**Audit Committee Meeting Minutes of September 21st, 2015**

1. CALL TO ORDER: VP of Finance **Jones** calls the meeting to order at **4:02PM.**
2. ROLL CALL

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| --- | --- | --- |
| Members Present | Absent Members | Guests |
| David Lopez |  | Doris Lagasca |
| Janeesha Jones |  | Luis Cardenas |
| Martin Castillo |  | Pablo Garnica |
| Debbie Chaw |  | Darrell Haydon |
| Erik Pinlac |  | Mark Tillotson |
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1. ACTION ITEM **- Approval of the Agenda**

**Motion: (Lopez) to approve the agenda.**

**Motion carries.**

**Amendment: (Lopez) to add Action Item- Approval of the September 27th, 2013 Minutes.**

**Motion carries.**

1. ACTION ITEM- **Approval of the September 27th, 2013 Minutes.**

**Motion: (Lopez) to approve the September 27th, 2013 Minutes.**

**Motion carries.**

1. PUBLIC COMMENT **– Public Comment is intended as a time for any member of the public to address the board on any issues affecting ASI and/or the California State University, East Bay.**

No public comment.

1. NEW BUSINESS ITEMS:
   1. ACTION ITEM – **2014-15 Audit Presentation**

**Motion: (Lopez) to approve the audit presentation.**

VP of Finance **Jones** yields the floor to **Mark Tillotson.**

* **Mark Tillotson** said they have draft financial statements for ASI’s year end of 2015. Included is the independent auditors report. It is an unmodified clean opinion and it is as good as it gets. After the opinion paragraph they added an emphasis of matter paragraph due to the implementation of a new county standard. Associated Students along with most government entities that participate in providing employee benefits will be implementing GASB 68. It is an interesting statement that now puts on the statement of net position, the net pension liability which is an amount related to a benefit obligation, an amount that has always been included in the foot notes to the financial statements but never been reported on the balance sheet. This change required a restatement of beginning net position of approximately 1.4 million dollars. Financial statements are made up of several different components. Management Description Analysis is required supplementary information that includes significant changes for the organization over the year. Basic financial statements include traditional statements like the statement of net position, which is like the balance sheet that is a little bit different for a governmental entity. It is similar to an income statement. Basic financial statements also include the notes to the financial statements. There is also a few other supplemental information, one piece requires supplementary information much like MD&A and other scheduling and funding process. The remaining scheduled is used for consolidation purposes at the CSU. These are schedules that they look at in relation to the financial statements presented, but those are the amounts that the CSU system wide fee uses in consolidation with the 23 campuses in the 90 plus auxiliary organization. This is what this draft is comprised of.
* **Darrell Haydon** said he will discuss this document in more depth. He told the committee members to keep in mind that this is the preliminary report.MGO is currently working on finalizing this so the final numbers shouldn’t change too much from this current document. ASI operates in two different accounting worlds, two different financial worlds. To briefly describe this; on a day to day basis you are using your current everyday transactions to operate ASI. In the CSU world they look at that as the legal basis. Money coming in money coming out, ASI has an operating budget that has been approved by ASI’s Board and has also been sent out to the CSUEB President. This is where a business needs to limit its expenditures and follow that guideline budget. In the accounting world they have another responsibility which is reporting out on a GAAP (Generally Accepted Accounting Principles) basis which takes into account a lot of things that are above and beyond the day to day operation. Today we are looking at the gap audited financial statement. The biggest change that happened this year was GASB 68, a change for the pension requiring them to look at the pension obligation. Executive Director **Pinlac** is familiar with the obligation for postretirement benefit obligations that was back in GASB 45. These are obligations that ASI has incurred, the auditing rules are catching up to try and present a fair and complete picture of the economic activity and basis for ASI as well as other auxiliaries on campus. For example, the University is also representing these changes in its financials this year. This is part of a bigger process they are seeing. When they go through and look at these financial statements some of this will look familiar to them and a few items on this document will be gap related. The ASI operations have changed. The biggest changes occurred 2 years ago when the responsibility for managing the UU space and RAW transitioned from ASI to the University. This transition was based on economic factors that were designed to better service ASI; it was not that ASI did a poor job in managing those endeavors. The