

ICOC Governance Subcommittee Meeting of July 29, 2005

Agenda Item 7

Financial Statements and Operating Budget

Background

At the July 12, 2005 meeting the Independent Citizens' Oversight Committee (ICOC) established a Governance Subcommittee. Among the responsibilities assigned to the subcommittee is the review and approval of the Operating Budget for the California Institute for Regenerative Medicine (CIRM), including the costs incurred by the ICOC.

Information

The State of California operates on a fiscal year basis – from July 1 to June 30. Its financial operations are maintained on an accrual method of accounting and budgeting. This means that costs for goods and services received during a year are charged to that year even though the payment is not paid until a subsequent fiscal year. In addition, each agency's budget is split between three categories:

- Personal Services: This is the salary and wages and benefits for state employees of the agency, including the Per Diem paid to ICOC members.
- Office Expenses and Equipment (OEE): These are the non-personnel costs associated with conducting a state agency's business.
- Local Assistance: This is funding that is paid out to local public and private agencies. In the case of CIRM, this will be the research grant funding.

Fiscal Year 2004-05

Attached is a comparison of the final financial statements for 2004-05 in comparison to the expected financial statements presented at the May 6, 2005 ICOC meeting. The comparison shows the following:

- The final costs for Personal Services (Salaries and Benefits for CIRM staff) are \$19,000 less than estimated in the May 6, 2005 document.
- The final costs for Contracts and Interagency Agreements is \$642,000 greater than estimated in the May 6, 2005 document. However, the latter assumed that expenditures for major contracts and interagency agreements would be deferred. After receipt of the Dolby funding, a decision was made to pay the deferred amounts. Also, we have assumed that the Edelman contract will be approved and that costs for the three months of 2004-05 will be paid.
- The final costs for all other expenditure categories are \$84,000 greater than estimated in the May 6, 2005 document. This is due to increases in General Expense for supplies, temporary help, transcriptions, etc.

Expenditures listed in 2004-05 are actual payments made as of 6/30/2005 of \$1,574,000 and accrued expenses of \$995,000. Most of the accruals are for contracts and interagency agreements. These financial statements will be subject to audit by an independent CPA firm as required by Proposition 71.

It should be noted that during most of last year, CIRM had only 12 staff. With a Personal Services expenditure of only \$737,000, the result was that CIRM was established and in operation by mid-January 2005, the first grant application request was posted in Mid-May 2005, and \$23,150,000 in financial benefits (from the headquarters selection and the Dolby grant) were achieved.

Fiscal Year 2005-06

The 2004-05 financial statements show that \$430,000 is estimated to be left from the \$3,000,000 loan once all accrued bills are paid. Together with the \$5 million Dolby grant, the available funding for CIRM/ICOC operations for the current fiscal year is about \$5.4 million. If \$200 million of proceeds from bonds or bond anticipation notes were received during the year, up to \$11.6 million would be available to cover the administrative costs to operate CIRM and oversee nearly \$188.4 million in grants that could be issued. We are currently developing an operations budget for both of these funding alternatives. They will be ready for review by the Governance Committee at the next meeting.

It is important to remember that some costs are going to increase this year no matter which funding level is available. As an example, during the previous year, CIRM hired 13 persons and incurred Personal Services costs of \$737,000. Commitments have been made to fill four additional positions in 2005-06. If we did not hire anyone else, Personal Services costs in the current year will more than double. First, most of the thirteen positions were hired in January 2005 so 2004-05 costs were for ½ year. Those costs will be doubled in the current year. Also, the cost of the additional hires in 2005-06 will incur costs for the full year.

Under non-Personal Services, there are a number of increases that will occur as well. For example:

- CIRM will be incurring new costs for a scientific conference and for the working groups.
- Travel expenses for CIRM/ICOC members should also increase because of a full year of operations. Also, Per Diem for ICOC members will be paid for a full year.

Fiscal Year 2006-07

Most state agencies develop budgets that include the current year plus the next. We will do that in concert with the work to develop the alternative budgets for

2005-06. As discussed in previous meetings, major increases are expected in Personal Services for two reasons:

- A full year of salaries by all staff hired during 2005-06.
- CIRM will be required to start paying contributions to CalPERS for staff who have been employed for two years. The state is exempted from making such payments for new staff during the first two years of employment.

Other Budget Issues

We are also working on two other related projects:

- Dolby Funding: An annual report of all expenditures from this funding is required to show that we have complied with all limitations tied to the funding. The accounting system is being revised to allow us to track allowable expenditures charged to the Dolby Grant.
- General Administration and Grants Management: Proposition 71 allows up to 3% of all bond proceeds to be used for costs of General Administration and up 3% of the remainder of bond proceeds can be used for Grants Management Administration (in total this is approximately 5.8%). The accounting system is being revised to allow us to track expenditures to each of these two categories.

Recommendation

This is an information item. No action needed at this time. We will be providing a proposed budget for 2005-06 under two funding assumptions at the next Governance Subcommittee meeting. In addition, we will be providing a proposed budget for 2006-07.