective 7-1-2006 (immediately).
 - a) Campus investment earnings distribution to other CSU funds will be recorded using transfers out/transfers in exclusively.
 - i) New FIRMS object codes will be created.
 - (1) 506051 – transfer in (CR/DR) of campus investment earnings.
 - (2) 680051 – transfer out (DR/CR) of campus investment earnings.
- 2) The only investment distribution earnings transferred in to the CSU Operating Fund 485 will be those required to cover costs within any given year.
 - a) Transfer of interest earnings to CSU Fund 485 – CSU Operating Fund, will be recorded in Fund 485 using the newly established FIRMS Object Code (506051).
 - b) Transfers to CO of campuses' shares of interest payback to the State will be recorded by campuses in CSU Fund 485 using FIRMS Object Code 680151.

Inter/Intra Fund Activity

Discussion Points

In reviewing CSU practices for recording activities between CSU funds it was determined that there is not a clear CSU definition of a standard inter/intra fund transaction. Campuses currently use one or more of 3 methods: recording expenditure transfers (which credit expense in one fund and debit it in another), recording expense in one fund/revenue in the other, or recording transfer out/ transfer in. When campuses use transfer out and transfer in, it is eliminated automatically by the GAAP derivation and therefore does not require a GAAP adjustment to eliminate any "gross-up" of revenue and expense. GASB GAAP provides useful guidance on this topic. FSAC will review this activity and recommend CSU standards.

The following accounting procedures related to interfund activity are to be implemented for 2006-2007:

- 1) EO 753 Cost Recovery Transactions
 - a) Recoveries by the CSU Operating Fund (485) of costs incurred for the benefit of other CSU Funds will be recorded as:
 - i) Transfer-out in the paying fund
 - ii) Transfer-in in the CSU Operating Fund
 - b) Recoveries by a campus' CSU Operating Fund of costs incurred for the benefit of a campus auxiliary organization will be recorded as revenue in the CSU Operating Fund.
 - c) These transactions will no longer be recorded in reimbursed activity chartfields.
 - d) Campuses will provide departments with a budget allocation sufficient to account for recoverable CSU Operating Fund costs.

- 2) Reimbursed Activity
 - a) Each campus is encouraged to eliminate as appropriate the use of Reimbursed Activity chartfields to account for interfund activities that could be accounted using solely Transfer In/Out object codes.

Deposits to State Treasury

Discussion Points

Campuses were advised to deposit all cash receipts into Wells Fargo effective January 2, 2007. Simultaneously, CSU reviewed the requirements for depositing cash receipts into the state treasury. Six campuses currently have “senior” student union debt and are required pursuant to the bond indenture agreement to deposit their student union fees into the state treasury. Also, it is possible that certain campuses could have contractual or statutory requirements to deposit certain cash receipts within the state treasury – if you are unsure as to whether you must deposit certain cash receipts within the state treasury, contact the CO.

- 1) Deposits in the state treasury are required for:
 - a) Campuses with senior student union debt
 - i) Through August 2007 for 5 campuses, and November 2007 for 1 campus
 - b) Covering expenses at SCO
 - i) Ongoing, but will most likely become centralized in 07-08
- 2) Options for transferring money from WELLS to state treasury
 - a) Wire funds from WELLS to a campus bank account that ZBA's to state treasury
 - b) Wire transfer directly to state treasury
 - i) Must forward a deposit slip (remit) to state treasury also

Cash vs. Investments at 30 June 2007

Discussion Points

As of June 30, 2007, all campuses will be fully implemented in the CSU central bank. All central bank balances will be invested on behalf of the campus on a daily basis. As a result of discussions within the CSU and with KPMG, it has been decided that campuses will record their banking and investment activity in FIRMS Object Code 108090 – Investments-Other. The actual year-end entries for legal and GAAP are to be reviewed and discussed by FSAC. The following is required for FY 2006-2007:

- 1) State treasury cash activity needs to be recorded in 101001 and reconciled to State Treasury bank statements.
- 2) Wells Fargo activity shall to be recorded in 108090 and reconciled to a combination of Wells Fargo campus and central bank account balances and Wachovia (formerly Met West) statements.