change from state support summer to self-support summer drastically reduced the amount of student fee revenue that was available and the analysis that they had done at that time had represented that it placed an unfair burden on ASI because of that drop in revenue that shifted over to the University. This was a very significant change and because of the timing that had happened in some cases when you look at comparison of what happened last year to what happened this year you could see some of those lingering effects. One of the big effects is that it impacts the pension piece and also the postretirement benefit obligation. ASI has had a lot of employees over the past years and when those employees have been here for 5-10 years depending on when they were hired they have incurred long term benefits which are usually medical care and dental. A lot of this is self-obvious, if you look at the financial highlights, operating revenues decreased because of the RAW and UU going into different management. It also is reflected in the fact that it went from state support summer to self-support summer, they went from an enrollment target of hitting 107% of the enrollment to 99% of their enrollment this last year. There are actually fewer students per quarter to generate fees. This impacted ASI. ASI actually did very well financially and it was well managed. There were no issues and they were able to work through that drop in revenue. Usually the budget is based on the expected enrollment, so if the enrollment is above target then its good. Some financial highlights are that operating revenues decreased for the reasons that he just explained, operating expenses decreased because they lost a lot of labor costs along with a lot of those employees shifting over to the University payroll. At this point there are only 5 true full time staff ASI employees. The money expenses supporting student programs has not changed. The last major change is the change for the pension that was previously discussed.
* **Mark Tillotson** said those are the highlights of the current year.
* **Darrell Haydon** said if you turn to page 4 you’ll notice on the top of that worksheet it says restated; because of the way the GASB pension change has required them to do a restatement on prior year they had to include that in their year-end liabilities. Throughout this document it will show the word restated not because of a mistake but because of the inclusion of the pension obligation. It’s trying to put the financials on a same basis.
* **Mark Tillotson** said it is best illustrated on page 9 which is the statements of revenues and expenses where it takes the net position previously reported the effect of the change to the new net position.
* **Darrell Haydon** said he wants the members to read through the document and if at any point they do not understand after this meeting to call him and they can then sit down and go through this line by line if they want to. He can also come in at another time not during the meeting to discuss this with whoever needs help to understand it. If you look at page 4 and compare the financial statement for 2014 to 2015 you will see that the net position has improved by about $600,000. In any organization or business you run whether it is not for profit or profit ideally you want to have a growing balance and you do not want to be getting financially weaker but stronger. This is a positive sign that ASI is moving in the direction it should in terms of appropriate financial discipline and good oversight in terms of how the spending is going. The purpose of the management discussion analysis is to show ASI’s management to reflect to the Board what has been happening over the allocated time. The management’s job is to explain why these changes have occurred. On page 6 there is a summary of revenues and expenses. On page 7 it talks about capital assets, ASI has very few capital assets. On pages 8-9 is a statement of net position and statement of revenues which is the balance sheet and income statement. The language and terminology is very specific to a non for profit which ASI is. On page 8 under the non-current liability that says pension obligation, this is the new item for this year that represents each year that ASI has had employees and their pension obligations where money was set aside. The pension obligation doesn’t necessarily cover the pension obligation forever for that person because depending on when they retire and depending on the investments that obligation changes and it gets relooked at every couple of years. The business decision that ASI will have over the long term is how to fund that pension obligation. That’s a decision that will be under discussion for a later day. In the long term they want to develop a plan on how to clear those long term liabilities. This is the new item that is generating a lot of change. For background information the unfunded pension liability for CSUEB’s total across all funds is $250 million dollars, for the CSU in total it is 7 billion dollars. Although these numbers sound huge they are not unexpected. This is something that every government entity is dealing with.
* **Mark Tillotson** said it is almost like if you had a mortgage and you’re adding this big liability to pay off your mortgage. It’s like pulling this onto the balance sheet. It has always been there and has been discussed but now it is much more visible. This number is not a huge surprise.
* **Darrell Haydon** said another change that he wanted brought to their attention was on page 9 the accumulating effect of changes in accounting principle the 1.3 million is a reflection of all the accounting changes, the net impact. Keep in mind that 3.6 million stated at the bottom of the page is $600,000 better than last year. ASI is in a better financial situation than last year. Next page is the statement of cash flows which may be hard to understand. This flow shows where the money comes from to fund the operations.
* **Mark Tillotson** said it is positive to notice the increase in money which shows the strength of the organization.
* **Darrell Haydon** said in addition to the numbers there is a lot of background information on how those numbers are determined. This is all the basic information of what an investor would want to know about the business operation to be able to interpret what the numbers actually mean. What needs to be attached to this package is a financial summary from the University side that they submit to the Chancellors office in a very strict format where they then compile all the auxiliaries across the system, about 96 of them on this campus that gets consolidated and is a part of the CSU audit and financial statements. He has no issues in terms of ASI’s financial operations. ASI has been providing services through the University from cost recovery for several years now and it has given ASI many more tools and advantages in terms of how they do things at relatively reasonable costs. This gives ASI better confidence because the processes they use for vouchers, payments to vendors, even handling the stipends is going through a process that is rigorous and gets audited independently. He thinks ASI is getting the service without the management headache and at the same time they are getting a very professional team working on ASI’s behalf. He said they will have the completed package for them very shortly which is not going to change much in any material way from what they are looking at today.
* VP of Administration and Finance **Chaw** said for ASI not to worry about funding the pensions with the CSU being 7 billion dollars. She said they have means to fund that.
* **Darrell Haydon** said in theory it is a state obligation and not a CSU obligation.
* **Mark Tillotson** said his firm is a part of CALPERS and he thinks 20,000 hours went into that audit.
* Associated VP of Student Affairs **Castillo** asked if the ASI staff that moved to the state side remained on ASI’s pension for a period of time.
* **Darrell Haydon** said every three years they are required to recalculate the obligation. He asked **Mark Tillotson** about the pension obligation for the employees that left what the methodology was used to determine employee’s obligation.
* **Mark Tillotson** said that was done at the last measurement period. That actuarial report runs every three years and that report was last generated in 2011.
* **Darrell Haydon** said he wanted to talk about the pension piece not the retirement benefit medical.
* **Mark Tillotson** said 2011 was the pension piece.
* **Darrell Haydon** saidit could be possible then because they had a lot of employees that may not have been vested but they still would have calculated the pension obligation assuming they stayed employed. That pension obligation may adjust downward.
* **Mark Tillotson** said this is going to be a floating number because there are a lot of assumptions built into it so there are going to be some swings especially due to the market shift of 1% either way. They will try to smooth out some of that investment gains and losses over the course.
* **Darrell Haydon** said on the postretirement medical benefit obligation, an analysis that is done every 3 years, will be doing another analysis. ASI has been very aggressive in paying that liability. The liability will fluctuate like **Mark Tillotson** said. The actual analysis goes down to the person, male, female, age, spouse, and age of the spouse which is calculated on a person basis. He would expect with the organizational changes the liability may drop. They will have to see what the study shows.

**Motion: (Lopez) to go into Closed Session.**

**Motion carries.**

**Amendment: (Lopez) to go into Closed Session and include Director of Legislative Affairs Garnica and VP of External Affairs Cardenas.**

**Motion carries.**

**Enters Closed Session at 4:33PM.**

**29:52**

**Returned from Closed Session at 4:45PM.**

**VP of Finance Jones said during Closed Session they discussed Mark’s**

**interpretation of the audit.**

**Amendment: (Lopez) instead of approval of 2014-2015 audit presentation**

**he wants to change it to approval of the 2014-2015 audit presentation with the**

**edits made by the management team.**

**Vote: 4-0-0**

**Motion carries.**

**32:51**

1. ROUND TABLE REMARKS

No roundtable remarks.

1. ADJOURNMENT

Meeting Adjourned at **4:47PM.**

Minutes Reviewed by:

**VP of Finance**

Name: Janeesha Jones

Minutes Approved on:

**2-15-16**

Date: