



San Bernardino Valley College

Introduction to

# FISCAL RESPONSIBILITIES

*a resource for governing boards*

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COMMUNITY  
COLLEGE LEAGUE  
OF CALIFORNIA

## Introduction to Fiscal Responsibilities

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**B**EING A FIDUCIARY is integral to serving as a community college trustee. Board members are accountable to the public for the financial, physical, and human resources of a community college district. They also protect more intangible assets, such as the quality of education and their colleges' reputations in the communities. They ensure that college resources are dedicated to educating students and meeting community needs, now and in the future. Performing this role well creates public confidence, and earns trustees the respect of the electorate.

To be an effective fiduciary, trustees must first obtain the skills and knowledge needed to make fiscal policy decisions. Second, boards set policies and guidelines for fiscal and asset management practices that support college goals and student success. Third, boards monitor policy implementation and adherence to guidelines to assure that resources are allocated and used wisely and well.

This resource guide is designed to enable trustees to understand and fulfill their fiduciary role. It includes an overview of responsibilities, describes basic concepts and principles, provides sample criteria and policies, and includes questions and checklists. It covers a wide range of fiduciary concerns, including planning, budgeting, fiscal management, monitoring, audits, and facilities.

Trustees best fulfill their complex fiduciary role by keeping in mind four responsibilities (from *Financial Responsibilities of Governing Boards* by William Reed):

**Maintain equity between generations.** Trustees have a responsibility to current students as well as the students of the future. They must address current needs and, at the same time, provide for adequate resources for future needs. Boards are uniquely responsible for having a long-term perspective to ensure that the college's facilities and programs will be available for the next generation of students.

**Expect and monitor planning.** Long-range planning is fundamental to financial oversight and provides the context for fiscal decisions. Adopting and monitoring implementation of educational, facilities, strategic and other plans keeps the board and administration focused on the most important issues for resource allocation. Approving annual budgets should be contingent on the extent to which they implement the goals and activities addressed in these plans and other board policies.

**Strive for long term equilibrium.** Maintaining the fiscal viability of the district over the long term involves balancing four interdependent fiduciary considerations.

- Annual operating budgets
- Physical assets
- Human resources
- Resource development, investments, and adequate reserves

**Establish and monitor financial controls.** Boards must ensure that adequate financial controls are in place. They expect that financial management is in accordance with generally accepted accounting principles and that there is an internal auditing system. They ensure an annual independent audit of the institution's books and financial systems, including a review of compliance with relevant laws and contractual commitments. They expect and monitor practices that protect the colleges against loss and liability.

This publication is designed to enable trustees to be effective fiduciaries and to perform their fiscal policy responsibilities. It may also be helpful to chief executives and senior administrators as an overview of fiscal policy issues, the roles of boards of trustees in California's community colleges, and the role of the Chancellor's Office of the California Community Colleges (COCCC).

Chapters 1 through 4 describe the fiscal environment and the laws and standards that impact community college fiscal management. The next few chapters describe planning and the fiscal operations of community college districts and the board's role in setting policy. Chapters 9 and 10 discuss the board's monitoring role. The final chapter covers facility development and issues related to construction. An extensive glossary provides definitions, including commonly used acronyms. The appendices include key state regulations and accrediting standards.

We hope that the publication helps trustees and others make sense of the often complex nature of California community college funding and financial operations. Readers should be aware that regulations and standards can and do change. The key questions and priorities for trustees and others will change due to shifts in economic and other conditions. However, the principles of sound fiduciary policy remain constant. ■

▼  
*“Thinking like a fiduciary begins with a conscious effort to understand the institution's economics... [It] requires trustees to have a sense of institutional ownership, a dedication to current and future students, and a commitment to address current financial issues and plan for those of the future.” (Reed, p. 13)*



# Governing Board & CEO Roles

**B**oards of trustees and chief executive officers share the responsibility to ensure that the district enjoys fiscal health and stability. Boards are responsible for setting fiduciary policy and monitoring compliance with relevant laws, regulations, standards, and board policy. They do this on behalf of the public.

Chief executive officers (CEOs) are responsible for implementing board policy and ensuring that the budget and financial management systems comply with law and regulations, meet audit standards, and are dedicated to achieving the mission of the college or district.

## Role Differentiation

Prior to addressing the roles of the governing board and CEOs, it is important to recognize that the California Community College system is a complex organization consisting of 115 colleges within 73 districts throughout the state. Some of the colleges are single college districts while others are part of a larger district identified as a multi-college district. A president of a college in a multi-college district reports to the district CEO, the multi-college district's chancellor; whereas the president of a single college district is the CEO for the college and the district. Therefore, the role differentiation discussion that follows varies whether it refers to a single or a multi-college district.

The chart on the following page compares the roles of the board and the chief executive officer. The board delegates significant authority to the chief executive officer to plan and manage fiscal and administrative operations. The CEO delegates significant responsibility for fiscal affairs to the chief business officer (CBO), who will perform many of the roles and tasks identified in the CEO column. In a single college district, delegation of authority flows from the board to the CEO to the CBO.

The delegation of authority within multi-college districts varies. Authority and responsibility for certain fiscal tasks may be delegated to the college presidents. Activities that typically remain at the district level include overall budget development, allocations to colleges, financial reporting, investment decisions, debt and borrowing, and audit of district funds.

Variance occurs in the level of authority granted in other areas, such as contracts, grants, and relations with foundations. In decentralized districts, the colleges have authority to determine how to expend their allocation from the district office, establish fiscal systems and internal controls, and make fiscal decisions.

Boards of trustees in multi-college districts should understand the delegation and reporting lines in their districts and the authority granted to the college presidents.

## TASKS FOR TRUSTEES

- Clarify board roles and responsibilities.
- Clearly delegate authority and responsibility to the CEO.
- Establish board and CEO evaluation processes to assess performance.
- Be willing to support fully local fundraising efforts.

## BOARD ROLE & TASKS

## CEO ROLE & TASKS

### General

- Establish policies that set standards for fiscal affairs
- Approve budgets and expenditures as required by laws and board policy
- Monitor the fiscal health of the institution by establishing a monitoring schedule and studying reports
- Require long-range fiscal projections

- Establish and enforce administrative procedures that implement board policy and ensure the legal, ethical, and prudent management of college resources
- Present clear and informative budgets and reports to the board
- Keep the board informed about the financial status of the district

### Budgeting

- Adopt policies that require and define standards for:
  - » Budget assumptions
  - » Balanced budgets
  - » Adequate reserves
  - » Long-range revenue projections
  - » Long-range projections for expenditure commitments (e.g. personnel, salaries and benefits, equipment, contracts)
  - » Facility needs and maintenance
- Approve the budget using board policy standards as criteria
- Require short and long-term fiscal impact information on relevant agenda items such as equipment purchases, loans, and investments

- Develop and use a set of assumptions in budget planning
- Develop and implement an inclusive budget planning process
- Present and interpret a budget to the board using policy criteria and assumptions
- Analyze current financial position and present to the board long-range financial needs and proposals
- Alert the board about significant changes in the budget; submit for approval as required by policy
- Ensure that budget planning is linked to college(s), program plans and strategic goals

### Financial Activity

- Adopt policies that contain standards for:
  - » Fund transfers
  - » Purchase of equipment
  - » Hiring and changes in status of personnel
  - » Contracts
  - » Bid proposals and contracts
  - » Paying obligations
  - » Filing financial reports
- Adopt policies that define when board approval is required for fiscal actions
- Approve contracts and expenditures as required by law and board policy, including real property transactions
- Approve Tax Revenue Anticipation Notes (TRANs) and other major cash management
- Approve bond elections and other funding strategies that create debt obligations

- Develop procedures that ensure that expenditures and accounting processes are prudent, efficient, and adhere to law, board policy and auditing principles
- Monitor income, expenditures, and cash flow
- Monitor adherence to procedures for expending and accounting for funds
- Present contracts, expenditures, and other fiscal items to the board for approval as required
- Review the need for and propose TRANs and other cash management programs in a timely manner
- Review the need for and propose bond elections and other strategies (e.g. COPS, lease revenue bonds) that create debt obligations

## BOARD ROLE & TASKS

## CEO ROLE & TASKS

### Asset Protection & Management

- Adopt policies that define and require:
  - » Sound investment practices
  - » Sound cash flow management
  - » Adequate protection and security
  - » Adequate liability and insurance coverage
  - » Risk management programs
- Monitor that policies are being followed

- Ensure that investment and cash flow management practices meet board criteria
- Ensure that college assets and personnel are adequately protected and secured
- Ensure that liability and insurance coverage meets board policy standards
- Establish an adequate risk management program

### Fundraising & Grants

- Determine the need for, approve, and actively support bond elections
- Provide leadership to create a foundation(s) and establish links between the district and foundation boards
- Support the foundation and fundraising efforts
- Adopt policies that set criteria and priorities for grants
- Accept or approve grants as required by law
- Understand the short and long-range implications of grants

- Prepare information that helps the board determine the need for and approve bond elections
- Lead and administer various fundraising efforts, including the foundation(s) and asset management activities
- Keep the board informed about grants sought and awarded, including their implications for the college(s) or district, including staffing commitments that may be required beyond the funding cycle of the grant
- Present grants for board approval as required

### Monitoring Fiscal Health

- Require periodic reports to monitor fiscal control policies and accounting processes
- Require regular reports on the fiscal status of the district
- Become educated about financial statements and their implications
- Define broad expectations for the independent audit of the district accounts and business procedures
- Monitor the long-term debt obligations and unfunded liabilities of the district
- Set criteria for an auditing firm to conduct the annual audit
- Review the audit report
- Discuss deviations reporting through monitoring and audits (if any) and give appropriate direction to CEO

- Periodically report to the board compliance with fiscal control policies
- Periodically report the fiscal condition of the college(s) and district; provide a summary that clearly shows the relationship of expenditures to budget
- Educate the board on how to read financial statements
- Assist the board with the selection of an auditing firm
- Ensure the board is informed about long-term debt obligations and that funds are allocated to meet those obligations
- Cooperate with the auditor and ensure a thorough audit
- Assist the board in reviewing the audit report
- Correct problems (if any) found as a result in the audit; report on progress in resolving the auditor's recommendation in a timely manner



## Board Finance Committees

Most of California's community college governing boards act as a committee of the whole in reviewing and approving the budget, reports from internal and external auditors, and other fiscal matters. In a survey by the League, just over a third of the districts indicated that the board has a standing finance, audit, and/or budget committee. Such standing committees are subject to the Brown Act. The pros and cons of having a committee are:

### Pros

- Budgets and audits are complicated documents, and need more review than is possible at a board meeting.
- Having a committee may encourage a more thorough review of financial documents, because a few trustees have been charged with doing so.
- A committee can more easily meet in informal study sessions with fiscal officers and auditors to ensure a thorough review.
- The committee can include people who have more expertise than others in fiscal matters.

### Cons

- Given the small size of elected boards, there is no need to have separate committees to do the board's business.
- The board as a whole can meet in study sessions to review budget and audit reports: it is not necessary to limit this work to committees.
- All board members should be knowledgeable about the budget, audit, and other financial matters in order to take appropriate action. Having a committee makes it easier for non-committee members to avoid dealing with fiscal matters. ■

## QUESTIONS TO ASK

- Does the differentiation of authority work well for the district? Are there areas of delegation that need clarification?
- Does the board feel adequately informed?
- Is the board performing its roles satisfactorily?
- Is the CEO performing his or her responsibilities well?
- Should they have a budget/audit committee?



# State & Federal Fiscal Environment

Understanding the fiscal role of the governing board means understanding the fiscal environment in which community colleges operate. California's community colleges are publicly funded institutions; therefore, they depend on, and respond to, the economy, public support, and the political process. Trustees must consider a complex interplay of economic, political, social, demographic, and legal forces when making decisions.

In the past decade, there has been increased public scrutiny of the financial practices of private and public institutions. In addition, the fiscal environment has become more complex. Federal and state laws and regulations require more transparency and accountability for fiscal management of corporations and public institutions. Local governing boards and CEOs are operating in an environment where budgeting and fiscal practices are much more open than in the past.

Until 1978, local boards of trustees had authority to establish local tax rates for community colleges. Most of the resources used by the colleges came from local property taxes. The tax rates set by the boards determined, to a large extent, the level of funding for the local colleges. However, in 1978, Proposition 13 removed local taxing authority and put limits on property tax rates and increases. The responsibility for determining the level of public funding for the colleges shifted from local boards to state government.

This shift in responsibility changed the role of the boards to what it is today. Boards work within state-determined allocations to establish budget priorities that best serve their local communities. They do so within the constraints of state statutes and CCC Board of Governors (BOG) and Chancellor's Office regulations and guidelines on how funds may be used. Their major accountability to the voters is ensuring that the education and services offered by their colleges serve local community needs.

Trustees and governing boards influence state policy by advocating to the Governor, Legislature and BOG for adequate funding and funding formulas. They also may seek support from their local communities and foundations.

## State Revenues

California community colleges receive most of their monies from state government. State funding is derived from three major sources: state general funds, local property taxes, and student fees. Federal funds comprise a small fraction of college revenues. In addition, the state distributes funds from the federal government to the colleges for specific programs. The following percentages reflect revenue sources and are estimates based on the 2018-19 budget; they change from year to year.

## TASKS FOR TRUSTEES

- Understand the state legislative process for determining the level of funding for the CCC, including the timeline and the implications of Proposition 98.
- The Chancellor's office does not determine the allocation for each college in a multi-college district. Each district gets an allocation determined by the Chancellor's Office and has its own allocation model for its colleges.
- Understand the implications of state funding targeted for specific purposes.
- Understand the funding that comes from the federal government and the implications of those funds.
- Be willing to advocate on behalf of the district to the state and federal governments for adequate funding.
- Be willing to support local fundraising efforts.

**Revenues by source:**

Federal funds.....	3%
State general fund.....	56%
Local property tax.....	28%
Other local.....	8%
Enrollment fees.....	5%

State general funds include general apportionment, categorical funds, capital construction, the lottery, and other minor sources, i.e., “capital outlay funds.” (Capital construction is also funded by other revenues, described later in the chapter.) It should be noted that in recent years, the colleges have experienced greater uncertainty regarding whether all revenue budgeted for community colleges would be received. This revenue uncertainty was exacerbated during the period Great Recession beginning in December 2007 until the passage of Proposition 30 in November 2012. While the recession was serious, the state’s economy has now turned around and, with the addition of temporary taxes, community colleges received some restorative funding since fiscal year 2014-15. However, there is continuing fiscal uncertainty since community colleges do not have the automatic backfill provided to K-12 education and, when there are revenue reversals, there are often shortfalls below expected revenues. Further, since 2013-14, CalPERS and CalSTRS employer contributions rates have increased dramatically. They are expected to reach 24.6% and 18.6% by 2022 for CalPERS and CalSTRS, respectively. Due to the drastic economic effect of the current pandemic, trustees and district staffs are facing even more uncertain funding than during the Great Recession.

The colleges collect resident student enrollment fees, but the state considers 98% of the fees as part of the state appropriation. The fees are set by the Legislature and the revenue received is considered an offset to the allocation from the state general fund.

Federal resources (an average of 1-3 percent of total community college funds) include

financial aid, vocational education, and minor funds designated for specific purposes. The Higher Education Act (HEA), adopted by Congress and reauthorized periodically, provides for these allocations. California community colleges and state associations work with the American Association of Community Colleges and the Association of Community College Trustees to advocate that the HEA treats our students and colleges fairly. Allocating federal funds to colleges is generally the responsibility of state agencies.

**Factors in State Appropriations**

The level of funding colleges receive depends on the state’s economy, state general fund revenues, and the spending priorities of the Governor and the state Legislature. The level of funding can vary significantly: a recession in the early 1990s resulted in tight budgets for the colleges, followed by a good economy and better funding in the late 1990s. The stock market collapse of 2000 caused a downturn followed by increased revenues a few years later. The Great Recession severely impacted the colleges, resulting in a revenue loss of \$1.5 billion and forcing colleges to serve 600,000 fewer students (PPIC March 2013). At times, this roller coaster funding made it difficult to confidently predict long-term revenues and resulted in the state adopting creative cash flow solutions to balance the state’s negative cash balance. The system has the potential of severe revenue losses again due to the 2020 pandemic.

California is precariously reliant on its wealthiest residents with 70 percent of the state’s budget depending on personal income taxes. A bad year of capital gains or in the job market, can lead to a deficit. The instability

**QUESTIONS TO ASK**

- Where does our district funding come from?
- What is the formula used to determine how much we receive from the state?
- How much flexibility does the board have in determining how funds are allocated?
- What is the effect of the economic uncertainty facing our colleges now?

## WEB RESOURCES

For information on state budget proposals and negotiations as they affect community colleges, go to [www.ccleague.org/advocacy](http://www.ccleague.org/advocacy).

See the California state budget at [www.ebudget.ca.gov](http://www.ebudget.ca.gov), or visit the Department of Finance's website at [www.dof.ca.gov](http://www.dof.ca.gov).

The Chancellor's Office Fiscal Services Unit posts a number of key documents on its website, including CARES Act information on other funding provisions. Visit [www.cccco.edu/About-Us/Chancellors-Office/Divisions/College-Finance-and-Facilities-Planning](http://www.cccco.edu/About-Us/Chancellors-Office/Divisions/College-Finance-and-Facilities-Planning).

For general information on governmental finance and related issues, see the Government Finance Officers Association website, [www.gfoa.org](http://www.gfoa.org).

of revenue into the state coffers leads to the state deferring revenue owed the community colleges from one fiscal year to the next. The practice began in 2001-02 when the state deferred \$200 million owed to community colleges in that fiscal year to the following fiscal year. The practice was exacerbated during the state fiscal downturn and the deferral amount peaked at \$961 million in the 2011-12 fiscal year. Between the 2013-14 and 2018-19 budgets, the state nearly restored the reductions. Combined, the Budget Acts of 2015-16 (\$156M), 2016-17 (\$114M), 2017-18 (\$58M), and 2018-19 (\$60M) provided \$386 million in growth funds, thus restoring the earlier temporary adjustments to their original level in increments to reverse the prior years' workload reduction. Districts are facing even larger deferrals in the upcoming budget year.

Fluctuations in funding do not impact all community college districts uniformly. A district whose revenue limit is funded entirely by local property tax and enrollment fee revenues does NOT receive state general fund revenue and is referred to as a "basic aid" or "community supported" district. Historically, the number of basic aid districts remained constant at three, but the recent downturn in the state economy

resulted in more "basic aid" or "community supported" districts. (The 2018-19 Advanced Apportionment Schedule calculates eight districts.)

The fiscal downturn experienced by the state resulted in another factor impacting state appropriations which the system had not previously experienced – the workload measure reduction. Even the cataclysmic changes wrought by the passage of Proposition 13 did not force the state to cut revenues and serve fewer students to the magnitude experienced during the Great Recession. In 2009-10 the colleges were cut roughly \$190 million and in 2011-12 the cut was roughly \$385 million. The state prioritized course offerings focused on: college transfer, developmental education, and workforce training. Due to the lack of state funding, colleges/districts were forced to turn away students. Only with the passage of Proposition 30 have community college revenues stabilized and all prior-year deferrals have been repaid.

The passage of Proposition 30 and Proposition 55 stabilized the overall revenue going to community colleges, but the revenue is not as predictable as in the past. Proposition 30 instituted temporary tax increases on personal income (expired in 2018) and sales taxes (expired in 2016), and Proposition 55 extended the personal income tax portion of Proposition 30 to 2022; however, the revenue is disbursed quarterly and the amount available to community colleges changes several times a year. Additionally, with the abolishment of Redevelopment Agencies (RDAs), more local revenues will eventually go to schools and community colleges. Unfortunately, local property tax amounts reported by counties may differ from state estimates. And, unlike K-12 schools, community colleges lack an automatic "true up" or backfill provision which results in uncertainty between the enacted state budget and the final revenue colleges will receive. The uncertainty and temporary nature of these new funding streams will be important to consider

when planning a district's budget. It is yet to be seen how drastic the budget cuts will affect the ability to serve students' needs, from enrollment demand to the technology needed to participate in primarily online classes during the 2020 pandemic crisis.

As we have seen this year, state revenue projections can change dramatically from the initial budget proposed in January to the actual income the state receives during the fiscal year, so the funds colleges receive may change, even after the fiscal year is over.

The amount of state funding for community colleges is determined in large part by Proposition 98, which guarantees that roughly 40% of the state general fund is allocated to the public school system and community colleges. The share of Proposition 98 funds for community colleges is negotiated in the political process and of late is driven primarily by the state priorities for each segment; the split has ranged from a low of 9.45% to a high of 12.14%.

### **State Budget Process**

Building the state budget is at least a year-long process involving local entities, state agencies, the Legislature, and Governor.

Each fall, proposals for changes in the state budget for the following fiscal year are submitted to the Department of Finance (DOF) by every state agency, including the Chancellor's Office of the California Community Colleges. These are submitted as budget change proposals (BCPs), and are detailed analyses of needs and proposed solutions and outcomes.

The BCPs for the community colleges are developed by the Chancellor's Office in consultation with state associations and the districts, and are influenced by various interest groups. Department of Finance staff members meet with state agency personnel on each proposal, asking questions and seeking additional data or justification. The DOF makes recommendations to the Governor

in December. The Governor also may meet with agency heads, including the California Community College Chancellor.

By January 10, the Governor presents a proposed state budget to the Legislature. Throughout the spring, the Assembly and Senate hold hearings on the Governor's version of the budget proposal and each develops its own budget proposal.

In May, the Governor releases a revised budget proposal known as the May Revise. This proposal takes into account changes in the level of revenue the state projects it will receive and responds to the debate and advocacy that have occurred since the initial proposal in January. June 15 is the constitutional deadline for the Legislature to submit its proposed budget to the Governor. This budget is a result of negotiations to resolve differences between the Assembly and Senate's adopted budgets. It requires a majority vote to be adopted (Proposition 25 passed in November 2010); consequently budget negotiations have not extended past the June 15 deadline since it took effect.

June 30 is the target date for the Governor to sign the budget. Delays often have occurred due to negotiations between the Governor and Legislature. The Governor may veto ("blue pencil") line items in the budget, but cannot add funds. However, the Legislature may approve "trailer bills," which fund and further refine some items proposed in the state budget.

If a budget is not enacted by June 30, the State Controller is prohibited from distributing funds to some public agencies, including community colleges. While most colleges can operate on reserve funds for a month or two, a prolonged budget impasse could require colleges to cease operations or borrow money until the budget is enacted.

Throughout this process, the Chancellor's Office, state associations, and colleges closely follow the proposed level of state funding.

During the process, the Chancellor’s Office provides projections to the districts based on an “educated guess” about the state budget. Districts develop their proposed budgets based on these projected allocations. However, districts often enter the fiscal year without knowing for certain what their state appropriation will be.

In addition, actual revenues from property taxes and other sources may differ from the state projections and the amounts contained in the state Budget Act. In some years, revenues attributed to property taxes and enrollment fees are less than projected and districts receive less funding than the amount originally appropriated. Therefore, the actual revenue from the state may change during the fiscal year and even after it has ended; the actual amount of state revenue isn’t finalized until the February after the conclusion of the budget year.

### **Local District Advocacy**

The Community College League, the Chancellor’s Office, and other state associations spend significant time and effort to influence the state appropriations process to ensure that colleges have sufficient funds and that the funds are allocated for purposes deemed important by the different interests.

Local districts, led by their governing boards, are important players in the advocacy process. They are effective in two ways. First, they respond to requests for input from the Chancellor’s Office and the League on the priorities for state funding. The League regularly communicates with CEOs, trustees, and other state associations on the Governor’s Budget and legislative proposals.

Second, the League depends on local trustees, CEOs, and college staff to stay in touch with their legislators year-round to assure the visibility of community college concerns. The influence of the colleges depends on local

college leaders who have established good relationships with their elected representatives and staff. (More information on local advocacy efforts is provided by the League’s government relations unit; see [www.ccleague.org/advocacy](http://www.ccleague.org/advocacy).)

### **District Allocations**

Once the state budget is approved, the Board of Governors and Chancellor’s Office calculate the allocations for each district. The allocations are based on revenues from state and local sources, including student fees, as well as monies targeted for specific purposes in the state budget.

The general fund allocations are based on the Student Centered Funding Formula, established in the 2018 Budget Act by Assembly Bill 1809, which amended and added to California Education Code Sections 84750 – 84760.5. This is the third major allocation formula for California’s community college. The Student Centered Funding Formula replaced the enrollment-driven formula established under Senate Bill 361 in place since 2006 (which had previously replaced program-based funding established in 1990). The Student Centered Funding Formula (SCFF) is constructed with three major components:

- **Base Allocation**—Funds are allocated based on current enrollment factors (primarily FTES).
- **Supplemental Allocation**— Allocation determined by the number of students enrolled who receive a College Promise Grant, a Pell grant, or are AB 540 students.
- **Student Success Allocation**— Allocates funds based on the degree to which all students (1) earn degrees and certificates, including ADTs, associate degrees, baccalaureate degrees, and credit certificates; (2) complete key progress milestones, including: transfer-level mathematics and English within their first academic year and/or nine or more

<sup>1</sup> A full time equivalent student (FTES) represents 525 hours of class instruction

CTE units; and (3) achieve key outcomes, including successfully transferring to four-year university or attainment of regional living wage within one year of leaving community college.

>> Each of these success metrics is enhanced by providing districts with additional funding if College Promise Grant, Pell Grant and AB 540 students achieve these outcomes.

Over the next three years, the SCFF will be phased-in and all districts will be “held harmless” where, at a minimum, it will receive resources at least equal to the amounts received in 2017-18. Beginning in 2020-21, all districts will receive at least the per-student amounts received in 2017-18.

Prior to the enactment of the SCFF, colleges were funded under the parameters of SB 361. SB 361 equalized funding across community college districts, so that all colleges receive essentially the same funds for a full-time equivalent student (FTES). Prior to SB 361, colleges could receive widely varying amounts per full-time student. Many elements of SB 361 are still operative under the SCFF. These include:

- Designated a basic allocation for each district, determined by the size of the district and number of colleges and centers. This allocation recognized the fixed costs incurred by an institution (see Table 1).
- Stipulated a uniform funding rate for all non-credit FTES.
- Created the Career Development and College Preparation Program for educationally disadvantaged residents and established a specific non-credit funding rate for this purpose.

- Reformed the calculation of the system-wide budget request for enrollment growth to incorporate factors for state unemployment, age-specific population cohorts, and persistent instances of unfunded FTES.
- A district’s apportionment is based on either the current year or prior year level of funding, whichever is greater.

Table 2 shows the funding rates for the different types of FTES. The rates per FTES are revised annually based on cost of living adjustments (COLA).

Table 1: Basic Allocation

FTES*	Allocation
Single College Districts	
>20,000 FTES	\$6 million
10,000 – 20,000 FTES	\$4.5 million
< 10,000	\$3.5 million
Approved Centers	\$1 million
Multi-College Districts	
>20,000 FTES	\$5 million
10,000 – 20,000 FTES	\$4 million
<10,000 FTES	\$3.5 million
Approved Centers and Rural	\$1 million
<i>*In 2015-16, the rural district “add-on” was doubled.</i>	

Table 2: 2018-19 FTES Rates by Type

SCFF Base Credit	\$3,727
Special Admit/Incarcerated Credit	\$5,457
Non-Credit CDCP (Career Development & College Preparation)	\$5,457
Non-Credit (Regular)	\$3,347

The Student Center Funding Formula

implemented a fundamental policy and practice shift in district allocations. While allocation from the state general fund once depended on enrollment, which varied from year to year based on the economy, employment rates, and other factors, the new formula compels districts to balance its focus between enrollment, enrollment of economically disadvantaged students, and the successful outcomes of enrolled students. Fluctuations in the Base, Supplemental, or Student Success allocations will result in a revenue change for the district's

level of apportionment funding per FTES. Should a district experience decreases, they would have time to prepare for revenue reduction as changes are actualized in the year following the initial year of decrease. Further, districts are held harmless at 2017-18 levels.

### **Budgetary Changes From 2014-15 Through 2018-19**

- Over the last four years, the State Budget Acts have included the following new programs/policies for community colleges:
- Student Equity and Achievement Program - A categorical program which integrated the Student Success and Support Program (SSSP), the Basic Skills Initiative (BSI), and the Student Equity Plans (SEP) into a program that increases achievement for all students with an emphasis on eliminating achievement gaps for students from traditionally underrepresented groups;
- Local Goal Setting Aligned to the Vision for Success - Stipulated that community college district goals must be determined and aligned by the systemwide Vision for Success, adopted by the Board of Governors in 2017;
- Guided Pathways - Established to provide all California community colleges with the opportunity to implement the Guided Pathways framework and funded by \$150 million in one-time funds (Budget Act of 2017) to increase student completion and close achievement gaps through a highly structured approach;
- District Growth Allocation Formula - Set criteria to specify growth rate factors in statute with funds to be used to support the primary mission of the colleges; and
- Career Development and College Preparation (CDCP) - Increased the enhanced non-credit rate to the credit rate. ■



San Diego City College



# Local Revenue & Debt

Colleges rely on state apportionment for most of their funding; the remainder is from other state funds, federal funds, and other sources. “Other state funds” includes allocations for specific programs, grants, and funds for constructing or renovating buildings.

On the local level, districts may raise funds to build and remodel facilities and infrastructure through bond elections. Revenues also come from foundations, fundraising and grants. Partnerships with industry and government also may be a source of financial support.

Boards of trustees are responsible to determine whether and when to seek approval of local bonds for capital construction and set the amount. They set standards for seeking alternative sources of funds through foundations, grants, and partnerships.

## General Obligation Bonds

Funding for major building and facilities development may be sought both from the state funds and through local general obligation (GO) bonds. GO bonds require voter approval,

and boards of trustees have the final say in deciding to hold a bond election. Generally, the district will conduct a survey to assess voter support for the college and the proposed projects. The board and college or district staff balance the funds needed for construction with the amount the electorate is likely to approve in determining the level of the bond. (See Chapter 11 for more information on facilities and bond elections.)

Virtually all recent local bond elections have been conducted according to Proposition 39, approved by the voters in 2000. Proposition 39 requires a 55 percent “yes” vote to pass a bond and specifies the elections (general or special) when bond measures may be placed on the ballot. In addition, colleges/districts are required to tell voters how the bond proceeds will be used and to establish a citizens’ oversight committee to monitor expenditures.

## TASKS FOR TRUSTEES

- Be knowledgeable about all current sources of local revenue.
- Be aware of the level of bond and other debt incurred by the college, the implications for the budget, and promises made on the use of bond proceeds.
- Be aware of the amount of any unfunded liabilities and their associated funding plan.
- Be aware of local labor agreements and the future costs of such agreements.
- Be willing to support seeking funding beyond the state appropriation.
- Set policies for and support the foundation(s) and fundraising efforts of the college(s) and/or district.
- Set criteria for and support seeking grants that further the mission of the district.



*The Community College League offers a number of financing programs, one of which is designed to assist member districts in issuing lease revenue bonds and entering into lease purchase financing. See [www.ccleague.org](http://www.ccleague.org), and click on “District Services.”*

### **Lease Revenue Bonds**

Lease revenue bonds are another option to finance real property (facilities and equipment), which involves selling district-backed bonds to investors and institutions. They do not require voter approval.

The bonds are a form of long-term borrowing in which the debt obligation is secured by revenue produced by the district. Typically, the financing authority constructs the facility, issues bonds, and retains an interest in the facility until the debt is retired. The district is required to make annual appropriations to repay the debt (unlike GO bonds).

Lease-revenue bonds generally pay interest at rates that are higher than rates for GO bonds. The term of the bond is limited to the life of the facility or equipment purchased with the bond. The district is required to maintain a debt reserve fund, insurance, and a capitalized interest account to pay debt service during the construction period until the facility can be occupied.

### **Lease Purchase Financing**

Lease purchase financing is a method used by local governmental entities to acquire equipment and facilities. The use of this method enables a community college district to conserve working capital and can be structured so it is not considered long-term debt.

Lease purchase financing functions as an installment sales contract. It is an alternative to a cash purchase, the more complicated issuance of lease revenue bonds, or a general obligation bond. The interest portion of lease payments may be exempt from federal taxation, therefore allowing the community college district a significant cost savings when compared to conventional commercial financing.

Lease purchases enable districts to acquire equipment such as telephone systems, computer equipment, portable classrooms or administrative facilities, just to name a few, through periodic lease payments comprised of principal and interest.

Lease purchases are often structured as a series of one-year renewable obligations subject to the district’s ability to appropriate funds for the continuation of lease payments. The annual payment constitutes a current expense of the issuer and, in the event that sufficient funds are not available for payment, the agreement may be terminated.

### **Parcel Taxes**

Current law allows community college districts to levy qualified special taxes to all taxpayers with a vote of the electorate. In 2000, California voters passed Proposition 39 to lower the share of votes needed to pass local district bonds from two-thirds to 55%. A district may implement these taxes, for as long as it wants, spend the proceeds for any purpose, and apply any tax rate it chooses. Parcel tax elections must be held on “established election dates,” which means in March, April, or November of an even-numbered year, or March, June, or November in an odd-numbered year. To date, three community college districts have benefited from the passage of a local parcel tax.

### **Foundations & Fundraising**

Baccalaureate level institutions have long depended on grants and private funds as a significant source of income. In recent years, community colleges have significantly increased their use of private fundraising strategies. They have established or expanded foundations to oversee these efforts. They have capitalized on their colleges’ unique roles and contributions to the community to garner increased local support for the colleges.

Foundations are separate entities established by governing boards to raise and administer private funds. They may be established as an independent 501c3 or as an auxiliary organization to the college; each type involves following specific regulations. Boards should maintain close ties to their foundations to ensure that the foundations’ efforts support the policy direction and goals of the district.

Fundraising strategies include raising money for scholarships, establishing alumni associations, implementing planned giving, and holding special events. Gifts may be given directly through the college district or to the foundation. Boards are responsible for accepting gifts on behalf of the district and should have a policy on gifts.

Trustees should be willing to fully support the foundation and its efforts, an important aspect of the board's community relations role.

### **Asset Management**

The assets of a community college district include land, buildings, and intellectual capital. "Asset management" refers to practices that capitalize on and protect these assets.

Land and buildings that are not needed for educational purposes may be used to produce revenue for the district. Districts may lease land or space to businesses or local government agencies. Examples include commercial centers, golf courses, and non-profit or governmental services.

Decisions to manage assets for revenue should address the projected revenue, the length of any leases, the ability to use the land and buildings in the future, and ensure that the use of the land and buildings is compatible with college ownership.

The intellectual capital of the district resides in the talents and knowledge of the faculty, administrators and staff. Boards should adopt policies that clarify ownership of intellectual property. In some districts, faculty ownership of intellectual property is addressed in the collective bargaining process.

### **Grants**

Grants for specific purposes and programs are available from local, state, and federal governments, as well as private companies and foundations. They make it possible for the college to augment and expand its programs and services for students and the community.



Some state grants are "entitlement" grants, awarded to all qualifying districts. Most grants are competitive, which requires colleges to submit proposals for consideration by the granting agency. Successfully obtaining grants requires personnel and resources for grant-writing, implementation, monitoring, and reporting.

Grants provide funds for services, programs and equipment and supplies that are above and beyond state appropriations. They generally have significant obligations and reporting requirements. Personnel who are hired with grant funds may be able to acquire permanent status, and districts can be obligated to continue to employ them after the grant is over.

Governing boards may set standards for the types of grants sought, including that they support goals in the strategic and educational master plans. Boards may be asked to sign off on grant applications or reports. They should be aware of the obligations incurred by accepting a grant, including if there are expectations for institutional support for the program when the grant ends.

## Partnerships

Partnerships with local businesses and governments may generate revenue and support. Business and industry have partnered with colleges to provide funds, space, and equipment for instructional programs and services that serve both businesses and the local community. Colleges have partnered with local government to build joint facilities, such as recreation areas or libraries. Partnerships with K-12 and baccalaureate-level institutions have resulted in shared facilities and programs that enable more students to be served.

The governing board plays an important role in linking with local government officials and community, business, and industry leaders to support and maintain partnership efforts.

## Summary

Districts have a number of options for generating local funds, including bonds and other financing alternatives, foundations and fundraising, asset management, grants, partnerships and other resources. Boards should encourage prudent efforts to expand revenue streams and promote flexibility. ■

## QUESTIONS TO ASK

- In addition to state and federal revenues, what sources of revenue has and should the district be seeking?
- What is the level of long (and short) term debt and does the district have adequate plans and resources to meet its obligations?
- What is the amount of any unfunded liability and does the district have a plan for its elimination?
- What are the future costs associated with approved multi-year labor agreements?
- What can and should the board do to advocate and support partnerships with and funding from the local communities?
- Does the district have sound criteria and systems for seeking and supporting grant and other special funds?
- Is the board aware of how the foundation is spending its money? Does the foundation comply with related laws and board policy?

# Laws, Regulations & Standards

Colleges, as public institutions using public funds, are governed by a number of laws, regulations and standards. Governing boards are responsible to assure that district budgets and fiscal management comply with these laws and regulations. In fact, given the extensive nature of these external controls, a board that understands and monitors compliance with them is fulfilling a significant portion of its fiduciary role.

The Chancellor's Office of the California Community Colleges is the primary agency regulating the colleges. The CCC Board of Governors adopts Title 5 regulations; the Chancellor's Office provides detailed guidance through fiscal advisories.

Additional key standards include:

- Governmental Accounting Standards Board (GASB) statements
- Generally Accepted Accounting Principles (GAAP, used by audit firms to assess financial practices)
- Accrediting Commission for Community and Junior Colleges standards

Other agencies or external groups that are sources of, or recommend standards for, public institutions include the national and state associations of chief business officers, the community college internal auditors' association, and the government finance officers' association. Groups that may provide additional oversight include grand juries, county school superintendents, and citizens' oversight committees for Proposition 39 bond funds.

In addition and as a complement to externally established standards, boards may also set their own local expectations and benchmarks for budgets and management of fiscal resources.

(See Chapter 8 for sample benchmarks and board policies.)

## Education Code and Title 5

Education Code Section 84040 requires the Board of Governors to adopt standards to assess the fiscal condition of the districts. These standards are defined in the California Code of Regulations Title 5, Section 58311, which directs districts to have policies and practices to assure that district operations are sound (Appendix 1). The regulations address district assets, finances, personnel, auxiliary activities, organizational structures, information systems, communication, controls, flexibility, planning, and capital outlay. Additional Title 5 regulations provide more detailed guidance.

Comprehensive guidelines for assessing the fiscal health of the district are defined in Accounting Advisory FS 05-05 (Appendix 2) and discussed more fully in Chapter 9.

## Laws & Standards Related to Faculty

District budget development must take into account key legal criteria and other standards related to employment of faculty. Boards should monitor how their districts measure up to these standards.

## 50 Percent Law

Education Code Section 84362 and Title 5 Section 59200 et seq., require California community college districts to spend, each fiscal year, 50% of the current expense of education for payment of salaries of classroom instructors and

## TASKS FOR TRUSTEES

- Understand the key laws, regulations, and standards that apply to community colleges.
- Seek assurance that the district complies with related laws and regulations when approving budgets and fiscal reports.
- Direct the administration to take corrective action when necessary.

aides. The intent of the statute is to contain administrative and non-instructional costs. Meeting the 50% law can be problematic in that certain personnel and services that support student learning, including counselors, librarians, and those conducting research on student learning outcomes, are not counted within the 50%.

Districts that do not meet the 50% law must seek waivers from the Board of Governors. It is not unusual for small colleges to seek these waivers.

### **75/25 Statute**

The 75/25 statute (Education Code §87482.6) established a goal that 75% of the hours of credit instruction be taught by full-time faculty, with the intention that the Legislature would provide sufficient funds to the colleges to support this level of employment. When funds had not been provided in several years and the percentage of student contact hours taught by full-time faculty was dropping, the Board of Governors, after conferring with the Consultation Council, adopted regulations to require that, in years in which adequate COLA and growth funds were provided, each college must increase its faculty obligation number (FON) by a number set by the Chancellor's Office. Districts that have not met their FON must seek exemption from the Board of Governors or pay a fine.

### **Productivity**

A third standard (not a law or regulation) that influences staffing is the concept of productivity. It is a measure of the number of weekly student contact hours (WSCH) generated by the full-time equivalent faculty measure. Very low student-to-faculty ratios are costly; high productivity generates more revenue compared to expenditures for faculty. A minimum class size of 20 in most disciplines assures a reasonable level of productivity.

## QUESTIONS TO ASK

- Are the CBO and staff responsible for fiscal and administrative operations fully informed about, and do they receive, ongoing training on laws and regulations as they are updated?
- Does the budget indicate the level of compliance with appropriate laws and regulations, such as the 50% law and the Full-Time Faculty Obligation?
- Do reports to the board reference laws and regulations when appropriate?
- Is the district complying with GASB 43 and 45? Has the district conducted an actuarial study to identify the projected cost of retiree health benefits?
- Can the District adequately sustain the cost of ownership of new facilities?

### **Audit Standards**

Audit firms use generally accepted audit standards or principles (GASB or GAAP) to evaluate the district's fiscal condition and management practices. Audits are covered in Chapter 10.

### **GASB Standards**

Fiscal record-keeping standards for governmental agencies are subject to the Government Accounting Standards Board (GASB) requirements. GASB statements are used by audit firms, state agencies, and local boards as criteria for sound governmental accounting practices; they affect the way districts report and account for use of public funds.

GASB 43 and 45 address post-employment benefits (most commonly retiree health benefits). GASB 45 requires colleges to conduct actuarial studies to determine the level of liability they have for future retiree health benefits. GASB 43 requires colleges to report the annual cost of the liability for future retiree health benefits on their financial statements. While neither GASB 43 nor 45 require that districts actually set aside funds for past or future liabilities, they have a significant effect on districts' budgets and how they fund this liability.



Many public agencies, including community colleges, provide an employer-paid health benefit to employees when they retire. In the early 1980's, districts commonly offered lifetime benefits to employees upon retirement, as the cost of this benefit at the time was nominal. Colleges have generally paid for these retiree health benefits on a "pay as you go" approach using funds from the unrestricted general fund.

The cost of retiree pension benefits has risen dramatically over the past decade. Data developed in 2017 determined that the annual community college cost of funding the California State Teachers' Retirement System (STRS) and the California Public Employees Retirement System (CalPERS) would cost districts \$275 and 175 million annually, respectively, by 2022.

Prudent districts are taking steps to fund this liability now and over time, and are investing funds to ensure that these benefits are available in future years. Many districts have discontinued this benefit for some current

and future employees through the collective bargaining process.

Boards should require districts to annually set aside funds in an irrevocable trust fund or other such instrument to assure that monies will be available. The Community College League has created a Joint Powers Authority (JPA) which a number of districts have joined. The JPA has created an irrevocable trust for districts that manages districts' investments and provides funds for the future obligations.

### **Summary**

This chapter highlighted the key laws, regulations and standards that apply to public community colleges. They reflect the public's concern for financial accountability and the desire to ensure that funds are expended in specific ways. Boards should support compliance with the standards, and expect that their CEOs and CBOs are fully cognizant of their impact on college or district operations and budgets. ■

# The Importance of Planning

Being a fiduciary requires balancing current demands with projected future needs. Therefore, responsible boards expect and review district plans for meeting educational and capital needs in the near- and long-term future. They discuss the fiscal implications and sustainability of expenditures to ensure that the district has appropriate reserves and adequate resources to fund long-range goals.

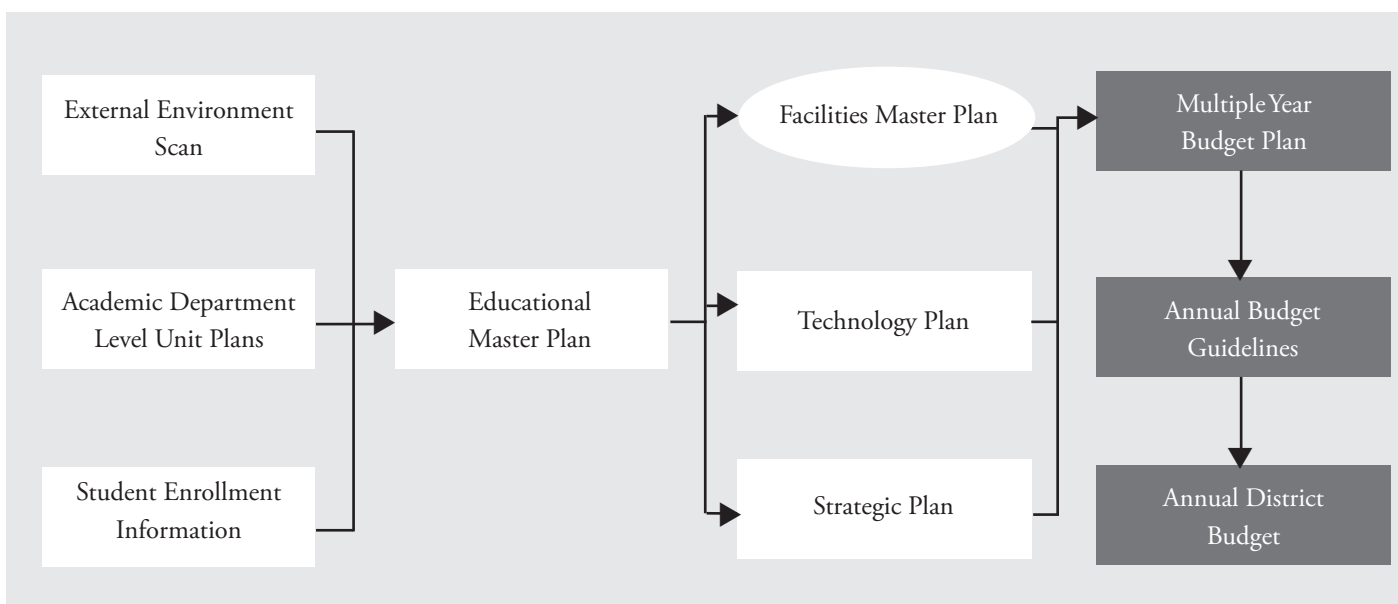
### Types of Plans

Four major types of plans are required or expected by the state law or regulations and/or the Accrediting Commission for Community and Junior Colleges (ACCJC). More specific program plans, such as student equity plans, are also required, and colleges may adopt other types of plans.

The chart below shows a sample college planning process and the links to budget development.

- Educational Master Plan, which defines the academic direction of the college. The planning process considers information from external environmental scans, college programs and divisions, student enrollment trends, and institutional effectiveness data. It describes how the college(s) and district can best meet community and student needs.
- Facilities Master Plan, which identifies the facilities needed to support the district’s educational master plan. It addresses the need for new educational sites, new buildings, and improvements to existing facilities. It includes a five-year capital construction plan and scheduled maintenance. The plan is the basis for seeking local bonds and state funds to support new and renovated facilities.
- Technology Plan, which identifies the technology necessary for instructional and administrative support of the educational master plan. It addresses factors such as information and data systems, phone and

### Typical College(s) Planning Process





internet access, and the human resources needed to maintain technology.

- Strategic Plan, which identifies the strategies to achieve objectives and goals outlined in the educational, facilities and technology plans, and other district obligations and initiatives. Effective strategic planning integrates all plans; it describes the steps to meet the district's goals over a four- to seven-year period. Further, after the passage of AB 1809 [Chapter 33, Statutes of 2018], local strategic plans should also include the adoption of measurable goals that align to the systemwide Vision for Success. Because it identifies the strategies and resources needed, strategic plans are the most useful plan in guiding both the annual budget and long-range budget development.

### **Local Goal Setting and Alignment to the Vision for Success**

In July 2018, the Governor and the Legislature established a new funding formula for the CCCs [AB 1809, Chapter 33, Statutes of 2018]. The legislation also established a stronger link between financial planning and broader educational planning. Specifically, it affirmed that districts must take certain actions, including the adoption of measurable goals that:

1. Are aligned with the systemwide goals in the Vision for Success,
2. Are measurable numerically, and
3. Specify a timeline for improvement.

While districts and colleges may choose to set more goals than the minimum required, district leadership should work together with their district stakeholders to set specific, measurable goals for the following set of indicators:

#### **Completion**

- Completed associate degrees AND
- Completed CCCCO-approved certificates

#### **Transfer**

- Completed ADT degrees OR
- Transfers to UC/CSU

#### **Unit Accumulation**

- Average units earned per completed associate degree

#### **Workforce**

- Median annual earnings of exiting students OR
- Number of exiting students earning a living wage OR
- Percent of exiting CTE students who report being employed in their field of study

#### **Equity**

- Disaggregate selected indicators for those student groups identified as disproportionately impacted the colleges annual Equity Plan

## **TASKS FOR TRUSTEES**

- As a board, periodically review and adopt the district mission, which frames all planning.
- Explore future trends in and needs of the communities served by the district; ensure that planning takes into account these needs and trends, including on-going effects of the pandemic and the need for some flexibility in expected future funding and technology needs.
- Establish policies to guide the planning process, including the expectation that the various plans of the district will be integrated with each other and the budgeting process.
- Thoroughly discuss and understand the financial implications of the various plans.

### **Adopting Goals and Role of Local Boards**

Although colleges will lead the process of setting local goals, boards of trustees will formally adopt each district's goals. To ensure that the goals being set are in line with district needs and priorities, trustees should be engaged in the entire goal-setting process. Board members may attend community forums and student groups as well as participate in conversations with stakeholder groups on campuses. It is the role of the board to balance the interests of many groups and approve goals that are best for students and the community at large both now and for future generations.

Once goals are finalized in collaboration with district and college leadership, boards must include them in a written board meeting agenda and formally adopt them at a public meeting. The written agenda item should include an explanation of how the goals are consistent and aligned with the systemwide goals articulated in the Vision for Success. By using the Local Goals Reporting Form and timeline provided by the Chancellor's Office, boards can assure the district is in compliance with AB 1809 requirements.

### **Planning & Budget Development**

Long-range budgeting addresses both revenues and expenditures. Revenue projections include assumptions about the state's level of support, cost of living increases, enrollment growth or decline, and potential funding sources.

Expenditure projections take into account assumptions related to salary and benefit increases, trends in ongoing expenditures, staffing needs and projected one-time costs.

Each of the plans described contains projects, programs, and activities that have implications for long-range budgeting.

Boards should be able to clearly identify the following in the long range, multi-year budget plan:

- Projected revenues from the state and other sources
- Multi-year contracts with employee groups that have built-in raises
- Annual fixed costs, such as personnel and contracts
- Debt payment schedules, including bonds
- Projected costs of educational programs, including planned changes
- Projected costs for facilities and technology
- Reserves for retiree health benefits, sabbaticals, contingencies, and other specific needs

They should be able to identify funds for each facilities project, by year:

- Projected cost of project, including assumptions for cost increases, changes in maintenance levels, and impact of projects on other budget items
- Projected funding source (state funds, local bond measures, COPS or lease revenue bonds, pass-through payments from a successor agency, general fund, private donations, etc.)

## **QUESTIONS TO ASK**

- Has the board contributed its perspective to the plans early in the planning process? Does the board approve the plans?
- Are the district's plans current? Do they address future trends and needs in the community and uncertainties?
- How are the plans used to guide college budgeting, priorities and decision-making?
- Does our Strategic Plan have measurable, quantifiable goals with a timeline in accordance with the Vision for Success (AB 1809, Chapter 33)?

**Technology budgeting should indicate, by year:**

- Annual replacement and upgrade costs for equipment and software purchase, lease, or contracts
- Infrastructure design and upgrade
- Maintenance needs and agreements
- Staff training and development
- Projected funding source (state Telecommunications and Technology Infrastructure Program (TTIP) funds, local bond measure, Certificate of Participation (COPS) (See glossary for more info) or lease revenue bonds, partnerships with business, general fund)

**The long-range budget to support the educational master plan should indicate the cost of projected new and redesigned programs, by year:**

- New staff positions needed
- Realigning enrollments and faculty workload due to program shifts
- Professional development and retraining of current staff
- Budget savings for program reductions
- Equipment needs (not covered in technology)
- Projected funding sources (general allocation, special state funds, business and community partnerships, grants)

The long-range budget plan includes projections over the next three to five years and clarifies the assumptions on which the projections are based. Gaps between revenues and expenditures quickly become apparent. The CEO and chief financial officer will identify and recommend strategies to close the gap, which usually involves a combination of reducing expenditures and finding new sources of revenues.

**Issues in Long-Range Planning**

Discussions of multi-year fiscal plans include looking at trends in the external environment, future needs, and directions for the colleges. This planning is especially difficult given the unexpected economic distress caused by the global pandemic. Typical questions would include:

**Projected enrollment, equity, and success trends.** The new Student Centered Funding Formula still supports access through enrollment-based funding, but also emphasizes student equity by targeting funds to districts serving low-income students and providing districts with additional resources for not only enrolling these students, but for their success. Key questions include: How much is the community growing? How are the demographics changing? What is the anticipated enrollment in the future? What are we doing to connect student to financial aid? What students will the district serve? Are there groups in the community who are not now using the college who we should be targeting? How will the drastic and unexpected economic downturn affect state apportionment funding? With these current uncertainties with state funding, it may be prudent to budget with hold-harmless plus COLA until more is known. This is a conservative approach that can always be adjusted later in the budget cycle.

**State and regional trends.** What state and other revenues can we expect? What is the economic and political support for community colleges? What other sources of revenues can we seek? What is occurring in our region that will have implications for long-range budgeting?

The impact of collective bargaining agreements, including employee and retiree benefits. What are the implications for future budgets for the increases proposed and/or agreed to in bargaining? What reserves need to be created to ensure support for retiree benefits? Are projected salaries and benefits an appropriate percentage of the budget? What impact do the proportion of salaries and benefits have on the rest of the budget?

**Contract commitments and other long-term liabilities.** What proportion of the budget is committed to long-term contracts, debt service, and other ongoing costs? Will revenues be adequate to support these commitments?

**Facility and maintenance needs.** What new facilities are needed? What are the remodeling and maintenance needs in the next ten or so years? Where will the funds come from to support these costs? Should the district seek approval from the voters for bonds for capital improvements?

**Upgrades and replacement of technology and equipment.** The cost of technology will continue to be significant: what is our plan to continually upgrade and replace technology and instructional equipment? What proportion

of the budget is allocated to maintain currency? Where will the revenues come from to support these ongoing costs? The CARES Act helped support many of the technology needs to change most classes to online for the 20/21 academic year. How will this level of need be addressed in the future?

### **Summary**

Fulfilling the board's fiduciary role involves requiring and reviewing plans that address how the district will meet the educational needs of its communities. The plans make it possible for the district to project long-range budget needs. These projections, along with estimates of potential revenue, enable the board of trustees and district leadership to establish priorities for the best use of public funds. Long-range budget planning provides a framework for the annual budget, discussed in the next chapter. ■

## **Principles & Elements of Budgeting**

### **Principle 1. Establish broad goals to guide decision making**

- Element 1. Assess community needs, priorities, challenges and opportunities
- Element 2. Identify opportunities and challenges for government services, capital assets, and management
- Element 3. Develop and disseminate broad goals

### **Principle 2. Develop approaches to achieve goals**

- Element 4. Adopt financial policies
- Element 5. Develop programmatic, operating and capital policies and plans
- Element 6. Develop programs and services that are consistent with policies and plans
- Element 7. Develop management strategies

### **Principle 3. Develop a budget consistent with approaches to achieve goals**

- Element 8. Develop a process for preparing and adopting a budget
- Element 9. Develop and evaluate financial options
- Element 10. Make choices necessary to adopt a budget

### **Principle 4. Evaluate performance and make adjustments**

- Element 11. Monitor, measure, and evaluate performance
- Element 12. Make adjustments as needed

Source: *A Framework for Improved State and Local Governmental Budgeting*, National Advisory Council on State and Local Budgeting, Government Finance Officers' Association, Washington D.C. 1999.

# Budget Development

On or before September 15 of each year, boards of trustees are required to adopt a balanced budget for that fiscal year. The district budget development process begins many months prior to that action, and the budget will continue to change after that date.

The budget itself is a policy document. The approved budget reflects the values, priorities, and goals of the district. It is the board's policy statement of how funds should be spent and reserved for future expenses. It reflects what the board believes is in the best interests of its communities and the future of the district.

The approved budget provides the basis for managing and monitoring expenditures throughout the year. It is the benchmark against which to measure fiscal performance. Actual revenues and expenditures are compared with budget projections each month; deviations alert the district that adjustments need to be made.

## Calendar

The fiscal year for community colleges is July 1 through June 30. Boards receive and may be asked to approve a budget planning calendar, which reflects the district's budget development process and includes the following two key dates for board action.

1. July 1 is the deadline (set in Title 5) for boards to adopt the tentative budget for the next fiscal year, which provides the district with an operating plan for the next few months. The tentative budget is based on projected state allocations and a tentative ending balance from the current fiscal year.
2. September 15 is the deadline for boards to approve a final budget for the fiscal year. The final budget is based on the official state budget and the allocations from the

CCC Chancellor's Office. The ending balance from the prior fiscal year is also updated and confirmed.

However, the budget commonly changes throughout the fiscal year. The state may change its allocations based on changes in state revenues. Unanticipated events may affect expenditures. Boards will be informed about the changes and may be asked to approve substantive differences.

## Budget Development Process

Colleges usually begin planning for the next fiscal year in the fall but no later than January. The CEO has overall authority for the budget development process and delegates the responsibility to the chief business officer (CBO). (Note: the local academic senate must be consulted on the processes used to develop institutional plans and the budget. The board is not required, though, to rely primarily on the senate's recommendations or reach mutual agreement with the senate on the plans and budget themselves.)

## TASKS FOR TRUSTEES

- Understand the process and assumptions used in developing budget proposals.
- Adopt policies or establish expectations that the budget development process is equitable and open.
- Adopt policies or parameters that the budget will address both long and short-range goals and commitments.
- Adopt policies that the budget will comply with legal and financial standards.
- Study and understand the proposed budget(s).
- Adopt the proposed budget after assessing it against policy criteria and priorities.



*While it is important to be fiscally conservative to protect public funds, too much restraint can dampen growth, innovation, and the ability to offer high quality educational services.*

A typical process considers information from:

- Relevant board policy and parameters (see Chapter 8)
- The district's plans (see Chapter 5)
- The district's long-range financial commitments (e.g. employee contracts, retiree health benefits, debt obligations)
- The results of program reviews from college divisions and departments
- Anticipated staff retirements and need for new staff
- Anticipated state allocations (see Chapter 2)
- Legal and regulatory constraints and standards (see Chapter 4)

Based on these and other factors, the chief business officer, working with other college leaders, will create a set of assumptions about revenues and costs. Revenue assumptions reflect:

- Projected state revenues, including the COLA (cost of living adjustments), growth, lottery, and other funds.
- Revenues expected from federal and local sources, including investments.
- Enrollment projections, since state funding depends to a large extent on enrollment.

Expenditure assumptions include employee contract obligations, construction costs, equipment, scheduled maintenance, changes in educational programs, energy use, changes in personnel costs due to retirements and the like. (More examples are provided later in this chapter.)

The budget development process may also involve one or more of the following practices:

- Programs receive an across-the-board percentage increase or decrease that parallels changes in state revenues.
- Programs or activities that are no longer serving students well may be deleted in order to fund new ones.

- A form of performance-based budgeting may be used, in which departments receive funds for achieving specific objectives, usually related to improving student success.
- Employee union contracts may state that a specified percentage of new funds will be designated for salaries and benefits.

The budget development process involves various stakeholder groups within the district, including faculty, staff, and student involvement as required by Title 5. Most districts have a well-defined process for how individuals, departments, programs and divisions submit budget requests and who is consulted at each phase of budget development. Budget priorities may be set administratively or by committee(s) and/or constituency groups. Many, if not most, colleges have a budget committee with representatives from each constituency, which reviews and recommends the tentative budget to the CEO or administrative cabinet. Multi-college districts typically have a committee with representatives from the colleges, district staff and administration that review budget recommendations. This group typically formulates the allocations model used to distribute district money to the various colleges and reviews this model on a regular basis. The allocation model is approved by the board.

Whatever the process, it should be understood and supported by the board and groups within the college. An open, inclusive process is more likely to result in a budget that is understood and supported by all.

The proposed budget generally includes the rationale for the recommended priorities and why certain needs are not addressed. Given that there are often more fiscal needs than projected revenues, the board may wish to discuss the ramifications for funding some and not others. (A common dilemma occurs when employee union requests for increases in salary and benefits compete with other financial needs of the district.)

Due to the uncertainty of state revenue and some expenditure projections, boards may be presented with alternative budgets that reflect different scenarios. A conservative budget proposal estimates expenditures at a high level and low state revenues. An optimistic proposal might take into account all possible savings and limits on spending, and project revenues at the highest feasible level. While it is important to be fiscally conservative to protect public funds, too much restraint can dampen growth, innovation, and the ability to offer high quality educational services.

Prior to the adoption of the tentative and final budgets, boards usually hold study sessions to review and discuss the proposals. They listen to and consider public comments. They evaluate the validity of the assumptions on which budget proposals are based. And, they use their best judgment in adopting budgets designed to meet the needs of their districts and prudently use public funds.

## CONSTRAINTS ON THE BUDGET

A previous chapter noted laws and regulations that constrain budgets (e.g. the full-time faculty obligation, the 50% law). Local conditions and practices also constrain budget flexibility.

Salaries and benefits comprise, by far, the largest portion of the budget—at least 85% or more. Collectively-bargained contracts and tenure provide protection for both employees and the district, but they also make it difficult to quickly change employment levels to accommodate changes in revenues. State law requires significant advance notice to lay off faculty and administrators: March 15 is the deadline to inform them that they will not be hired the following year.

Other major constraints that limit budget flexibility include long-term liabilities, such as health benefit packages for retirees, leases, vendor contracts, capital construction, and technology and other equipment upgrade and maintenance needs. In addition, insurance, debt service, utilities and other fixed costs limit budgetary discretion.



**Figure 1. Budget Outline**

Following is an outline of a proposed budget and the categories that are likely to be included.

Categories <sup>1</sup>	Current Yr Budget <sup>2</sup>	Proposed Budget <sup>3</sup>
Beginning Balance <sup>4</sup> May be divided into restricted, committed, designated and/or unrestricted funds or reserves.		
Income or Revenue <sup>5</sup>		
Federal		
State		
Local		
Transfers and Other		
Total Available Funds. This is the total amount that the district has to budget for the year and is the sum of the beginning balance and all revenue sources.		
Expenditures by budget category: <sup>6</sup>		
Academic Salaries		
Classified Salaries		
Benefits		
Supplies and Materials		
Operating Expenses & Services		
Capital Outlay		
Other Outgo		
Or, expenditures by type of fund (another way of describing expenditures): <sup>7</sup>		
Unrestricted Funds		
Restricted Funds		
Transfers from reserve and contingency funds		
Reserves		
Unrestricted		
Restricted		
Total all Expenditures and Reserves		
Projected Ending Balance This is the difference between the total revenues and total expenditures.		

1 The budget summary categories listed are the most general. Some budget summaries will contain more detail, particularly in the income/revenue and reserve categories.

2 The figures in this column are the projections of the current year’s revenue and expenditures and are provided to compare current year’s figures with projections for the next year. Budget summaries may also be presented that provide information from past years and projections for future years.

3 The column heading may be “Tentative Budget” after board approval in June and “Approved Budget” once the budget is approved in September.

4 The beginning balance is the “ending balance” from the prior year.

5 The “Fiscal Environment” chapter includes a description of different revenue sources.

6 These categories are standard throughout the state and are based on the Budget and Accounting Manual.

7 Unrestricted funds are discretionary. Restricted funds are either restricted by state law, regulation, or local board action.

**Board Budget Priorities:**

Effective budget development includes board-adopted priorities or parameters that guide the budget development process. These complement and augment board policies that define the board’s role, delegation of authority and standards for the budget development process. (Legally required and advised policies are provided in Chapter 8).

The priorities or parameters are reviewed and adopted annually and guide the budget development for the coming year. They integrate goals from the district’s long-range plans, reflect educational and fiduciary values, and address ongoing operations. The following examples are illustrative only; there is a wide range of possible priorities or parameters.

**General**

- The budget will be balanced using current year revenues.
- The unrestricted reserve will be “x” percent (no lower than 5%).
- No long-term commitments may be made without assurance of revenues to cover them.

**Personnel**

- Provide adequate compensation to attract and retain highly qualified faculty, staff, and administration for the purpose of providing maximum services to the communities served by the colleges. As a long-term priority, the district should seek to maintain salaries and compensation packages at a level that is comparable to other community colleges in the area, or similar community colleges or districts.
- Provide adequate support for professional development opportunities for administrators, faculty, staff, and trustees.



- Explore support for the district to address housing costs that bar prospective employees from pursuing careers at the district.
- Continue to contribute to the fund for retired employees' health benefits.

### **Facilities**

- Continue to implement capital construction projects funded by the bond election. Develop a plan to fund increases in costs not covered by the bonds.
- Address scheduled and deferred maintenance projects and potential funding models.
- Adopt methods to reduce energy costs.

### **Technology**

- Provide funding for on-going training of faculty and staff in the use of technology.
- Upgrade technology to provide for wireless access.
- Continue to expand on-line education opportunities by creating additional degree programs.
- Replace aging equipment in the student computer labs or provide spaces for students to use tablets via wireless access.

### **Education & Student Support**

- Develop, enhance or maintain technology, global education, and other educational programs and services that meet the needs of students, businesses, and residents of the district's service areas.
- Continue to develop and assess student learning outcomes to provide the district with information on student success and to meet accreditation standards.
- Implement recommendations from the previous year's study of enrollment trends and the subsequent development of the enrollment management plan.
- Implement strategies to aid the success of students in developmental writing and math.

## SOME DEFINITIONS

*(See the Glossary for additional information)*

- **Beginning Balance:** The money with which the district begins the year.
- **Revenues:** Income that is expected from state, federal and local sources including specific student fees and fines, interest, non-resident tuition, community services, grants, contracts, etc.
- **Transfers:** Monies that are transferred to and from reserve accounts.
- **Unrestricted:** Revenue and expenditures not limited to a specific purpose.
- **Restricted:** Revenues and expenditures restricted for specific purposes due to law, regulation, or board policy. Funds restricted by board action may be called "designated" or "committed" to differentiate them from those restricted by external agencies.
- **Reserves:** Monies that are set aside for specific purposes or solvency in an emergency, often in the range of 15-20%.
- **Designated Reserves:** Funds restricted for the use for a particular purpose or long-term operating cost.
- **Projected Ending Balance:** The budget includes the projected ending balance, including unexpended and unencumbered monies.

- Increase outreach and recruitment of students in communities not currently well represented at the college.
- Research textbook programs and options to reduce the cost of textbooks to students.
- Conduct program reviews in a selected number of disciplines and integrate the results into the strategic planning processes.
- Strengthen concurrent enrollment programs.
- Understand the funding formula and other required services of the Student Success Act.

### **Business Operations**

- Strengthen the procurement function of the district and implement a procurement system responsive to user needs.
- Review district investment practices and adjust to maximize the return on invested funds.

## QUESTIONS TO ASK

- Has the board adopted parameters or policy guidelines that set standards for budget development? Are they realistic, reviewed annually and updated as needed?
- Do board study sessions and other trustee education ensure that all trustees are knowledgeable about the budget process and documents?
- Does the proposed budget support and implement activities and objectives in the district plans?

Additional sample questions are listed under “Board Review and Approval” on page 30.

- Review district development efforts and seek to maximize opportunities to obtain private funds.
- Review self-funded operations, such as bookstores and cafeterias, to make sure they will continue to be self-sustainable.

### *Public Information & Community Awareness*

- Provide funding for marketing and educating the community to raise the awareness of the residents of the district about the programs and services available at the colleges.

### *Board Review & Approval*

In evaluating the proposed budget, the board should carefully review all projected income and expenditures to make sure that they are realistic. The board should compare the projections against the criteria and assumptions established early in the process. Questions to ask include:

- How does the budget support the vision, mission, and goals of the college(s)?
- Are the assumptions used to build this budget still valid? Have circumstances changed?
- Is the budget balanced? How (with projected income, prior year ending balance, one-time funds)?
- Are there significant changes from last year? What are they? Why are they proposed?
- What is the projected ending balance? Is it realistic?

- How large are the reserves? Are they adequate to cover long term liabilities? Will they cover fiscal extremes or unforeseen emergencies?
- If new programs are proposed, what new personnel are needed? What are facility, maintenance and equipment needs?
- In multi-college districts, does the allocation formula to each college adequately address the college’s needs?

### **Prudent boards also ensure that the budget does not contain the following problems:**

- unfunded liabilities
- long-term commitments funded by optimistic revenues
- too much unfunded enrollment growth
- reductions in projected enrollment or revenue that are not accompanied by reductions in expenditures
- ninety percent or more of the budget designated for salaries and benefits
- five percent or more of current revenues allocated to debt service
- unrealistic revenue projections
- lack of planning for maintenance and upgrading of equipment and facilities
- little connection to long-range plans of the district
- a decline or an abnormal increase in the projected ending balances over a number of years
- lack of differentiation between restricted and unrestricted funds
- unrestricted reserves or ending balances less than 5%
- encroachment of general fund by under-performing enterprise services

### **Budget Changes:**

The budget is a dynamic document, perhaps now even more than in the Great Recession. The budget approved at the beginning of the year is the district's best estimate of projected income and expenditures at that time. It is updated and modified throughout the year as operational and program changes occur. It is important to remember that the state allocation often changes after the final budget is adopted—and the income can go up or down.

Boards should delegate sufficient authority to the CEO to allow for the flexibility needed to make changes to meet unanticipated needs or respond to revisions in income estimates. Boards generally have policies, practices, or other criteria that describe when board approval is needed to change the budget. The criteria specify levels, percentages, and categories of budget change that require board approval; responsibility to make lesser changes is delegated to the CEO.

Trustees, as well as college staff, receive periodic financial reports throughout the year. At a minimum, boards are required to review the quarterly fiscal reports that the district submits to the Chancellor's Office. Boards should receive sufficient notice about any major changes in assumptions, revenues, and major expenditures and have an opportunity to discuss them, particularly those that affect the

ability of the college to meet board policy and priorities.

### **Summary**

The budget is a powerful policy statement—it determines what the district and colleges do to produce successful students. Boards perform their budget responsibilities well when they establish policy criteria and priorities for budgets and the budgeting process, ensure they understand budget proposals, and adopt a budget only after they are assured that it is realistic and leads to achieving district goals. ■



# Fiscal Management

Effectively performing their fiduciary role requires that trustees become familiar with fiscal management concepts and practices used in community colleges. Financial management practices are heavily regulated by the state. The Board of Governors of the California Community Colleges has the responsibility for establishing and updating uniform budgeting and accounting structures and procedures for the colleges (Education Code Section 70901). This responsibility is embodied in the California Community Colleges Budget and Accounting Manual (BAM). Concepts in this chapter are adapted from the BAM and from Kinsella (2006).

In addition, colleges are subject to standards established by the Governmental Accounting Standards Board (GASB) and numerous laws and regulations that apply to all public agencies.

This chapter covers basic government accounting principles, fund categories, and major account definitions. It also highlights common fiscal operations, including purchasing, investments, asset management, and asset protection.

## Governmental Accounting

Governmental accounting is different from commercial accounting. Governmental agencies are not motivated by profits; they are designed to provide services. Most governmental entities, including community colleges, rely on public resources that primarily come from tax dollars. The recipients of services are generally not the individuals who pay the bulk of the taxes used to provide these services.

Instead of an accounting system that tracks profits and the value of goods and services sold to individuals, governmental accounting is designed to assure that public funds (tax dollars) are being used for the purposes for which those funds were provided. This system looks different

to those who are familiar with commercial accounting and its “bottom-line” profit and loss statements.

Governmental accounting is designed to report activities by the source and purposes of public monies and to demonstrate compliance with laws and regulations. The system divides the finances of government agencies into various “funds,” each of which functions as a separate fiscal and accounting entity. The funds are designed to identify resources that are only to be used for specific functions. The “bottom line” in fund accounting is the fund balance. The balance is the sum of revenues, expenditures, and transfers to and from the fund.

For example, a special tax approved to construct buildings will be accounted for in a special revenue fund. The proceeds of those taxes can only be expended on capital projects. The capital projects funded by the special tax will be accounted for in a capital projects fund. Accordingly, no part of the tax revenues and no part of the expenditures resulting from the use of the tax are reported in the general fund.

## Governmental Accounting Standards Board 35

Fund accounting has the effect of compartmentalizing the financial activities of an institution. Therefore, it can be difficult to

### TASKS FOR TRUSTEES

- Have a basic understanding of the district’s accounting systems and financial management practices.
- Understand the regulations and laws with which districts must comply.
- Clearly define when board approval and ratification are required versus when authority is delegated to the CEO.

comprehend the scope of the organization as a whole; fund accounting has resulted in fiscal decisions being made on a micro level rather than on broad strategy.

To provide a more comprehensive picture, the Government Accounting Standards Board adopted GASB 35. The standard requires governmental entities to prepare an end-of-the-year balance sheet that includes revenues, expenditures, fund balances, current assets, investments, capital assets, and short- and long-term liabilities. These financial reports look more like those of private business.

Prior to GASB 35, long-term liabilities and capital assets were not necessarily reported as separate items (they were in the fund accounting structure). Now, governmental agencies must make adjustments at the end of the fiscal year to use accrual accounting methods, which show long-term debt obligations and the value and depreciation of capital assets. The reports more clearly identify the capital assets (land and buildings) of the district, as well as significant long-term liabilities, such as retiree health benefits.

Fund accounting is suited to the twelve-month operating cycle of government agencies; accrual accounting methods are better suited to show long-term liabilities and the value of assets.

### **Fund Accounting**

The California Community Colleges (BAM) defines the funds to be used in community college accounting systems. Each fund is established to account for specific types of transactions.

Once a fund is established to account for capital projects, all capital projects, regardless of the source of funds to pay for them, are accounted for in the capital projects fund. For example, if a state-approved and funded capital construction project is approved for \$10 million, the state will pay 100% of its approved cost. The college district will pay for any costs in excess of the state-approved funding. If the total project

actually costs \$11 million, all costs must be included in one fund so the total cost of the project can be easily determined. The capital projects fund is used for this purpose.

### **Governmental Funds Group**

This category includes the funds used to account for most of the district's operations. Resources in these funds should cover projected expenditures.

**General Fund.** This is the major fund of the district, and it is used to record funds available for support of the overall operations of the district. It includes unrestricted and restricted funds. Restricted general funds are those which, by law, must be used to support specialized programs.

**Capital Projects Fund.** These can be used for capital construction work only.

**Debt Service Fund.** Long- and short-term debt obligations, such as monies to repay TRANs and retiree health benefit obligations (unless the latter funds have been placed on deposit in an irrevocable trust fund).

**Special Revenue Funds.** These are activities that generate their own revenues but are legally restricted and cannot be used to support other operations, including child development funds, revenue bonds and other special revenue funds.

### **Proprietary Funds Group**

These funds function in a manner similar to private enterprises in that all assets and liabilities are considered in the fund balance.

**Enterprise Funds.** These are for activities that provide goods or services to internal and external users, including bookstore and cafeteria funds that are intended to be self-supporting.

**Internal Service Funds.** These are for activities that provide goods and services to internal users only. Operations recorded in this fund are intended to be self-supporting, such as a district's self-insurance fund.



*Boards of trustees who have a basic understanding of regulatory parameters, accounting principles, and key financial management practices are able to fulfill their fiduciary responsibilities to assure adequate management of public funds.*

***Fiduciary Funds Group Trust and Agency Funds.*** These two types reflect funds held on behalf of others. Examples include:

- Associated Students Trust Fund
- Student Body Center Fee Trust Fund
- Student Representation Fee Trust Fund
- Student Financial Aid Trust Fund
- Investment Trust Fund
- Scholarship and Loan Trust or Agency Funds
- Student Clubs Agency Funds

### **Transferring Funds**

It is not uncommon to transfer monies from one fund to another, unless the funds are restricted. Therefore, it is important to track the source of the funds being transferred and the new location for those monies, and to consider the need for the transfer and its future impact.

For instance, in periods of deficit spending, boards may see transfers from long-term debt service funds to the general fund. Essentially, it is similar to an individual borrowing from retirement savings to cover current needs. There is nothing wrong with this practice but if it continues and the general fund revenues and expenditures are not realigned, the governing board may find that it has unintentionally consumed all available resources. To prevent long-term problems with such transfers, some boards adopt a Budget Guideline to prohibit the transfer of funds into the General Fund of any amount more than 2%.

### **Fund Balance**

For Governmental Fund Types, the fund balance consists of three main parts: Fund Balance Reserved, Fund Balance Designated, and Fund Balance Unrestricted. For Proprietary Fund Types and Non Expendable Trust Funds, Other Equity is used instead of Fund Balance. Other Equity consists of the following: Contributed Capital, Retained Earnings, and Investment in Capital Assets.

If a district/college chooses to externally present fund balances, then the district/college would need to comply with GASB 54 (Fund Structure and Classification) and report the following Fund Balances for Government Fund Types: Nonspendable, Restricted, Committed, Assigned and Unassigned.

### **Accounts**

The Budget and Accounting Manual (BAM) defines the accounts to be used by the district. The following provides the general categories and common examples; the complete list is available from the district business office or the CCCCO website. Budget proposals, the quarterly financial statements, and other financial reports will use one or more of these accounting formats.

### **Revenues**

***State revenues*** are divided into general apportionments; general categorical programs such as Extended Opportunity Programs and Services (EOPS), Disabled Students Programs and Services (DSPS), and the Telecommunications and Technology Infrastructure Program (TTIP); other categorical programs such as scheduled maintenance and construction; tax subvention revenues; and non-tax revenues such as the lottery and mandated costs.

***Local revenue*** accounts include the funds collected from property taxes; contributions, gifts and grants; contracts; rents and leases; interest and investments, and student fees and charges.

***Federal revenues*** include funds for career and technical education, student financial aid, and other federal programs.

***Other sources of revenue*** include proceeds from sales of fixed assets, proceeds from the sale of bonds, and inter-fund transfers.

## **Expenditures**

Expenditures are accounted for by activity and by object. The quarterly and annual financial reports required by the state (CCFS 311Q and 311) are organized by both activity and object accounts.

*Expenditure by activity* accounts include instruction, instructional administration and support; instructional support services; admissions and records; student counseling and guidance; other student services; operation and maintenance; planning and general institutional support services; community services and economic development; ancillary services; auxiliary operations; physical property; long-term debt and other financing; transfers, student aid, and other outgo; and appropriation for contingencies (for budgetary purposes only).

*Expenditures by object* accounts reflect the type of expenditure. They include academic salaries (instruction and non-instructional), classified and other nonacademic salaries, employee benefits, supplies and materials, other operating expenses (such as the audit, dues, contract services, insurance, rents, repairs, travel and utilities), capital outlay, other outgo, such as debt retirement, transfers, and student financial aid.)

## **Balance Sheet Accounting**

Balance sheets and financial statements reflect assets, liabilities, and equity. Asset accounts include cash, investments and receivables; inventories and prepaid items; fixed assets, and certain debits. Liability accounts reflect current liabilities and deferred revenues, short term liabilities such as loans, and long-term liability. Equity accounts reflect fund balances, restricted accounts, non-cash assets, funds designated for specific purposes, the unrestricted fund balance, and other equity.

## **Contracts & Bids**

Districts regularly contract for goods and services, ranging from small personal services contracts for a workshop leader to major construction

contracts that cover many years. Contracts are common in purchasing, waste management, energy, special services, auxiliary services, and equipment leasing. Construction involves significant contracts for bond and financial consultants, architects, engineering, construction and construction management, and energy.

The processes and standards for seeking bids and entering into contracts are governed primarily by the Public Contracts and Education Codes. Personal services contracts (generally for consulting) must comply with Internal Revenue Service regulations that define independent contractors. The Public Resources Code applies to waste management contracts. These laws may require boards to have certain policies, which are identified in Chapter 8.

Board policy should clearly state when board approval or ratification is required for contracts. Public Contracts Code 20651 establishes that all contracts over a certain amount (which changes annually) require board approval. Requiring board approval may delay contracting for routine services; therefore, boards usually delegate authority for entering into such contracts to the CEO, who may delegate it to the chief business officer.

When evaluating contracts, boards may check:

- Are the parties clearly identified?
- What is the length of the contract? Is it within legal restrictions (three years for materials and supplies, five years for services)?
- Are the services to be performed, or goods to be supplied, clearly stated?
- What are the terms of payment?
- What are the requirements for insurance and liability coverage?
- Are there adequate default and termination provisions?
- Is the district adequately protected?

## **Insurance & Liability**

Education Code and good practice require that districts, at a minimum, have workers' compensation insurance, protect against fire and other perils, and cover liability for damages for death, injury, or damage or loss of property. The district must also provide insurance that covers personal liability for members of the board and the officers and employees of the district. "Errors and omissions" insurance is designed to cover damages for death, injury to a person, or damage or loss of property caused by the negligent act or omission of the member, officer or employee when acting within the scope of his or her office or employment.

Districts may "self-insure" (establish restricted accounts designed to cover losses), join with other districts in a joint powers agreement (JPA) to provide insurance coverage, and/or purchase insurance from private companies.

Boards should periodically request an audit of, and/or review, a comprehensive report of the level of insurance and protection against liability established by the district. Boards will weigh the cost, deductibles, and the level of insurance against the risks.

### **Investments**

Funds that are not required for immediate district needs are invested. Board policies or district standards set criteria for investments, including the primacy of preserving principal, the level of risk that will be tolerated, the importance of maintaining public confidence, and that sufficient flexibility exists to assure adequate operating funds.

Districts may invest through their County Treasurer's Investment Pool, State Local Agency Investment Fund, or other investments specifically permitted by Government Code Sections 53600 et seq.

### **Purchasing**

These are the processes the district uses to purchase materials and equipment and are governed by law, regulation, and good practice. The public Contracts Code sets the amount for which board approval is required. In general, boards delegate significant authority for day-to-day purchasing in order to promote flexibility and efficiency. Good practice ensures that there will be adequate, but not cumbersome, procedures for approving budgeting purchases within the district.

### **Reserves**

These are amounts held in reserve to fund other appropriation items as may be needed during the fiscal year. Title 5, Section 58307 states:

“Transfers may be made from the reserve for contingencies to any expenditure classification or between expenditure classifications at any time by written resolution of the board of trustees of a district. A resolution providing for the transfer from the reserve for contingencies to any expenditure classification must be approved by a two-thirds vote of the members

of the governing board; a resolution providing the transfer between expenditure classifications must be approved by a majority of the members of the governing board.” Other required reserves include those for debt service on lease purchase and bonds and funds to cover encumbrances. Prudent boards establish designated reserves to fund projected expenses, including but not limited to:

- self-insurance and risk management
- sabbaticals
- maintenance and remodeling
- equipment replacement

Adequate reserves are always important and are even more critical as we move into a COVID induced recession and as the state imposes revenue deferrals. Boards should establish a target reserve or a goal for the level of reserves it wants to maintain. The Chancellor's Office uses 5% as a minimum reserve level, but 15% to 20% is more prudent. The Government Finance Officers Association recommends districts maintain higher balances of no less than two months general fund operating costs, or approximately 17%. Higher reserves are advised during uncertain economic times, escalating fixed cost and pension rate increases, and during times of flat or declining enrollment. A higher percentage or minimum dollar amount may be needed for smaller districts. There is no maximum reserve level, but districts should balance the need to hold funds in reserves with allocating funds to provide the resources needed for current or future operations.

### **Summary**

Managing and accounting for the finances in a public community college is complex and subject to numerous laws, regulations and standards. However, the basic principles are able to be understood by lay people. Boards of trustees who have a basic understanding of regulatory parameters, accounting principles, and key financial management practices are able to fulfill their fiduciary responsibilities to assure adequate management of public funds. They do so, in part, by adopting appropriate policies and setting appropriate benchmarks, described in the next chapter. ■

## **QUESTIONS TO ASK**

- Do the district's accounting systems comply with governmental standards, particularly the CCC Budget and Accounting Manual?
- Do the processes for contracting and bids comply with laws? Does the board have clear standards for when board approval or ratification is required?
- What is the district's investment policy? Does it adequately protect public funds?



# Board Policies & Parameters

**B**oards fulfill their fiduciary responsibilities by adopting policies on, and criteria for, budget development and fiscal and asset management. Board policy reflects and complements the myriad of state laws and other external standards (see Chapter 4) that guide college operations.

This chapter consists of three parallel approaches to board policy. The first section covers common categories and concepts found in board policy manuals. The second covers the policies that boards are required or advised to have, and are based on the League Board Policy and Administrative Procedure Service. The final section is a sample policy that includes examples of specific standards for budget development and fiscal management.

## PART 1: Categories & Concepts

### Conflict of Interest

State law and good practice require that trustees and college employees avoid conflicts of interest in their decision-making. The Government Code and Title 2 of the Administrative Code of Regulations specifically define conflicts of interest, disclosure requirements, and what boards must do to avoid such conflicts. Board policy and administrative procedures will reflect these legal requirements, and may add further protections for the district.

### Delegation to the CEO

The chief executive officer is responsible to make recommendations to the board, carry out board policy and administer the institution. Boards generally delegate responsibility and authority to the CEO to:

- develop the budget in accordance with laws and regulations, board policies, and college priorities;
- efficiently and prudently manage resources; and
- provide adequate and timely information to the board for its decision-making and monitoring.

The chief executive officer will delegate significant authority for these areas to the chief business officer (CBO); however, as the CEO is the only employee of the board, it is recommended that board policy name the CEO (chancellor or superintendent/president) when delegating authority.

### Financial Planning

Policies in the planning and budgeting area require that budgeting is tied to long-range institutional and educational plans, and that key people have appropriate opportunities to participate in budgeting and planning.

Board policies may require that long-range projections of enrollment, revenue, and expenditures are provided to the board. The projections clarify future fiscal needs, establish a broad fiscal roadmap, and identify appropriate reserves. They also help assure the board that projections are realistic when long-term commitments are made, such as multi-year contracts with unions, capital construction, and new program development.

## TASKS FOR TRUSTEES

- Know and understand the laws and regulations that require certain board policies.
- Know and understand the board policies that are related to the board's fiduciary role.
- Periodically review the board policies to ensure they are up-to-date and reflect current conditions and considerations.
- Establish and monitor the board's compliance with conflict of interest and ethics policies.
- Provide direction during unstable times that may require more frequent budget changes to meet student needs.

### **Budgeting & Budgets**

Budgets and the board's role in budgeting were described in a previous chapter. Board policies and expectations may address:

- a target or percentage for the general reserve,
- criteria for contingency and special reserve accounts,
- the proportion of budget to be devoted to salaries, benefits, and/or infrastructure,
- an inclusive budget process that appropriately involves employee groups
- sufficient information to ensure that the board understands the budget and how it supports district goals, and
- sufficient information regarding unfunded liabilities

### **Fiscal & Cash Flow Management**

Fiscal management policies set standards for the appropriate expenditure of funds and the accounting practices used by the district. If adopted by the board, these policies may require that spending is done in accordance with the budget and commonly accepted principles of sound accounting practice.

Wise boards delegate significant authority for expending funds within the approved budget and policy constraints. Once the budget is adopted, boards limit their actions to legally-required approvals and those required by their own policies, such as:

- long-term contracts
- purchases of real property
- major (as defined by the board) equipment purchases or leases
- board travel
- gifts received
- disposal of major property
- claims against the district
- major grants

Boards also may establish broad policy parameters that guide administrative regulations in such areas as payment of debts, payroll, purchasing, bids, and accounting. The standards usually reflect the values that institutional practices are prudent, fair, flexible, and maintain the long-term fiscal integrity and the reputation of the district.

Board policy also may provide guidelines related to seeking alternative financial resources needed to manage the cash flow of the district and fund capital purchases, such as TRANS and lines of credit, revenue bonds, lease purchases and certificates of participation (COPs).

### **Facilities, Asset Protection & Risk Management**

Asset protection and risk management policies speak to the need to adequately maintain, insure, and protect the assets of the district and manage areas of risk. These policies include general standards for protection for the people and property in the colleges and guide decisions as to when to transfer funds, insure, or accept risk. The standards may address:

- liability
- investments
- insurance
- security
- management of debt
- the image of the colleges
- intellectual property
- facility use
- scheduled maintenance
- depreciation of equipment
- buildings and grounds
- limits for deferred maintenance

### **Compensation & Collective Bargaining**

Collective bargaining was authorized in the late 1970's. Most districts negotiate faculty and classified salaries and benefits with employee

unions. (A few districts do not have faculty unions; their salaries and benefits are negotiated through a “meet and confer” process). Board policies address delegation to, authority of, and parameters for, district representatives in the negotiating process.

Boards approve compensation levels, including salary schedules and benefits. They depend on the CEO to recommend salaries and benefits that are fair, equitable, competitive, and which can be sustained given projected revenues. Possible parameters or targets for salaries and benefits are:

- faculty and administrative salaries shall be in the top half of the salary schedules at comparative colleges (or some other criterion)
- classified salaries shall be comparable to public agencies in the region served by the college
- administrative salary and benefit increases shall be similar to those negotiated for faculty unions
- the total cost of salaries and benefits shall not exceed 85% of the total expenditures of the district

## **PART 2: Board Policy Templates**

The following sample board policy statements are those that districts are legally required or advised to have, and the legal reference is included. They are from the League’s Board Policy and Administrative Procedure Subscription Service. The samples were developed by the League’s partner in the service, the law firm of Liebert Cassidy Whitmore.

Boards may (and usually do) add standards and expectations to these minimums, including those noted above. Additions that significantly change and add to the minimums should be reviewed by district counsel to ensure that they comply with law, regulation, System Office guidelines, and auditing standards.

## **Delegation of Authority**

*Reference: Education Code Sections 70902(d); 81655, 81656*

The board delegates to the CEO the authority to supervise the general business procedures of the District to assure the proper administration of property and contracts; the budget, audit and accounting of funds; the acquisition of supplies, equipment and property; and the protection of assets and persons. All transactions shall comply with applicable laws and regulations, and with the California Community Colleges Budget and Accounting Manual.

No contract shall constitute an enforceable obligation against the district until it has been approved or ratified by the board.

The CEO shall make appropriate periodic reports to the Board and shall keep the Board fully advised regarding the financial status of the district.

## **Designation of Authorized Signatures**

*Reference: Education Code Section 85232, 85233*

Authority to sign orders and other transactions on behalf of the board is delegated to the CEO and other officers appointed by the CEO. The authorized signatures must be filed with the county superintendent of schools.

## **Budget Preparation**

*Reference: Education Code Section 70902(b)(5); Title 5, 58300 et seq.*

Each year, the CEO shall present the board with a budget, prepared in accordance with Title 5 and the California Community Colleges Budget and Accounting Manual. The schedule for presentation and review of budget proposals shall comply with state law and regulations, and provide adequate time for board study.

Board policy may include additional criteria, such as:

- The annual budget shall support the district’s master and educational plans

- Assumptions upon which the budget is based are clearly stated
- The calendar for presentation of the tentative budget, required public hearings, board study sessions, and approval of the final budget
- The process for budget development within the district, and for public input into the budget
- The standard for the unrestricted general reserves
- The budget provides for long term goals and commitments.
- Benchmarks to limit expenditures below certain rates
- Periodic review of the allocation funding model in multi-college districts

### **Budget Management**

*Reference: Title 5 Sections 58307, 58308*

The budget shall be managed in accordance with Title 5 and the CCC Budget and Accounting Manual. Budget revisions shall be made only in accordance with these policies and as provided by law.

Revenues accruing to the district in excess of amounts budgeted shall be added to the district's reserve for contingencies. They are available for appropriation only upon a resolution of the board that sets forth the need according to major budget classifications in accordance with applicable law.

Board approval is required for changes between major expenditure classifications. Transfers from the reserve for contingencies to any expenditure classification must be approved by a two-thirds vote of the members of the board. Transfers between expenditure classifications must be approved by a majority vote of the members of the board.

### **Fiscal Management**

*Reference: Education Code Section 84040(c)*

The CEO shall establish procedures to assure that the district's fiscal management is in accordance with the principles contained in Title 5, Section 58311, including:

- Adequate internal controls exist.
- Fiscal objectives, procedures, and constraints are communicated to the board and employees.
- Adjustments to the budget are made in a timely manner, when necessary.
- The management information system provides timely, accurate, and reliable fiscal information.
- Responsibility and accountability for fiscal management are clearly delineated.

The books and records of the district shall be maintained pursuant to the California Community Colleges' Budget and Accounting Manual.

As required by law, the board shall be presented with a quarterly report describing the financial and budgetary conditions of the district.

As required by the Budget and Accounting Manual, expenditures shall be recognized in the accounting period in which the liability is incurred, and shall be limited to the amount budgeted for each major classification of accounts and to the total amount of the budget for each fund.

### **Investments**

*Reference: Government Code Section 53600 et seq.*

The CEO is responsible for ensuring that district funds are invested that are not required for the immediate needs of the district. Investments shall be in accordance with law, including California Government Code Sections 53600, et seq.

Investments shall be made based on the following criteria:

- The preservation of principal shall be of primary importance.
- The investment program must remain sufficiently flexible to permit the district to meet all operating requirements.
- Transactions should be avoided that might impair public confidence.

### **Purchasing**

*Reference: Education Code Section 81656; Public Contracts Code Section 20650*

The CEO is delegated the authority to purchase supplies, materials, apparatus, equipment and services as necessary for the efficient operation of the district. No such purchase shall exceed the amounts specified by Section 20651 of the California Public Contract Code as amended from time to time. All such transactions shall be reviewed by the board every 60 days.

### **Contracts**

*Reference: Education Code Sections 81641, et seq.; Public Contracts Code Sections 20650, et seq.*

The board delegates to the CEO the authority to enter into contracts on behalf of the district and to establish administrative procedures for contract awards and management, subject to the following:

- Contracts are not enforceable obligations until they are ratified by the board. A board member shall recuse him/herself from voting on contracts which would constitute a conflict of interest for the trustee.
- Contracts for work to be done, services to be performed or for goods, equipment or supplies to be furnished or sold to the district that exceed the amounts specified in Public Contracts Code Section 20651 shall require prior approval by the board.

When bids are required according to Public Contracts Code Section 20651, the board shall award each such contract to the lowest responsible bidder who meets the specifications

published by the district and who shall give such security as the Board requires, or reject all bids. A board member shall not vote on a contract if such an action would constitute a conflict of interest.

If the CEO concludes that the best interests of the district will be served by pre-qualification of bidders in accordance with Public Contracts Code Section 20651.5, pre-qualification may be conducted in accordance with procedures that provide for a uniform system of rating on the basis of a questionnaire and financial statements.

If the best interests of the district will be served by a contract, lease, requisition or purchase order through any other public corporation or agency in accordance with Public Contracts Code Section 20652, the CEO is authorized to proceed with a contract.

### **Audits**

*Reference: Education Code Section 84040(b)*

There shall be an annual outside audit of all funds, books and accounts of the district in accordance with the regulations of Title 5. The CEO shall assure that an annual outside audit is completed. The CEO shall recommend a certified public accountancy firm to the board with which to contract for the annual audit.

### **Property Management**

*Reference: Education Code Sections 81351, et seq.*

The CEO is delegated the authority to act as the board's negotiator regarding all property management matters that are necessary for the benefit of the district. No transaction regarding the lease, sale, use or exchange of real property by the district shall be enforceable until acted on by the board itself.

The CEO shall establish such procedures as may be necessary to assure compliance with all applicable laws relating to the sale, lease, use or exchange of real property by the district.

### **Security for District Property**

*Reference: Education Code Section 81600 et seq.*

The CEO shall establish procedures necessary to manage, control and protect the assets of the district, including but not limited to ensuring sufficient security to protect property, equipment, and information from theft, loss, or significant damage.

### **Insurance**

*Reference: Education Code Sections 70902; 72502; 72506; 81601, et seq.*

The CEO shall be responsible to secure insurance for the district as required by law, which shall include, but is not limited to, the liabilities described in Education Code Section 72506 as follows:

- Liability for damages for death, injury to persons, or damage or loss of property.
- Personal liability of board members and the officers and employees of the district for damages for death, injury to a person, or damage or loss of property caused by the negligent act or omission of the member, officer or employee when acting within the scope of his or her office or employment. The CEO may authorize coverage for persons who perform volunteer services for the district.
- Workers' compensation insurance.

Insurance also shall include fire insurance and insurance against other perils.

The district may join in a joint powers agreement pursuant to Education Code Section 81603 for the purposes described in this policy.

### **Disposal of Property**

*Reference: Education Code Section 70902(b)(6), 81452*

The CEO is delegated authority by the board to declare as surplus personal property of the district that is no longer useful for district purposes, and shall establish procedures to dispose of such property in accordance with applicable law. All sales of surplus personal

property shall be reported to the board on a periodic basis. This policy shall not be construed as authorizing any representative of the district to dispose of surplus real property at any time.

### **Capital Construction**

*Reference: Education Code Section 81005, 81820; Title 5, Section 57150 et seq.*

The CEO is responsible for planning and administrative management of the district's capital outlay and construction program.

District construction projects shall be supervised by the CEO. The [designate position] shall monitor the progress of all construction work including inspection of workmanship, completion of work to meet specifications, and the suitability of proposed changes to the scope and original design of the work. The [designate position] shall assure compliance with laws related to use of state funds to acquire and convert existing buildings.

The board of trustees shall approve a five-year capital construction plan as required by law, which shall be submitted to the CCC Board of Governors. The CEO shall annually update the plan and present it to the district's board for approval. The plan shall address, but is not limited to, the criteria contained in law.

### **Civic Center & Other Facilities Use**

*Reference: Education Code Sections 82537; 82542*

Each college is a civic center as provided by law. The CEO shall establish procedures regarding the use of college property, including but not limited to, facilities, equipment and supplies, by community groups and other outside contractors.

These administrative procedures shall reflect the requirements of applicable law, including Education Code Section 82537, regarding civic centers. The regulations shall include reasonable rules regarding the time, place and manner of use of district facilities. They shall

assure that persons or organizations using college property are charged fees authorized by law. Public use of district property shall not interfere with scheduled instructional programs or other activities.

No group or organization may use district property for purposes that discriminate on the basis of race, color, religion, ancestry, national origin, disability, sex (i.e., gender), or sexual orientation, or the perception that a person has one or more of the foregoing characteristics.

### **Citizens Oversight Committee**

(applies only to districts that have passed a bond measure under Proposition 39)

*Reference: Education Code Sections 15278, 15280, 15282; California Constitution Article XIII A Section 1(b), Article XVI Section 18 (b)*

If a bond measure has been authorized pursuant to the conditions of Proposition 39 as defined in the California Constitution, the CEO shall establish a Citizens Oversight Committee in accordance with the applicable law and necessary regulations.

### **Parking**

*Reference: Education Code Section 76360; Vehicle Code Section 21113*

The CEO shall establish such administrative procedures regarding vehicles and parking on campus as are necessary for the orderly operation of the instructional program. No person shall drive any vehicle or leave any vehicle unattended on the campus except in accordance with such procedures.

Parking fees may be established in accordance with board policy on fees.\*

### **Safety**

*Reference: 49 C.F.R., Part 40, 49 C.F.R., Part 655; Title 8, Section 3203; 29 C.F.R. 1910.101 et seq.; Health & Safety Code Section 104420*

The CEO shall establish administrative procedures to ensure the safety of employees

and students on district sites, including the following:

- Compliance with the United States Department of Transportation regulations implementing the Federal Omnibus Transportation Employee Testing Act of 1991. Specifically, the district shall comply with the regulations of the Federal Highway Administration (FHWA) and, if applicable, the Federal Transit Administration (FTA). Compliance with these policies and procedures may be a condition of employment.
- Establishment of an Injury and Illness Prevention Program in compliance with applicable OSHA regulations and state law. These procedures shall promote an active and aggressive program to reduce and/or control safety and health risks.
- Establishment of a Hazardous Material Communications Program, which shall include review of all chemicals or materials received by the district for hazardous properties, instruction for employees and students on the safe handling of such materials, and proper disposal methods for hazardous materials.
- Prohibition of the use of tobacco in all public buildings.
- Emergency procedures to respond to threats on campus as well as natural disasters.

### **Bookstore(s)**

(if applicable)

*Reference: Education Code Section 81676*

College bookstore shall be established and operated by either “the district” or by “a qualified vendor”.

The following is suggested as good practice:

Option 1—If the bookstore is run by the district: Operational costs of the college bookstores shall be paid from revenue earned from the bookstore. Fiscal management of

the bookstores shall be in accordance with the California Community Colleges Budget and Accounting Manual. An annual audit of the records and accounts of the bookstore shall be provided to the board.

Option 2—If a qualified vendor is to provide bookstore services: Contracts for outside vendors to operate bookstores shall be awarded by competitive bid, submitted to the board for approval, and awarded in the best interests of the students. Student organizations shall be encouraged to submit bids and given preference if they meet all other bid criteria.

### **Housing**

*Reference: Education Code Sections 94100 et seq.*

The CEO is delegated the authority to enter into agreements with nonprofit entities to finance the cost of constructing student, faculty, and staff housing near the campus(es) of the district.

### **PART 3: Board Policy Example**

This sample was adapted from Financial Management of a California Community College District: A Resource Guide for Members of Boards of Trustees, by Steve Kinsella, presented at the Effective Trusteeship Workshop, January 27, 2006.\*\* It reflects criteria from Gavilan Community College District's policy, first adopted in 1998.

The example reinforces and goes beyond the minimum standards in the League's sample policies provided above. It describes specific standards for budget development, expenditure controls, revenues, reserve levels, and capital assets. Districts and boards will need to establish percentages and amounts that reflect the unique circumstances in each district.

### **Budget Development**

The annual district budget shall be prepared in conformance with the California Community College Budget and Accounting Manual, and provisions of the California Education Code. The following guidelines will be used in development of the annual operating budget:

### **Budget Standards**

**Total Salaries and Benefits.** Total salary and benefit costs should not exceed [*insert %*] of total expenditures (the percent should be between 80 and 90%: the state average is approximately 85%).

**Salary Rates.** The board of trustees follows a practice of retaining a salary structure that is within the median range of other like agencies. For faculty members, the comparison is made against California community colleges. Classified employees are compared to local public agencies within the college's service area. Administrative employees are compared to California community colleges.

\* Within the limits as adjusted and provided in Education Code 76360. This also applies to all enterprise services such as bookstores, dining services, housing, student transportation, child development centers and student health center.





**New Positions.** Permanent additions to staff levels will be made under the following conditions:

- Increases in full-time faculty personnel required by increased state funding.
- Additional staff that will result in an increase in FTES revenue.
- Inability to obtain part-time faculty within an academic discipline.
- Workload demands resulting from growth and increased volume of work.
- Enhancements to support services necessary to support development of instructional programs, student retention efforts or increased technology.

**Faculty.** A full-time faculty requirement is established for each college based on revenues. New full-time faculty positions will be added to comply with the college's full-time faculty obligation number (FON) as determined by the CCC Chancellor's Office.

**Classified.** Classified employee positions are to be evaluated on a year-to-year basis to determine where additional employees are needed to support student success, the instructional program or to enhance the working and learning environment. Support staffing levels are to be considered when evaluating changes to instructional programs.

**Administration.** Salaries and benefits for administrative employees should be in the range of [*insert percentage here, which will depend on local conditions*].

**Retirement Incentives.** A retirement incentive will be offered only when there are substantial savings available to the college. A retirement incentive is to be an infrequent action.

**Maintenance.** An allocation of a minimum of [*insert %; which will depend on local conditions*] of the Unrestricted General Fund revenues in

excess of permanent staff costs and services agreements will be made each year to preserve and enhance the college's investment in its facilities. These expenditures will be used to address recurring and on-going maintenance needs. In determining work to be performed, the college will refer to the work product of the Educational Master Plan.

**Waiver.** If the financial situation warrants a deviation from the parameters established in the budget policies, the CEO will seek authorization from the board of trustees to waive certain provisions of this policy for any specific fiscal year.

#### **Revenue Standards**

State-funded growth revenue is actively pursued by the district. Growth revenue is viewed as an essential element in obtaining the resources necessary to meet the Strategic Plan goals of providing increasing community access to the college's educational services and in bringing high technology into the classroom.

The college will provide contract education services to meet the needs of the community and to maximize non-state funding.

Categorical and grant revenue provided by state and local agencies for specific support purposes is to be pursued by the college when these services are consistent with the objectives of the strategic plan.

Funding from the college foundation will also be sought to assist in providing funding for specific strategic plan projects.

#### **Reserve Standards**

**General Fund Reserve.** The target reserve is [*insert percentage here. The minimum required reserve is 5%; 10-15%\*\* is not unusual*] of the Unrestricted General Fund up to a maximum reserve of [*insert dollar amount.*] It should be viewed in light of the size of unfunded liabilities.

The reserve is to be used for unanticipated changes in expenditures or revenues as well as provide some capital that can be used to pursue opportunities.

**Other Debt Service Reserve.** Each year [insert appropriate amount] will be allocated to establish a reserve for the Other Debt Service Fund, including unfunded liabilities such as the total projected cost for retiree health insurance.

**Investments.** Cash not needed for ongoing operations will be invested with the County or a Local Agency Investment Fund.

### **Debt & Capital Lease Obligations Standards**

Long-term debt and capital lease obligations will not exceed [insert percentage here, which will depend on local conditions] of total unrestricted general fund revenue.

Long-term debt will only be issued to obtain capital equipment or facilities for which state funds are unavailable or insufficient to meet the cost of these projects. Prior to financing any project, an assessment will be made to define how that project assists in meeting the goals of the district's strategic plan.

Long-term debt revenues will not be used to pay for operating fund deficits.

Capital lease obligations will only be incurred for capital purchases in excess of [insert amount] and will have a lease term of up to five years.

### **Accounting, Auditing & Financial Reporting Standards**

Independent audits will be performed each year as required by law.

Annual financial reports will be produced in accordance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board and the California Community College's Budget and Accounting Manual.

An internal control structure will be in place to ensure reasonable accuracy of accounting

## QUESTIONS TO ASK

- Does board policy include the minimum language that is legally required and advised? (see the samples provided by the League's Board Policy and Administrative Procedures Subscription Service in this chapter).
- Does board policy adequately reflect local conditions and provide sufficient direction for delegation, budget development, fiscal and asset management, facilities, and other fiscal areas?
- Has the board established any budgetary benchmarks to be reported on a regular basis to the board?
- Does the board regularly review its policies and monitor adherence to policy?

information, to safeguard assets from loss and to ensure operating policies and procedures are being followed.

### **Capital Budget Standards**

A five-year Capital Construction Plan will be prepared each year. The Plan will be developed based on facility needs identified in the Educational Master Plan.

Each year the college will allocate a minimum of [insert amount] to the Capital Projects funds to hire professionals for developing capital projects.

A construction management firm will be used as a project manager whenever there is new construction work in excess of [insert amount].

Every ten years, a Facility Master Plan will be revised.

### **Summary**

This chapter provided three parallel approaches to board policy development: concepts that should be addressed; templates for legally required and advised policies along with legal references; and a specific policy example. Each may be used by boards and college staff as a resource for ensuring that the board's policy manual is current and reflects board values and legal requirements. ■

\*\*Since this was written in 2006 for a single college district, percentage, SCFF and other current conditions should be considered.

# Monitoring Fiscal Health

Assuring that funds are spent wisely to support the college mission and that the district is fiscally sound, now and in the future, are key governing board responsibilities.

Boards perform their monitoring role in conjunction with external agencies. The California Community College Chancellor's Office (CCCCO) is charged by the Legislature with monitoring the fiscal health of the colleges. The Accrediting Commission for Community and Junior Colleges (ACCJC) requires that colleges meet standards for fiscal and administrative operations in order to maintain accreditation. Major regulations and standards set by the CCCCCO and ACCJC are covered in Chapter 4, and in the appendices. Boards may add specific expectations and parameters, as described in Chapter 8.

Strategies and tools to monitor fiscal condition include:

- Compliance with CCC Chancellor's Office standards
- Accreditation self-study and visiting team report
- Compliance with board policies
- Regular financial reports
- Annual audit by an external professional audit firm
- An internal audit system

Boards assure that any concerns and recommendations identified through the above strategies are addressed by the college administration.

## CCC System Standards

The Chancellor's Office of the California Community Colleges has the major responsibility for ensuring that colleges meet minimum standards of fiscal health. It has

issued the Self Assessment Checklist for Sound Fiscal Management (Appendix 2) which is an excellent tool to evaluate fiscal health. It addresses:

- Spending patterns, particularly deficit spending
- Fund balances
- Enrollment trends and patterns
- Cash flow and borrowing
- Collective bargaining agreements
- Staffing levels
- Internal controls
- Management information systems
- Position control systems
- Budget monitoring
- Leadership stability
- District liability
- Reporting

## Monitoring

The CCCCCO uses the following required reports and information to monitor the district's fiscal health. The governing board

## TASKS FOR TRUSTEES

- Establish a schedule for regular reports to the board on the district's fiscal condition.
- Review and/or approve reports as appropriate.
- Understand the standards used by the CCCCCO (Appendix 2).
- Understand the financial statements presented to the board.
- Monitor district compliance with related laws, regulations and accreditation standards.
- Hire an external audit firm to audit fiscal and administrative operations of colleges and the district.
- Review the audit report and monitor that recommendations are addressed.

must approve the reports prior to submission. The first two reports are discussed later in this chapter.

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS-311)
- Annual district audit reports (see chapter 10)
- Apportionment Attendance Reports (CCFS-320)

The CCCCCO also may request further information such as debt reports, and evaluate district responses to inquiries about fiscal matters.

#### **CCCCCO Criteria for Fiscal Health**

The CCCCCO reviews districts' quarterly and annual reports. The primary criterion used by the CCCCCO is that districts maintain a minimum prudent balance of 5% of unrestricted funds compared to expenditures from those funds. The assessment includes the unrestricted general funds in academic and classified salaries, benefits, supplies and materials, other operating expenses, capital outlay, and other outgo (including debt reduction).

This minimum prudent level is considered necessary to ease cash flow problems, deal with unexpected cost increases, and other fiscal uncertainties. If a district falls below this minimum prudent level, the CCCCCO will conduct further reviews. The CCCCCO uses the following factors as secondary criteria:

- Analysis of current, historical and projected spending patterns
- Enrollment trends, as measured by number of full-time equivalent students (FTES)
- Commitments for salary and benefit increases compared to projected revenue increases

If the trends and patterns indicate that a district's finances are questionable, and that spending has or is projected to exceed revenues,

the CCCCCO may take further action. It may consider other factors such as a "going concern" audit finding, material internal control audit findings, pending legal actions, and late filing of annual reports.

Any specific follow-up actions depend on the overall assessment of the district's condition and the severity of the possible fiscal problems. CCCCCO follow-up may include:

- Periodic monitoring including reports and written plans
- Management assistance, including monthly reports, written plans, and more involved discussions and monitoring
- Fiscal crisis intervention if the district has not shown progress and is not in compliance with sound fiscal management, which could include direct oversight of the district by the CCCCCO
- A review by the Fiscal Crisis and Management Assistance Team (FCMAT), an organization created to assist schools and colleges with financial difficulties

Details on the standards, reports, and follow-up actions are in the Fiscal Advisory 05-05, included in Appendix 3.

#### **Accrediting Commission Standards**

Colleges are re-accredited every six years, which requires colleges to conduct a self-study using standards adopted by the Accrediting Commission for Community and Junior Colleges (ACCJC). The self-study is followed by a team representing other colleges in the region, which assesses the level of compliance with accrediting standards.

In addition to the six-year cycle for accreditation, the commission annually reviews the 115 community colleges by requesting financial data through an "annual fiscal review questionnaire." Information gathered includes revenue and expenditure history, cash balances, FTES information, Financial Aid Default Rates and long-term debt information including OPEB Liabilities.

This information is used to select colleges/districts for further review by a “Financial Reviewer Team.” This team will review the financial data along with other information such as Chancellor Office reports, audit reports and FCMAT Reports in order to make a recommendation to the commission on how the commission should proceed. Recommendations typically include: continue the regular monitoring, request a special report from the college/district or request the special report along with a follow-up visit by the commission. The purpose of the annual review is to identify colleges/districts that may be heading toward financial difficulties and asking for a corrective plan before the commission is required to take any formal actions.

Accrediting Commission Standards Standard III.D, Financial Resources, contains most of the language pertinent to monitoring fiscal health. (Other sections in Standard III apply to human resources, physical resources, and technology.) Standard III.D begins by stating general expectations:

“Financial resources are sufficient to support and sustain student learning programs and services and improve institutional effectiveness. The distribution of resources supports the development, maintenance, allocation and reallocation, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability.”

The full standard further clarifies expectations for financial planning and management (see Appendix 4). The Accrediting Commission expects colleges to use the specific standards in their financial planning and management systems and to report compliance with them in the self-study.

The accreditation standards have been developed by college representatives in accordance with best practice. Therefore boards can rely on these standards as excellent guides for financial planning and management on an

ongoing basis, not just during the accreditation study. They may be used as resources for setting local board policy and monitoring criteria.

### **Financial Reports**

Key tools for boards to use in monitoring the fiscal condition of the district are the quarterly financial status report, CCFS-311Q, required by the Chancellor’s Office, and the CCFS-311, the annual financial statement. Governing boards are required to review the reports and enter them into the minutes of the meeting. Districts that submit such reports to the board more often may submit those reports on a quarterly basis by attaching them to the CCFS-311Q.

The 311Q provides boards with the following information:

1. Historical and current perspectives of general fund revenues and expenditures in unrestricted and restricted accounts, including the actual figures for the previous three years and the projected numbers for the current year in the general fund revenues, other financing sources, general fund expenditures, other outgo, the contingency reserve, the general fund ending balance and the general fund cash balance (excluding investments).
2. Attendance FTES for previous and current years.
3. The year-to-date general fund (unrestricted and restricted) year-to-date revenues and expenditures, including a comparison of actual expenditures to the budget.
4. The effect of any contract settlements during the time period on increases in salaries, wages, and benefits, and a report of the source of revenues to pay for the increases over the term of the contract.
5. Any significant events that impact the financial status of the district (e.g. debt, legal suits, audit findings).
6. Identification of any significant fiscal problems and how they will be addressed.

## Setting Benchmarks

How can boards use the quarterly and annual reports to assess the fiscal soundness of the district? First, use the criteria in the CCC Fiscal Advisory 05-05 (Appendix 2b) to evaluate if the reports will alert the Chancellor's Office to any problems. Second, consider setting additional or more stringent benchmarks, such as those suggested by William McGinnis, trustee, Butte-Glenn CCD in "Suggested Benchmarks & Questions for Trustees of California Community College Districts: How to Read the Financial Tea Leaves Before Disaster Strikes" presented at the 2006 California Community College Trustees Conference (*see sidebar*).

Boards also should be able to evaluate the fiscal health of their districts over time, including the past five years and projected three to five years in the future. Some suggestions include charts showing trends in:

- Total revenues
- State apportionment over time, including property tax generation, general funds, and funds generated by student fees.
- Revenues per FTES
- Debt load and retirement
- Value of technology support, per student
- Capital outlay and maintenance needs

## Annual External Audit

By law all community college districts are required to have an annual audit conducted by a certified public accounting firm. The audit must be conducted in accordance with generally accepted auditing standards and other federal and state standards. The audit is addressed in more detail in Chapter 10. Other laws and regulations may require performance-specific audits, including an audit of Proposition 39 bond funds.

## Internal Audit Function

Boards may ensure ongoing internal monitoring by establishing policy expectations for an internal audit function designed to provide independent, objective assurance and

## SUGGESTED BENCHMARKS FOR THE 311Q

*William McGinnis, Trustee, Butte-Glenn CCD*

The following benchmarks refer to the quarterly financial report (311Q):

- Does the unrestricted reserve remain at 5% or higher of the total expenditures historically and throughout the year [the minimum percentage may be higher depending on local policy]?
- Is the percentage of increases in salaries, wages and benefits, historically and in new contracts greater than past and conservative projections of future cost of living adjustments (COLA)? If so, how have they been and how will those increases be covered?
- Are there significant variations from year to year in the revenues and expenditures? If so, why?
- In the year-to-date section, does the amount reported in the line item for general fund expenditures exceed by more than 5% the appropriate amount for the quarter (25% for the 1st quarter, 50% for the 2nd quarter, 75% for the 3rd quarter and 100% for the 4th quarter)? If so, why?
- Do the general fund revenues equal or exceed the amount for the general fund expenditures? If not, an explanation of a proposed resolution should be included.
- Do any line items for either expenditures or revenues vary from the amount in the adopted budget by more than 5%? If so, why?
- Is there a deviation in the percentage of the expenditures on salaries and benefits compared to the percentage that was budgeted? If so, why?

The following refer to the annual report:

- The percentage of annual payments for long term debt divided by annual revenues budget should be less than 5%.
- The percent of total unfunded liabilities divided by annual revenues budget should be less than 1%.
- The percentage of the value of deferred maintenance divided by annual revenue budget should be less than 15% (10% in optimum budget periods).
- The percentage of the value of deferred maintenance divided by value of entire plant should be less than 5%.
- The value of projected cost savings divided by actual cost savings for any golden hand-shake plans implemented (always to be in the positive).

consultation to management and the board. The internal audit function is addressed in Chapter 10.

### **A System of Reports**

Boards and the chief executive and business officers should work together to establish a monitoring system that provides regular reports to the board on the following:

- Quarterly reports submitted to the Chancellor's Office
- Annual review of the "Self Assessment Checklist for Sound Fiscal Management"
- Key measures required by law, regulation or other standards
- The level of compliance with the 50% law, by semester
- The progress in meeting the district's full-time faculty obligation number (FON)
- The actuarial projections of the funds needed for retiree health benefits and the plan to fund the need
- Annual review of compliance with Accreditation Standard III.D
- Annual review of compliance with local board policy parameters in budgeting and financial management
- Annual review of long-range plans and budget implications

All board members should understand and be able to evaluate these reports, whether or not the board has a finance committee charged with the responsibility for fiscal monitoring.

### **Summary**

Effectively monitoring fiscal health is a blend of local oversight and reliance on the monitoring conducted by external agencies. Local oversight requires that trustees are knowledgeable about fiscal policy, standards, and concepts. Relying on external agencies requires that boards understand what is expected and the information the district provides. The CEO and chief business officer should work closely with the board to establish a monitoring system that provides clear and succinct information on the fiscal health of the district. ■



## QUESTIONS TO ASK

- Does the district meet the standards in the “Sound Fiscal Management Self Assessment Checklist?” If not, has the board required a plan to address the deficiencies and is it being implemented?
- Does the district meet the CCCCCO’s minimum prudent unrestricted fund balance criterion of 5% or higher established by the board of trustees?
- Does the district comply with generally accepted auditing standards, as evidenced in the annual audit report?
- Does the district meet the standards set by the Accrediting Commission? (see Appendix 4)
- Does the district have systems and controls in place that will detect and prevent fraud from occurring?
- Does the board understand the standards and regulations that apply to the district, and has it augmented them with local board policy when appropriate?
- Does the board review the financial reports?

## THE IMPORTANCE OF PROFESSIONAL EXPERTISE

The fiscal operations of today’s community colleges are highly complex. It is virtually impossible for any one trustee (or group of lay people) to assess the fiscal operations and condition of a college or district on their own. Reviewing budget line items, individual warrants and expenditures is not a reliable way to monitor the fiscal condition or to discover wrongdoing. Fraud and inefficiency are best detected through systematic controls, not individual board members.

Effective boards require a system of checks and balances to prevent and detect fraud and waste. They monitor and review the controls to assure they are working. They capitalize on the expertise provided by external agencies and professional auditors. Boards also ensure their own performance is ethical and accountable. They promote a culture that prevents fiscal waste and misuse of funds.



# Audit Functions

An audit is an official examination and verification of accounts and records, especially of financial accounts. An auditor will examine records or financial accounts to check their accuracy. By law, all community college districts are required to have an annual external audit of their financial status. The board is responsible to ensure this occurs. It sets the parameters for the audit, hires the firm, and receives and reviews the audit report.

The board also may establish policy that provides for an internal audit function. If there is an internal auditor, the board will receive and review periodic reports as part of its monitoring role.

The board may also request and review the results of internal or external audits of other programs and practices, such as an audit of energy use in campus buildings or audits required by granting agencies, federal programs, and state agencies such as the Fair Employment and Housing Agency.

## External Audit

Education Code 84040(b) requires districts to have an annual audit conducted by licensed certified public accountants. The CCCCO requires that the audit be conducted in accordance with generally-accepted auditing standards and other federal and state standards. The external audit is intended to provide an independent assessment of district operations and report to the board.

At a minimum, the audit firm will:

- Examine all funds and account groups of the district to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- Examine financial practices' compliance with laws, rules, and regulations, contracts,

and grants applicable to federal and state programs.

- Consider and evaluate the district's system of internal controls over its financial reporting (Chapters 7 and 8).
- Assure compliance with state and federal requirements (See Chapter 4).

## Internal Audit

Boards ensure ongoing internal monitoring of fiscal management practices by establishing policy expectations for an internal audit function. The internal audit activity assures that the controls are adequate to mitigate risks and assure effective and efficient operations and systems, including the:

- Reliability and integrity of financial and operational information,
- Safeguarding of assets, and
- Compliance with laws, regulations, and contracts.

Internal auditors are professionals who understand the college culture, systems, and processes. Their role is to provide independent, objective assurance and consultation to management and the governing board that the district's operations are sound.

## TASKS FOR TRUSTEES

- Assure that a comprehensive annual audit is conducted of college finances according to law.
- Read and understand the audit report.
- Consider the need for an internal audit function and assure it exists, if appropriate.
- Consider the need for performance audits of other programs and processes.
- Assure that recommendations and concerns identified through audits are addressed.

The internal auditors may also be asked to assist management in identifying strategic risks and identify and provide necessary training to improve business operations and foster ethical conduct.

To be successful, internal auditors need a certain degree of independence. While they may report directly to a chief financial officer, CBO or CEO, they should be able to communicate with the board or board audit committee.

More information about the internal audit function is available from the Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org), and from the Community College Internal Auditors at [www.theccia.org](http://www.theccia.org).

### **Audit Standards**

The audit will be conducted in accordance with generally accepted audit standards and principles, CCCCCO standards, GASB, relevant state laws, and local policies. An approved firm will apply the generally-accepted audit standards and principles.

### **State Audit Standards**

The CCCCCO requires that certain functions, (which are in the CCC Budget and Accounting Manual and subject to change) be audited by the external auditor. Examples include:

- Management information system implementation and required data elements
- Apportionment for instructional service agreements and contracts
- Apportionment for residency determination for credit courses
- Apportionment for concurrent enrollment of K-12 students in community college credit courses
- Apportionment for enrollment fee
- Salaries of classroom instructors (50 percent law)

- Gann limit calculation
- Open enrollment
- Matriculation funds uses
- Allocation of costs for Extended Opportunity Programs and Services (EOPS) and EOPS administrator/director requirements
- Scheduled maintenance program

### **Local Processes & Standards**

In addition to assessing compliance with state standards, an external audit may evaluate local policy implementation related to:

- Security for buildings and equipment
- Asset protection
- Conflict of interest policies and reporting
- Acceptance and use of donations
- Inventory control
- Expenditure controls
- Investments
- Level of insurance
- Internal audit function

### **GASB Standards**

The audit will assess compliance with GASB 35 accounting methods, and with GASB 43 and 45 requiring an actuarial study of the liability for retiree benefits and a plan to fund this liability (see Chapter 4). In addition, GASB 54 is optional for colleges/districts and it relates to Fund Balance Structure and Classification. A college/district would follow GASB 54 if they provide Fund Statements in their audit report.

### **The Audit Firm**

The process of selecting an audit firm begins by defining the expectations for the firm. The district may seek bids for a contract for services or may receive proposals from one or more firms. Generally, this process is managed by the CEO and CBO with input from the board on the expectations and standards. The firm that best meets the criteria is proposed to the board for approval.

The contract for the audit firm may be a multi-year contract or year-to-year. Generally the same audit firm is used for a period of years, capitalizing on the firm's growing familiarity and experience with the district. However, prudent districts either change firms periodically or change partners within a firm in order to obtain a fresh review of the systems and records.

### Scope of the Audit

Annually, the district will work with the audit firm to determine the scope of the audit, which must cover the minimum required by the CCCCO, and compliance with GASB.

The board and CEO will determine which local processes and standards will be included. The board and district may add special focuses, for example: reviewing lawsuits, construction project management, disaster plans, or any leadership turnover and its implications for the stability of the district.

The board and audit committee may meet with auditors before they begin the audit to review the general scope and procedures, particularly if there are any areas in which the board desires a special focus.

### The Audit Report

The auditors will produce a report, which will address the financial reporting system, the financials, and the adequacy of the internal auditing system. It will assess compliance with the minimum requirements established by state and local policy. The report includes a management letter to the audit committee or full board, which will contain recommendations or findings related to areas of concern. The audit firm may also suggest minor procedural refinements to college administration that do not warrant board attention.

The auditor will issue an opinion on the institution's financial statements. An "unqualified opinion" certifies that the financial statements have been prepared in accordance



with generally-accepted accounting principles (GAAP). A "qualified opinion" indicates there are exceptions to following the GAAP and an explanation will be included. The board should discuss the exceptions and provide direction.

The governing board, either through an audit committee or as a whole, reviews the report. The review can take place at a regular board meeting or as a study session. The CEO, CBO and representative(s) of the audit firm will make the presentation and respond to questions. Others involved may include the internal auditor and those responsible for audited functions.

If the audit firm has issued any findings or recommendations in the management letter and report, the board should require and monitor the district's response to the finding.

### Program & Performance Audits

Boards and CEOs may also consider seeking audits of specific programs and processes of the district. For example:

**Lawsuits and legal actions:** An audit of lawsuits brought against the district may identify potential weaknesses in district operations.

**Energy use:** An audit of energy use in campus buildings may reveal opportunities for savings.

## QUESTIONS TO ASK

*From “How to Use a Financial Audit,” William McGinnis, 2006  
Trustee Conference presentation.*

- Was the required annual audit completed within six months of the close of the fiscal year? If not, why not?
- Are the district’s quarterly annual financial reports accurate and easily understood?
- Where is our district financially vulnerable?
- Do our financial management practices comply with applicable laws and regulations?
- Does our district have adequate financial controls in place, including college-level audits in multi-college districts?
- Does our district have an adequate risk management program in place?
- Are there any areas of the audit where district administration and the auditor disagree?
- Has the auditing firm issued any findings in the financial audit? If so, how will the district respond to the findings? Establish a schedule for the administration to report to the board.
- Is the audit of the financial statements modified or unmodified? If the audit is modified, why, and what can be done to achieve an unmodified audit? (Every college/district should aspire to achieve an unmodified audit) (Note: As of FY 2012-13 GASB standards require audits to be classified as “modified” previously identified as “qualified” or “unmodified,” which was previously referred to as an “unqualified” audit.)

The board should also review comments or findings on specific areas and how any issues will be addressed, including:

- Financial accounting and internal control systems
- Attendance tracking and reporting systems
- Compliance with GASB 34, 35, 43, and 45, including the ability to adequately fund liability for retiree benefits
- Unplanned and/or significant increases or decreases in cash flows
- Unplanned and/or significant increases or decreases in the district’s assets
- Ability to meet long-term debt obligations
- Use of bonds for capital improvements, including that they match the financial plan that the district provided to the voters at the time of the bond election
- Actual or the potential for fraud and how the district will respond to the situation

**Conflicts of Interest:** An audit of the financial and business interests of trustees, administrators, and business office staff that may affect their decisions.

**Disaster planning:** An audit of disaster planning may reveal weaknesses in the district’s ability to respond to threats, natural disasters, computer failure, or other crises.

**Succession planning:** An audit of leadership needs may reveal a need for leadership development and/or key executive insurance policies.

In addition to these and other common audit focuses, federal and state agencies and those that provide grant funds may require audits of specific funds or programs. Examples include an audit of the financial aid program procedures and awards, or an audit of procedures that ensure fair and equitable treatment of employees.

### Summary

The annual external audit, required by law, and an internal auditing system are two of the most important tools boards use to monitor the fiscal integrity of the district. Good audits provide assurance to boards that their districts are able to account for the prudent and legal use of public funds. Effective boards expect, review, and understand audit reports and monitor that any problems are addressed.

Effective boards also expect that audits will be conducted of functions other than financial operations. This chapter highlights a number of programs areas where audits are useful. ■

*For further information, see The Audit Committee by John S. Ostrom published by the Association of Governing Boards.*

# Facilities Construction & Maintenance

Community colleges must address needs created by aging buildings, increasing enrollments, technology use, energy costs, sustainability, and new models for creating effective learning environments.

On a statewide basis, enrollment is expected to grow by a pre-pandemic estimated 7.8% by 2022. Almost 65% of campus buildings are over 25 years old and need serious renovation. Technology use requires retrofitting of many buildings. Energy costs call for upgrading buildings to conserve energy (2018-19 Five-Year Capital Outlay Plan, 2017.).

At the local level, districts evaluate how best to ensure that the buildings and grounds promote student learning, including:

- Increased use of existing facilities
- Sharing facilities with business and other educational and public agencies
- Using distance learning and classroom technology
- Designing or remodeling buildings to accommodate flexible use
- Funding new construction, renovation, and maintenance

This chapter first discusses state and local facilities master plans. It then covers the two major sources of funding for capital construction: state funding and Proposition 39 bond funds. The final section addresses the project development process and related issues, including the design and building standards that community colleges should meet.

## Facilities Master Planning

Colleges and districts develop facilities master plans, which are approved by local boards of trustees. In general, planning should be aligned with the following policy-level principles:

- Basing facilities plans on educational master plans
- Ensuring the wise and prudent use of public funds
- Assuring appropriate accountability to local and state stakeholders
- Using open and inclusive decision-making
- Adopting consistent review and approval processes based on accurate and clear information
- Adhering to law and regulations
- Fostering sound business practices and relationships

The California Community Colleges 2018-19 Five-Year Capital Outlay Plan (2017) describes expectations, principles and steps for local district facility master plans. Plans should provide clear vision and a description of the capital needs of the district over time. They should address community needs, long-term goals, delivery systems, capital improvement projects, and priorities. Master plans may address regional planning, including shared

## TASKS FOR TRUSTEES

- Set criteria for and approve local facility master plans.
- Understand what's involved and approve seeking state funding for projects.
- Approve local bond election and the projects to be funded by the bond.
- Appoint and support the Citizen's Oversight Committee (for Proposition 39 funded projects).
- Set criteria for, and approve design, construction and other contracts related to capital projects.
- Provide oversight for the planning and construction phases of any project

facilities with other educational and local agencies and possible private/public ventures.

Master plans should cover a long time frame, at least fifteen or more years into the future, recognizing that facilities generally have at least a fifty-year life span and infrastructure projects may take ten or fifteen years to complete. State-funded construction projects, in a best case scenario, require five years from the initial proposal to receiving construction funds.

The CCCCCO has established a web-based project planning tool to assist districts in assessing their needs. The Facility Use Space Inventory Options Net Project (FUSION) helps districts assess the condition of their facilities and includes other tools to aid in identifying and addressing modernization needs.

Annually, each district develops and submits a five-year construction plan to the CCCCCO, derived from the facility master plan. This plan lists proposed projects in the order of priority, current capacity, and a summary of project descriptions. Based on these local plans, the CCCCCO develops a five-year capital outlay plan for the colleges, submitted to the Department of Finance, which becomes part of the state budgeting process and the Governor's capital outlay plan for all state capital needs.

### **Funding**

There are essentially two sources of funds for facility construction and modernization: local funds, primarily raised through bonds, and state funds, allocated through an application process.

The facilities master planning process forecasts the funds that are needed. The plans address the costs of furnishing and maintaining new facilities, as well as potential energy costs or savings. Boards and administrators determine whether the district should seek approval for local bonds and/or seek state support. Some

projects, such as bookstores, parking lots, cafeterias, and stadiums are not eligible for state funding.

The CCCCCO encourages some local support for all projects in order to further stretch limited state dollars.

### **Local Funding: Proposition 39 Bond Funds**

In recent years, virtually all local funds for construction have been raised through Proposition 39, approved by the voters in 2000. The following description is excerpted from the League of Women Voters *California Education Fund Proposition 39 Analysis*, 2000.

Proposition 39 changed the State Constitution to lower the threshold for voter approval to 55 percent (from a 2/3 majority requirement) for bond measures for school facilities in a local election. It provided for repayment of the bonds by allowing property taxes to exceed the Proposition 98 one percent limit.

Proposition 39 constraints for local bond measures include:

- a requirement that the bond funds will be used only for construction, rehabilitation, school facilities, equipment, or the acquisition or lease of real property for school facilities.
- a list of specific facilities to be funded and the board's certification that it has evaluated safety, class size reduction, and information technology needs in developing the list.
- a requirement that the board conduct annual, independent, financial and performance audits until all bond funds have been spent to ensure the proceeds have been used only for the specific projects listed in the measure.

Additional legislation added the following criteria to Proposition 39 bond funds:

- Two-thirds of the governing board must approve placing a bond issue on the ballot.

- These bond measures can only be placed on the ballot for a regularly-scheduled local election or a statewide primary, general or special election.
- The tax rate levied by any single bond election can be no more than \$25 per \$100,000 of taxable property value for a community college district.
- A citizens' oversight committee must be appointed to make sure the money is properly spent.

Boards approve a bond election after careful study. Generally, the district will conduct a survey to assess voter support for the proposed projects and the level of bond funds they will approve. Well-run districts with high-performing boards are more likely to receive voter support for future significant bonds.

The bond measure contains the list of projects to be supported by the bond. This list is based on priorities from the facilities master plans and is developed based on that district's needs and the amount voters will support.

The next step is the campaign for voter support. District funds may not be used for the campaign; independent campaign committees are formed to raise money through donations. Successful campaigns rely on support from board members, administrators, faculty groups, community leaders, and local business.

Boards and districts often rely on outside experts to campaign for, and manage, financing and selling the bonds. An essential member of the team is the bond counsel, who will ensure that the campaign, financing structure, and bond documents comply with all laws and regulations, including tax laws. If the election is successful, the district may contract with other consultants such as a financial advisor and/or underwriter connected with a bank, investment-banking company or consulting firm.

## 2019-20 CAPITAL OUTLAY PLAN & FUTURE NEED

The infrastructure used to facilitate the educational programs and administrative operations across California Community Colleges includes more than 24,525 acres of land, 5,920 buildings and 87 million gross square feet of space that includes 54 million assignable square feet of space. The Five-Year Capital Outlay Plan submitted by the CCCCCO to the Department of Finance identifies approximately \$42 billion of unmet need over the next ten year. The 2019-20 plan includes 187 projects totaling \$1.8 billion. These projects include 59 state-funded projects at \$880 million (\$555 million of state funding; \$325 million of local funding). The remaining 128 projects are funded locally by districts at an additional \$1.8 billion.

Since the passage of the Smaller Classes, Safer Schools, and Financial Accountability Act (Proposition 39), voters have approved a larger share of local bond measures. In the current Capital Outlay Plan, 86 percent of projects proposed for 2019-20 provide for a local contribution. This reflects a local "system" contribution of 46%. Additionally, many districts construct projects using only local funding.

In November 2016, California voters approved *funding for a K-12 and Community College Facilities* Bond. This measure authorized the sale of \$9 billion in GO bonds, including \$2 billion for community colleges.

Steps after a successful bond election include that the board and district (adapted from Harrington, Hartenstein and Field, 2005):

- Appoint the citizens' oversight committee according to the criteria established in the Education Code. The committee is responsible for assuring bond funds are properly spent.
- Adopt a board resolution authorizing the issuance and sale of the bonds, with the total amount within the debt limits established in law.
- Sell the bonds. Bonds may be sold through either a negotiated or competitive sale. In negotiated sales, districts work with one underwriter firm or investment bank to sell the bonds. In competitive sales, districts

▼  
*High quality design and construction results in high quality learning environments and prevents long-term problems.*

offer the bonds to multiple investors at a public sale.

- Deliver the bonds and deposit the bond funds appropriately.
- Assure that the county levies the appropriate tax to repay the bonds.
- File the appropriate reports, including an annual report to the governing board.
- Assure that the citizens' oversight committee issues regular reports.

Annual performance audits are required by Proposition 39 to assure the public that the funds are expended in accordance with the bond measure. The specific items to audit are determined by the district and citizens oversight committee and may include, but are not limited to: compliance with ballot language; the bond management plan; design and construction schedules and costs; compliance with state laws and regulations; bid and procurement procedures; change order and claim procedures; quality control and inspection; and comprehensive communication systems.

Local funding options other than Proposition 39 bonds include lease revenue bonds, private donations and more, and are covered in Chapter 3.

### **State Funding**

State funding comes primarily from state bond funds, approved by voters in statewide elections. Currently, there are no state funds for new projects because all existing state bond funds for community colleges have either been spent or are committed to projects. Future state bonds will be needed to continue to support the need.

Districts go through a two-step process to apply for state funds to support local projects. The first step is the Initial Project Proposal, a three-page concept paper. The CCCCCO reviews and approves the initial proposal to determine if it could be included in the state capital outlay plan. Approval is contingent, in part, on the district's ability to show the need for the new

project given the capacity and adequacy of current facilities, enrollment projections and projected future uses of the new facility.

If the Initial Project Proposal is approved, districts complete the second step of developing a much more extensive Final Project Proposal (FPP), which is reviewed by the CCCCCO and submitted to the Board of Governors for approval. The FPP provides a justification for the project, budget detail, the relationship of the project to facilities and educational master plans, and why there are no viable alternatives to state funding.

Project scope approval is contingent upon meeting BOG criteria for prioritizing capital outlay projects. Eligibility is determined and guided by Education Code, Title 5 regulations, and the *CCC Facilities Planning Manual*.

The level of state funding is allocated in part using space standards described in Title 5 Sections 57020 through 57033. "Capacity" is the amount of enrollment (weekly student contact hours) that can be accommodated by an amount of space, which is defined in terms of assignable square feet. Different programs have different space needs, which are defined in the regulations.

Funds are allocated according to the following priorities adopted by the Board of Governors. The vast majority of funds are allocated to categories A through C. Consideration is also given to projects that are cost efficient and increase energy savings.

- A. Urgent projects that address life and safety concerns; reduced potential for liability, and needed equipment to complete projects
- B. Increase institutional capacity
- C. Modernize institutional space
- D. Complete campus concept
- E. Increase institutional support services capacity
- F. Modernize institutional support services space



If approved, the projects are included in the CCC Five-Year Capital Outlay Plan submitted to the Department of Finance. Projects are listed in priority order; available funds are allocated to projects with the highest priority. Projects that are not funded in one year will “move up the list” for funding in subsequent years.

Following is a “best case” timeline for receiving state capital outlay funds.

Year 1: Initial Project Proposal

Year 2: Final Project Proposal, which is then evaluated and ranked by the Chancellors Office

Year 3: If ranked highly enough, included in state capital outlay plan

Year 4: If approved, funds allocated for initial design

Year 5: If approved, funds allocated for construction

### **Bids & Contracts**

The most common method for project development is “design-bid-build.” Architects design the project under one contract, and the project is built by general contractors through a second bidding process and contract. Other methods include phased projects (multiple designs and bids for different phases), multiple contractors (instead of a general contractor), joint venture and shared facilities, and leased or temporary buildings.

A “design-build” process allows districts to enter into a single contract with a team of architects and builders to both design and construct a project, which yields greater efficiencies.

Advertising for, and screening of, candidates for the planning, designing, project management, developing and constructing facilities is conducted by college administration in an open and inclusive manner. Districts have the right to seek participation by minority, women, and

disabled veteran businesses, as well as local firms.

Boards may set policy criteria for the contracting process and approve the contracts for the design, engineering, and construction firms. Prime considerations are the qualifications and experience of the firms to assure that projects are completed in a timely manner with quality results.

### **Project Management**

Overseeing the planning and construction of facilities is complex. Districts either designate or hire staff as project managers, or may contract with experienced professionals.

The project manager(s) is (are) responsible for ensuring that all phases move smoothly: planning, design, document development, contracting (bids and awards), construction, follow-up and transition to the facilities management unit. Project managers help ensure that all required regulations are adhered to and reports submitted.

A project management team may be created that might include the project manager(s), educational representatives, facilities planner, maintenance and operations representative, architect, engineer, and construction manager.

### **Budget Management**

Boards should monitor that budget projections for facilities are realistic and that the design and construction phases progress on schedule. In recent years, managing the budgets has had significant challenges due to inflation of construction materials and costs. Local districts bear all the costs related to inflation: the state only funds the amount initially approved in the state budget capital outlay appropriation.

### **Standards**

High-quality design and construction results in high-quality learning environments and prevents long-term problems. Using designers, architects, engineers, and contractors with good reputations and track records helps ensure high quality. Alert inspectors and project

managers will prevent short cuts and other problems. Boards should expect that the college administration and project management firm work together closely and maintain a strong presence throughout the project development.

State and locally-funded projects must consider and meet a myriad of standards. The CCCCCO considers these in assessing local district plans. Local boards must be aware of and assure that projects are developed in accordance with state and local laws and regulations. In addition, they may wish to adopt and rely on voluntary standards, including those related to energy use. Required and voluntary standards include:

- Standards related to use of state funds
- State and local building and land use codes and restrictions
- Americans with Disabilities Act
- California Environmental Quality Act (CEQA) and local air quality standards
- Safety and security concerns, including use of hazardous material
- Attractiveness and flexibility for learning
- Technology and telecommunications use
- Leadership in Energy and Environmental

Design (LEED) standards (see energy use below)

- Environmental impact, may include required environmental impact studies, including building near waterways, airports, the coastline, and other environmental issues
- Standards for specialized use, such as child care centers and health facilities
- Historical building codes.

Given the specialized nature of some standards, districts may seek specialized testing and inspection of certain aspects of the project.

### **State Regulatory Requirements**

Project design and construction are subject to a myriad of regulations, including the California Building Code, Field Act, Uniform Building Code and others. Colleges must comply with the codes by sending completed construction documents to the Division of State Architect (DSA), which will review them for compliance with structural safety, accessibility, and fire safety.



## QUESTIONS TO ASK

- Does the district have a current, board-approved facilities master plan that clearly identifies the facilities needed to meet the goals in the educational master plan?
- Are the resources needed for construction clearly identified? What are the options for obtaining funding?
- Do the plans and projections address all related needs: facilities, infrastructure, accessibility, landscaping, security, staffing, maintenance, storage, etc.?
- What information is needed related to the decision to hold a bond election? What should be done to be successful?
- Should the district apply for state funding to support its capital construction needs? How can we ensure that we are successful? How are our projects ranked on the state's list?
- If the district is using Proposition 39 bond funds, is it in compliance with the provisions of Proposition 39? Is our Citizens' Oversight Committee operating effectively? Does the district have the appropriate expertise on staff or through contracts to sell the bonds and manage the bond funds? Is there an annual performance and financial audit of these funds and projects?
- Are the board's policy criteria and bidding and contracting processes resulting in the best contracts for the district, with reputable firms that have the resources to complete the work?
- How is the district managing the capital outlay projects? Are the right people in place to assure high-quality design and construction? Are the project managers able to assure that all phases move as smoothly as possible?
- Is the district complying with all relevant regulations and standards?
- Is the board receiving regular reports on construction progress, including budget implications?
- Have the district and board addressed technology issues, energy conservation and other sustainability issues in new construction and renovation?
- Are there sufficient plans for furnishing and maintaining new and renovated buildings, including long-range budget and staffing implications?

The CCCCCO and the DSA have developed a concurrent code review procedure to facilitate the approval process. Colleges are required to have a DSA-approved inspector on major capital construction and Americans with Disability Act projects.

The Field Act, first adopted in 1933, required all K-14 buildings to meet building standards designed to resist damage due to earthquakes. The 2006 Bond Act (AB 127) gave community colleges the option for buildings constructed or modified after January 1, 2007 to be built according to the Field Act or the California Building Standards Code. The CCCCCO drafted alternative processes and guidelines for meeting building standards and seeking approvals from either the Chancellor's Office or DSA.

### **Energy & Resource Conservation**

Renovated and new buildings that are designed to save and/or produce energy and conserve resources both save money and contribute to sustainable communities. Districts may choose to follow national standards known as LEED (Leadership in Energy and Environment Design) by hiring architects, engineers, and construction firms that are LEED-qualified. Considerations include energy-efficient buildings, alternative energy sources, water-efficient landscaping, and use of recycled and local materials.

### **Construction Management**

Managing the construction of the project involves awarding the contract, ongoing oversight of the process, quality control, testing, and inspection. It also involves administering contract changes and negotiating and resolving disputes. The contracts should be written to protect the district against all possible problems.

The construction management team may include the district administrator, project or construction manager, architect or engineer, inspector (approved by DSA), any special

testing consultants, educational (user) representative(s), and the contractor's site superintendent.

A contractor will submit a construction schedule for administrative approval. Once it is approved, delays due to the district will incur extra costs. The district may claim costs or damages for delays due to the contractor.

"Change orders" are any changes made to the signed contract; minor ones are not unusual as unanticipated problems and issues arise. Careful drafting of contracts helps prevent major change orders, including those that involve changes to indirect costs, such as program management oversight. Changes in excess of 10% of the value of the contract must be approved by the board.

The contractor generally owns the job until it is completed and turns it over to the district. The district representative and the contractor review the project and generate a "punch list" which is a list of items to be completed, often after the building is in use.

### **Technology**

Technology and telecommunications are prime considerations in virtually every facet of community college operations. Infrastructure development and equipment will be part of facility renovations and building; almost all classrooms, learning spaces and offices require technology to support teaching, instructional support, student services and administrative functions. Given the ongoing changes in technology use and resources, flexibility must be designed into all capital projects. Other issues often addressed in facility and strategic planning processes include technology network and data security, wireless accessibility and open source development.

### **Maintenance & Furnishings**

New buildings require new furniture and decor. New buildings, landscaping, and technology

require additional staff for maintenance and support. The planning process should project the furnishings, equipment and staffing levels that will be needed for new and renovated building. The long-range budget plans should identify the revenues that will be needed and potentially available for these resources. Additional staff may need to be hired, and current staff will need to be retrained.

### **Summary**

Building new buildings and renovating current facilities are exciting, challenging endeavors, and involve a myriad of legal and technical issues. Effective boards establish and monitor policy-level standards to assure that planning for, funding, and constructing facilities are conducted thoughtfully and professionally. They require that facility plans are based on educational plans and respond to community needs. They understand both the state and local funding processes and support district advocacy for state funding and local bond campaigns. They assure, through the contracts they approve and their expectations for oversight, that projects are managed prudently and professionally. They celebrate accomplishments; they know that a key board role is to ensure that the right facilities will exist to educate the students of the future. ■



# Glossary of Financial Terms

The following are common terms used in community college budgeting and financial management. For additional information, contact the district CEO and chief business officer (CBO).

**75/25 Ratio.** The goal established by AB1725 for the ratio of classes taught by full-time faculty to those taught by part-time faculty. Districts not at the 75% level have an obligation to make progress toward the goal—the “full-time faculty obligation number (FON)” —when funding is provided.

**Accounts Payable.** Accounts due and owing to persons, business firms, governmental units or others for goods and services not yet paid.

**Accounts Receivable.** Amounts due and owing from persons, business firms, governmental units or others for goods and services provided, but not yet collected.

**Accrual Basis.** The method of accounting that recognizes revenue/gains and expenses/losses in the accounting period in which the transactions occur regardless of the timing of the related cash flows. (Contrast with cash basis.)

**Actuarial basis.** A basis used in computing the amount of contributions to be made periodically to a fund or account so that the total contributions plus the compounded earnings will equal the required payments to be paid from the fund.

**Allocation.** Division or distribution of resources according to a predetermined plan.

**Allocation Funding Model.** A basis used to distribute funds among colleges in a multi-college district.

**Apportionment.** Federal, state or local monies distributed to college districts or other governmental units according to legislative and regulatory formulas.

**Assessed Value.** The value of land, homes or businesses set by the county assessor for property tax purposes. Assessed value is either the appraised value of any newly built or purchased property or the value on March 1, 1975 of continuously owned property, plus an annual increase. This increase is tied to the California Consumer Price Index but may not exceed 2 percent per year.

**Assessment District.** A geographical area—similar to a school, water or college district—created by residents to pay for special projects, such as capital improvement programs.

**Asset Management.** Managing assets, such as excess district property or facilities, to reduce costs or generate revenue. Common examples are golf driving ranges and leased property for private development.

**Audit.** An examination of financial statements and related documents, records, and accounts to determine the propriety of transactions, whether transactions are recorded properly and whether statements drawn from accounts reflect an accurate picture of financial operations and financial status. Audits may also include reviews of compliance with applicable laws and regulations, economy and efficiency of operations and effectiveness in achieving program results. The general focus of the annual audit conducted on the district is usually on financial statements and compliance with certain regulations.

**Audit Report.** The report prepared by an external or independent auditor. As a rule, the report includes: a) a statement of the scope of the audit; b) explanatory comments (if any) concerning exceptions by the auditor about application of generally-accepted auditing standards; c) opinions; d) explanatory comments (if any) concerning verification procedures; e) financial statements and schedules; and f) statistical tables, supplementary comments, and recommendations.

**Auditor's Opinion.** A statement signed by an external or independent auditor which states that she or he has examined the financial statements of the entity in accordance with generally accepted auditing standards (with exceptions, if any) and expresses an opinion on the financial position and results of operations of some or all of the constituent funds and balanced account groups.

**Auxiliary Operations.** Service activities of the college, the finances of which must be accounted for separately. Food service, bookstores, dormitories, and certain types of foundations are examples of auxiliary operations.

**Backfill.** Funds allocated by the Legislature to make up for revenues (e.g. student fees, property taxes) that were projected but not received in a fiscal year.

**Balance Sheet.** A basic financial statement that shows assets, liabilities, and equity of an entity as of a specific date, in accordance with GAAP.

**Base Year.** A year to which comparisons are made when projecting a specific condition.

**Basic Aid Districts.** There are currently (2015-16) nine districts in which the property tax revenues generated in the district are equal to, or greater than, the state allocation amount generated through the state apportionment formula/revenue limit. They receive the amount of the revenue generated from local property tax and fee revenues, and are known as "basic aid" or "community supported" districts. See Title 5, 58770(a)(2).

**Block Grant.** A fixed sum of money, not linked to enrollment measures, provided to a college district by the state and useable for any program/students.

**Bonds.** Investment securities (encumbrances) sold by a district through a financial firm to raise funds for various capital expenditures. A written promise to pay a specified sum of money (the face value) at a specified date or dates in the future (the maturity date(s)) together with periodic interest at a specified rate.

**Bonded Debt Limit.** The maximum amount of bonded debt for which a community college may legally obligate itself. The total amount of bonds issued cannot exceed a stipulated percent of the assessed valuation of the district.

**Budget and Accounting Manual (BAM).** Approved by the Board of Governors, this manual defines, establishes, and maintains the budgeting and accounting structure and procedures for the California Community Colleges (Title 5 Section 59011)

**Budget Document.** A written statement translating the educational plan or programs into costs, usually for one future fiscal year, and estimating income by sources to meet these costs.

**Budget Act.** The legislative vehicle for the State's appropriations. The Constitution requires that it be approved by a majority vote of each house and sent to the Governor by June 15 each year. The Governor may reduce or delete, but not increase, individual items.

**Budget Change Proposals (BCPs).** Documents developed by the Chancellor and provided to the Governor to request changes and increases in the amount of money the state provides to community colleges.

**Capital Appreciation Bond (CAB).** A bond which pays no interest on a periodic basis, but increases in value from the date of issuance to the date of maturity.

**Capital Outlay.** The acquisition of, or additions to, fixed assets, including land or existing buildings, grounds improvements, construction of buildings, additions to buildings, remodeling of buildings, or equipment.

**CARES Act.** The Coronavirus Aid, Relief, and Economic Security Act or, CARES Act, was passed by Congress and signed by President Donald Trump on March 27th, 2020. Approximately \$14 billion was allocated to institutions of higher education to use up to 50 percent of the funds they receive to cover any costs associated with significant changes to the delivery of instruction due to the COVID-19 pandemic.

**Cash.** An asset account reflecting currency, checks, money orders, bank deposits, and banker's drafts either on hand or on deposit with an official or agent designated as custodian of cash. Any restrictions or limitations regarding the use of cash must be indicated.

**Cash Basis.** Method of accounting in which income and expenditures are recorded only when cash is actually received or disbursed.

**Categorical Funds.** Also called restricted funds, these are monies that can only be spent for the designated purpose. Examples: funding to serve students with disabilities (DSPS) or who are economically disadvantaged, low-income (EOPS), or for scheduled maintenance and instructional equipment.

**Census and Census Week.** This assesses the number of students enrolled in a full semester course on the Monday of the third week of a full semester or 20% of the course.

**Certificates of Participation (COPs).** Certificates of Participation finance the lease/purchase of capital projects. Essentially, they are the issuance of shares in the lease for a specified term.

**Consumer Price Index (CPI).** A measure of the cost of living compiled by the United States Bureau of Labor Statistics. These indices of inflation are calculated regularly for the

United States, California, some regions within California, and selected cities. The CPI is one of several measures of economic stability or change.

**Contingencies Fund** (also Undistributed Reserve). That portion of the current fiscal year's budget not appropriated for any specific purpose and held subject to transfer to other specific appropriations as needed during the fiscal year.

**Cost of Living Adjustments (COLA).** An increase in funding for revenue limits or categorical programs tied to increases in the cost of living. Current law ties COLAs to indices of inflation, although different amounts may be appropriated by the Legislature.

**Current Expense of Education.** A term used to refer to the unrestricted general fund expenditures of a community college district in Objects of Expenditure 1000 through 5000, and 6400 for activity codes 0100 through 6700. Excluded from the current expense of education are expenditures for student transportation, food services, community services, lease agreements for plant and equipment, and other costs specified in law and regulations. Amounts expended from state lottery proceeds are also excluded. (Education Code Sections 84362, Title 5 Sections 59200 et seq.

**Deferrals.** The state deferred revenue owed the community colleges from one fiscal year to the next. The practice began in 2001/02 and peaked at \$961 million in the 2011/12 fiscal year.

**Deficit.** The excess of liabilities over assets or the excess of expenditures or expenses over revenues during an accounting period.

**Designated Income.** Income received for a specific purpose



**Disabled Student Programs & Services (DSPS).** Categorical or restricted funds designated to provide services that integrate disabled students into the general college program.

**Education Code.** The body of law that regulates education in California. Other laws that affect colleges are found in the Government Code, Public Contracts Code, Penal Code and others.

**Employee Benefits.** Amounts paid by an employer on behalf of employees. Examples are group health or life insurance payments, contributions to employee retirement, district share of O.A.S.D.I. (Social Security) taxes, and workers' compensation payments. These amounts are over and above the gross salary. While not paid directly to employees, they are a part of the total cost of employees.

**Educational Master Plan.** Title 5, Sections 55402-55404 require that each community college district submit an educational master plan for each college and the district as a whole. The plan addresses the educational objectives and future plans for transfer, occupational, continuing education, and developmental programs. It includes enrollment projections and related needs for ancillary services.

**Education Protection Account.** The new revenues generated from Proposition 30 are deposited into a newly created state account code called the Education Protection Account. Of the funds in the account, 89 percent is provided to K-12 and 11 percent to community colleges.

**Encumbered Funds.** Obligations in the form of purchase orders, contracts, salaries, and other commitments for which part of an appropriation is reserved.

**Ending Balance.** A sum of money available in the district's account at year end after

subtracting accounts payable from accounts receivable or the difference between assets and liabilities at the end of the year.

**Enrollment Cap.** A limit on the number of students (FTES) for which the state will provide funding.

**Enrollment Fee.** Charges to resident students for instructional costs; established in the Education Code.

**Enterprise Funds.** Used to account for operations when the governing board has decided either that the total cost of providing goods and services on a continuing basis is financed or recovered primarily through user charges; or that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Examples include bookstore and food services funds.

**Equalization.** Funds allocated by the Legislature to raise districts with lower revenues toward the statewide average.

**Equipment.** Tangible property with a purchase price of at least \$200 and a useful life of more than one year, other than land or buildings and improvements thereon. (See the Budget and Accounting Manual for current dollar limits).

**Estimated Income.** Expected receipt or accruals of monies from revenue or non-revenue sources (abatements, loan receipts) during a given period.

**Expenditures.** Amounts disbursed for all purposes. Accounts kept on an accrual basis include all charges whether paid or not. Accounts kept on a cash basis include only actual cash disbursements.

**Extended Opportunity Programs and Services (EOPS).** Categorical funds designated for supplemental services for disadvantaged students.

**FCMAT.** Fiscal Crisis and Management Assistance Team, a non-profit organization that provides fiscal advice, management assistance, training and other related educational business services.

**Fee.** A charge to students for services related to their education. The Chancellor's Office regularly publishes a list of mandated, authorized and prohibited fees.

**Fidelity Bond.** A written promise to indemnify an employer for losses arising from theft or misappropriation of moneys by government officers and employees.

**Fifty-Percent Law.** Requires that fifty percent of district expenditures in current expense categories are spent for classroom instruction. The intent of the statute is to limit class size and contain the relative growth of administrative and non-instructional costs.

**Final Budget.** The district budget that is approved by the board in September, after the state allocation is determined.

**Fiscal Year.** Twelve calendar months; for governmental agencies in California, it begins July 1 and ends June 30. Some special projects have a fiscal year beginning October 1 and ending September 30, which is consistent with the federal government's fiscal year.

**Foundation.** A separate entity created by the districts as an auxiliary organization or 501(c)3 to receive, raise and manage funds from private sources.

**Fixed Costs.** Costs of providing goods and services that do not vary proportionately to enrollment or to the volume of goods or services provided (e.g., insurance and contributions to retirement systems).

**Full-Time Equivalent (FTE) Employees.** Ratio of the hours worked based upon the standard work hours of one full-time employee. For example, classified employees may have a standard work load of 40 hours per week, if several classified employees worked 380 hours

in one week, the FTE conversion would be 380/40 or 9.5 FTE.

**Full-Time Equivalent Students (FTES).**

An FTES represents 525 class (contact) hours of student instruction/activity in credit and noncredit courses, which equates to 15 semester credit hours. Full-time equivalent student (FTES) is the workload measure used to compute state funding for California Community Colleges.

**Fund.** An independent fiscal and accounting entity with a self-balanced set of accounts for recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein.

**Fund Balance.** The difference between assets and liabilities in a fund.

**GAAP (Generally Accepted Accounting Principles) and GAAS (Generally Accepted Audit Standards).** Uniform minimum standards and guidelines for financial accounting and reporting.

**Gann Limitation.** A ceiling on each year's appropriations supported by tax dollars. The limit applies to all governmental entities, including school districts. The base year was 1978-79. The amount is adjusted each year, based on a price index and the growth of the student population.

**General Fund.** The fund used to account for the ordinary operations of the district. It is available for any legally authorized purpose not specified for payment by other funds.

**General Obligation Bonds (GO Bonds).**

Debt instruments issued by districts (or other state or local public governmental bodies) to raise funds for public works and capital expenditures. These bonds are backed by the taxing and borrowing power of the entity that issues them.

**General Reserve.** An account to record the reserve budgeted to provide operating cash in

the succeeding fiscal year until taxes and state funds become available.

**Governmental Accounting Standards Board (GASB).** The national authoritative accounting and financial reporting standard-setting body for governmental entities.

**Governor's Budget.** The Governor proposes a budget for the state each January, which is revised in May (the May Revise) in accordance with updated revenue projections.

**Grants.** Contributions or gifts of cash or other assets from a government or private organization to be used for a specified purpose, activity or facility.

**Headcount.** Represents an unduplicated count of students enrolled in at least one credit course.

**Indirect Expenses or Costs.** The elements of cost necessary in the production of a good or service that are not directly traceable to the product or service. Usually these costs relate to expenditures that are not an integral part of the finished product or service, such as rent, heat, light, supplies, management and supervision.

**Inflation Factor.** An increase in apportionment provided by the state to reflect the increased cost of operation due to inflation.

**Interfund Transfers.** Money that is taken from one fund and added to another fund without an expectation of repayment.

**Internal Audit.** Continuous or periodic examinations by employees to check and determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, accounting and reporting procedures are reliable, and the organization's objectives are being achieved.

**Internal Control Structure.** An organization plan in which employees' duties are arranged and records and procedures are designated to provide a self-checking system, thereby enhancing accounting control over assets, liabilities, income, and expenditures. Under

such a system the employees' work is subdivided so that no one employee performs a complete cycle of operations.

**Invoice.** An itemized statement of charges from the vendor to the purchaser for merchandise sold or services rendered.

**Lease Revenue Bonds.** Bonds secured by a lease agreement and rental payments. Community colleges use lease revenue bonds to finance construction or purchase of facilities.

**Levy.** The imposition of taxes, special assessments, or service charges for the support of governmental activities; or the total amount of taxes, special assessments, or service charges imposed by a governmental unit.

**Lottery Funds.** The share of income from the State Lottery, which provides about 1-3 percent of community college funding. A minimum of 34 percent of state lottery revenues must be used for the "education of pupils."

**Mandated Costs.** Expenditures that occur as a result of (or are mandated by) federal or state law, court decisions, administrative regulations, or initiative measures.

**May Revise.** The Governor revises his or her budget proposal in May to reflect up-to-date projections in revenues and expenses.

**Modified Accrual Basis (modified cash basis).** The accrual basis of accounting adapted to governmental funds. Revenues and other financial resources (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, that is, when they become both "measurable" and "available" to finance expenditures of the current period. "Available" means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability is incurred (except for inventories of materials and supplies that may be considered expenditures either when purchased or when used, and prepaid

insurance and similar items that may be considered expenditures either when paid for or when consumed). All governmental funds, expendable trust funds and agency funds use the modified accrual basis of accounting.

**Noncredit.** Courses that are taught for which no college credit is given. Adult education and basic English as a Second Language are two examples. The state reimbursement for non-credit education is less than for credit courses.

**Nonresident Tuition.** A student who is not a resident of California is required, under the uniform student residency requirements, to pay tuition. The fee shall not be less than the average statewide cost per student, and is set by the local board of trustees.

**Object Code.** The system of codes used in the California community colleges to classify budget and expenditures. The general classification numbers are:

- 1000 Certificated salaries
- 2000 Classified salaries
- 3000 Employee benefits
- 4000 Books, supplies, materials
- 5000 Operation expenses
- 6000 Capital outlay
- 7000 Other outgo
- 8000 Revenues

**OPEB.** Other Post Employment Benefits, primarily retiree healthcare benefits.

**Operating Expenses.** Expenses related directly to the fund's primary activities.

**Operating Income.** Income related directly to the fund's primary activities.

**Outsourcing.** The practice of contracting with private companies for services such as data processing, food services.

**Parcel Taxes.** Current law allows community college districts to levy qualified special taxes to all taxpayers with a 2/3rd vote of the electorate.

**Partnership for Excellence.** A state performance-based funding program in effect from 1999-2001, which designated a portion of state funding to be used to improve student performance in five areas.

**Per Capita Personal Income.** Income before taxes as estimated by the U.S. Department of Commerce.

**PERS (or CalPERS) California Public Employees' Retirement System.** One of the two major retirement systems in which community college employees participate. State law requires district classified employees, districts and the state to contribute to the fund for full-time classified employees.

**Productivity.** A workload measure that looks at the ratio between Weekly Student Contact Hours and Full-time Equivalent Faculty.

**Program.** Category of activities with common outputs and objectives. A program may cut across existing departments and agencies.

**Program Accounting.** A system of accounting in which records are maintained to accumulate income and expenditure data by program rather than by organization or fund.

**Program-Based Funding.** Prior to 2006, the funding formula used by the Chancellor's Office to determine state allocations to local districts. It did not specify where and how the funds must be spent. It was replaced by an FTES funding model with the passage of SB 361 in 2006.

**Proposition 13.** An initiative passed in June 1978 adding Article XIII A to the California Constitution. It provided that tax rates on secured property were restricted to no more than 1 percent of full cash value. Proposition 13 also defined assessed value and required a two-thirds vote to change existing, or levy new, taxes.

**Proposition 30.** An initiative passed in November 2012. The measure temporarily increased personal income taxes (through December 2018) and sales taxes (through December 2016) to prevent cuts to education.

**Proposition 39 (2000).** An initiative passed in 2000 that reduced the voting threshold required for local bonds from two-thirds to 55% and added conditions for proposing and using bond funds.

**Proposition 39 (2012).** Proposition 39 (2012), also known as the California Clean Energy Jobs Act, allocates funding for the following five fiscal years to improve energy efficiency and expand clean energy generation in K-12 schools and community colleges, and to create clean energy jobs. In fiscal year 2015-16, about \$38.8 million was provided to community colleges to make energy efficient upgrades, build solar generating systems, or conduct surveys to determine how to reduce energy usage on their campuses.

**Proposition 55.** Instituted temporary tax increases on personal income to support K-12 and community colleges (set to expire in 2022).

**Proposition 98.** An initiative passed in November 1988, guaranteeing at least 40 percent of the state's budget for K-12 and the community colleges. The split was proposed to be 89 percent (K-12) and 11 percent (CCC), although the split has not always been maintained.

**Purchase Order.** A document authorizing the delivery of specified merchandise or the rendering of certain services and charging for them.

**Reserves.** Funds set aside in a college district budget to provide for future expenditures or to offset future losses, for working capital, or for other purposes. There are different categories of reserves, including contingency, general, restricted and reserves for long-term liabilities.

**Restricted Funds.** Money that must be spent for a specific purpose either by law or by local board action. Revenue and expenditures are recorded in separate funds. Funds restricted by board action may be called "designated" or "committed" to differentiate them from those restricted by external agencies. Examples of

restricted funds include the federal vocational education act and other federal program funds; state "categorical" programs such as those for disabled and disadvantaged students; state monies targeted for specific purposes, such as instructional equipment replacement; grants for specific programs; and locally-generated revenues such as health and parking fees.

**Retiree Health Benefits.** Benefits provided to retirees provide health insurance, negotiated through collective bargaining. Also called "Other Post Employment Benefits."

**Revenue.** Income from all sources.

**Revenue Bonds.** Bonds whose principal and interest are payable exclusively from earnings of the funded facilities operations.

**Revenue Limit.** The specific amount of student enrollment fees, and, state and local taxes that a college district may receive per student for its general education budget. Annual increases are determined by the Proposition 98 formula or the Legislature.

**Revolving Fund.** A cash account used to secure or purchase services or materials.

**Scheduled Maintenance.** A defined schedule for major repairs of buildings and equipment. Some matching state funds may be available to districts for a scheduled maintenance program.

**Shortfall.** An insufficient allocation of money, which will require additional appropriations, reduction in expenditures, and/or will result in deficits.

**Stabilization Funding.** Districts that experience enrollment decline are held harmless for any revenue loss in the year the enrollment decline occurs, and the district is funded to its base enrollment. In the year immediately following the year of decline, the revenue associated with the enrollment decline (stabilization funding) will be reduced from a district's base revenue if the district has not restored the enrollment. (Education Code Section 84750.5)

**State Apportionment.** An allocation of state money paid to a district on a monthly basis once the state budget is enacted.

**Student Centered Funding Formula.** Enacted in the 2018-19 Budget Act, the formula (SCFF) consists of three components: 1) Base/Enrollments, 2) Supplemental, and 3) Student Success allocations.

**STRS (CalSTRS) California State Teachers' Retirement System.** State law requires that school district employees, school districts and the state contribute to this fund for retirement of full-time academic employees.

**Student Equity and Achievement Program.** The consolidated categorical program consisting of the Basic Skills Initiative, the Student Equity (SE), and the Student Success and Support Program (SSSP).

**Student Financial Aid Funds.** Funds designated for grants and loans to students; includes federal Pell grants, College Work-Study, Cal Grant awards, state-funded EOPS grants and fee waiver programs.

**Subventions.** Provision of assistance or financial support, usually from higher governmental units to local governments or college districts, for example to compensate for loss of funds due to tax exemptions.

**Sunset.** The termination date of regulations or laws for a specific program or fund.

**Supplanting.** To use one type of funds to provide goods or services previously paid for with another type of funds. Generally, it is prohibited to use state or federal funds to replace local funds.

**Tentative Budget.** The budget approved by the board in June, prior to the finalization of state allocations.

**Title 5, California Code of Regulations.** The section of the California Administrative Code that regulates community colleges. The Board of Governors adopts Title 5 regulations.

**TOP Code.** Taxonomy of Programs, in which

numbers are assigned to programs to use in budgeting and reporting.

**TRANS.** Tax and Revenue Anticipation Notes: instruments issued to secure short-term moneys borrowed in expectation of collection of taxes and other revenues. The notes are repaid with operating revenue.

**TTIP.** The Telecommunications and Technology Infrastructure Program, a program of the CCCCCO to augment and support college expenditures for technology and telecommunications.

**Unencumbered Balance.** That portion of an appropriation or allotment not yet expended or obligated.

**Unfunded FTES.** FTES that are generated in excess of a district's enrollment/FTES cap.

**Unrestricted Funds.** Generally, those General Fund monies that are not designated by law or a donor agency for a specific purpose. They are legally regarded as unrestricted since their use is at the board's discretion.

**Unfunded liabilities.** The value of projected expenses that is not supported by a financial reserve equal in value to the projected liability.

**Vacation Accruals.** The amount of vacation available to an employee but not yet taken. It may be shown as a liability.

**Warrants.** A written order drawn to pay a specified amount to a designated payee.

**Workload Measure Reduction.** The state reduced the number of students served commensurate with the revenue cuts experienced by community college districts in the 2009/10 and 2011/12 fiscal years.

**Work Order.** A written authorization for the performance of a particular job containing a description of the nature and location of the job and specifications for the work to be performed.

**WSCH.** Weekly Student Contact Hours, the number of weekly hours that a student spends in classes for a full-census course (17 weeks), e.g. three WSCH for a three-unit course. It is part of the formula used to determine faculty workload.

# Principles for Sound Fiscal Management

## California Code of Regulations, Title 5. Education. Section 58311

In any organization certain principles, when present and followed, promote an environment for growth, productivity, self-actualization, and progress. The following principles shall serve as the foundation for sound fiscal management in community college districts:

Each district shall be responsible for the ongoing fiscal stability of the district through the responsible stewardship of available resources.

Each district will adequately safeguard and manage district assets to ensure the ongoing effective operations of the district. Management will maintain adequate cash reserves, implement and maintain effective internal controls, determine sources of revenues prior to making short-term and long-term commitments, and establish a plan for the repair and replacement of equipment and facilities.

District personnel practices will be consistent with legal requirements, make the most effective use of available human resources, and ensure that staffing costs do not exceed estimates of available financial resources.

Each district will adopt policies to ensure that all auxiliary activities that have a fiscal impact on the district comport with the educational objectives of the institution and comply with sound accounting and budgeting principles, public disclosures, and annual independent audit requirements.

Each district's organizational structure will incorporate a clear delineation of fiscal responsibilities and establish staff accountability.

Appropriate district administrators will keep the governing board current on the fiscal condition of the district as an integral part of the policy- and decision-making processes.

Each district will effectively develop and communicate fiscal policies, objectives, procedures, and constraints to the governing board, staff, and students.

Each district will have an adequate management information system that provides timely, accurate, and reliable fiscal information to appropriate staff for planning, decision-making, and budgetary control.

Each district will adhere to appropriate fiscal policies and procedures and have adequate controls to ensure that established fiscal objectives are met.

District management will have a process to evaluate significant changes in the fiscal environment and make necessary, timely, financial and educational adjustments.

District financial planning will include both short-term and long-term goals and objectives, and broad-based input, and will be coordinated with district educational planning.

Each district's capital outlay budget will be consistent with its five-year plan and reflect regional planning and needs assessments.

To the extent that the foregoing principles repeat or paraphrase mandates already in existence, these underlying mandates shall continue to be legally binding. Otherwise, these principles, by themselves, shall be applied to the extent that existing state and district funding is available.

# CCC Sound Fiscal Management Self-Assessment Checklist

- 1. Deficit Spending – Is this area acceptable? Yes / No**

  - Is the district spending within its budget in the current year?
  - Has the district controlled deficit spending over multiple years?
  - Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?
  - Are district revenue estimates based upon past history?
  - Does the district automatically build in growth revenue estimates?
- 2. Fund Balance – Is this area acceptable? Yes / No**

  - Is the district's fund balance stable or consistently increasing?
  - Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?
- 3. Enrollment – Is this area acceptable? Yes / No**

  - Has the district's enrollment been increasing or stable for multiple years?
  - Are the district's enrollment projections updated at least semiannually?
  - Are staffing adjustments consistent with the enrollment trends?
  - Does the district analyze enrollment and full-time equivalent students (FTES) data?
  - Does the district track historical data to establish future trends between P-1 and annual enrollment for projection purposes?
  - Has the district avoided stabilization funding?
- 4. Unrestricted General Fund Balance – Is this area acceptable? Yes / No**

  - Is the district's unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)?
  - Is the district's unrestricted fund balance maintained throughout the year?
- 5. Cash Flow Borrowing – Is this area acceptable? Yes / No**

  - Can the district manage its cash flow without interfund borrowing?
  - Is the district repaying TRANS and/or borrowed funds within the required statutory period?
- 6. Bargaining Agreement – Is this area acceptable? Yes / No**

  - Has the district settled bargaining agreements within new revenue sources during the past three years?
  - Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?
  - Did the district correctly identify the related costs?
  - Did the district address budget reductions necessary to sustain the total compensation increase?
- 7. Unrestricted General Fund Staffing – Is this area acceptable? Yes / No**

  - Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?
  - Is the percentage of district general fund budget allocated to salaries and benefits at or less than the statewide average (i.e. the statewide average for 2003-04 is 85%)?



**8. Internal Controls – Is this area acceptable? Yes / No**

Does the district have adequate internal controls to insure the integrity of the general ledger?

Does the district have adequate internal controls to safeguard the district's assets?

**9. Management Information Systems – Is this area acceptable? Yes / No**

Is the district data accurate and timely?

Are the county and state reports filed in a timely manner?

Are key fiscal reports readily available and understandable?

**10. Position Control – Is this area acceptable? Yes / No**

Is position control integrated with payroll?

Does the district control unauthorized hiring?

Does the district have controls over part-time academic staff hiring?

**11. Budget Monitoring – Is this area acceptable? Yes / No**

Is there sufficient consideration to the budget, related to long-term bargaining agreements?

Are budget revisions completed in a timely manner?

Does the district openly discuss the impact of budget revisions at the board level?

Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified?

Has the district's long-term debt decreased from the prior fiscal year?

Has the district identified the repayment sources for the long-term debt?

Does the district compile annualized revenue and expenditure projections throughout the year?

**12. Retiree Health Benefits – Is this area acceptable? Yes / No**

Has the district completed an actuarial calculation to determine the unfunded liability?

Does the district have a plan for addressing the retiree benefits liabilities?

**13. Leadership/Stability – Is this area acceptable? Yes / No**

Has the district experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)?

**14. District Liability – Is this area acceptable? Yes / No**

Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?

Has the district set up contingent liabilities for anticipated settlements, legal fees, etc?

**15. Reporting – Is this area acceptable? Yes / No**

Has the district filed the annual audit report with the Chancellor's Office on a timely basis?

Has the district taken appropriate actions to address material findings cited in their annual audit report?

Has the district met the requirements of the 50 percent law?

Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311), and Apportionment Attendance Reports (CCFS-320) been submitted to the Chancellor's Office on or before the stated deadlines?

# CCC Monitoring & Assessment of Fiscal Condition

In October 2005, the Chancellor's Office of the California Community Colleges released Accounting Advisory (FS 05-50), which outlines the process the System Office will use to monitor the fiscal condition of the colleges. The text of the advisory is included below.

## Background

Pursuant to Education Code Section 84040, the Board of Governors is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. In accordance with this requirement, the Chancellor's Office has established standards for sound fiscal management and a process to monitor and evaluate the financial health of California's community college districts. The purpose of these standards is to identify districts that may benefit from preventative management assistance and those that may require fiscal crisis intervention to prevent emergency loans. These standards are intended to be progressive, with the focus on prevention and assistance at the initial level and more direct intervention at the highest level. These standards are based on the principles of sound fiscal management that are contained in California Code of Regulations (CCR) Title 5 Section 58311.

The monitoring and assessment process outlined in this accounting advisory is intended to provide for early detection of districts that are experiencing fiscal difficulties. Early detection will allow the district and Chancellor's Office an opportunity to take proactive/preventative steps to stabilize and address the financial condition of identified districts. This process will utilize various information sources to assess the financial condition of all community college districts and will allow the Chancellor's Office to provide technical and administrative assistance to bring about improvement in a district's financial condition. If early and preventative intervention fails due to the timing or degree of fiscal condition, direct intervention will be assigned.

## Monitoring & Assessment of Financial Condition

Monitoring and periodic assessment of all districts' financial condition will be performed to determine whether a district requires preventative management assistance or fiscal crisis intervention. This assessment will utilize a wide variety of information to provide an overview of a district's financial condition. The information to be used to perform the assessment will include the following:

- Quarterly Financial Status Reports (CCFS-311Q)
- Annual Financial and Budget Reports (CCFS-311)
- Annual District Audit Reports
- Apportionment Attendance Reports (CCFS-320)
- District response to inquires (telephone, written correspondence, site visits, etc.)
- Other available information (i.e., debt reports, Fiscal Data Abstract, etc.)

The overall assessment of a district's financial condition will include, but not be limited to, the following criteria:

**Primary Criteria.** General Fund Analysis that will include a review of the current, historical and projected fund balance. The main criteria for assessment will be the percentage of general fund

balance to all expenditures and other outgo of general fund. For purposes of this assessment, all unrestricted expenditures and other outgo will include all uses of unrestricted general funds under expenditure object codes 1000 through 7000.

This minimum prudent level is considered necessary to ease cash flow problems, to deal with unexpected cost increases, and other fiscal uncertainties. If a district falls below this minimum prudent level, further review will be performed to determine if any fiscal problems exist. Such review shall take into account identified one-time revenues and expenditures as designated by the affected district.

**Secondary Criteria.** Other factors that have an impact upon a district's overall financial stability must be considered in evaluating whether or not a district has an adequate unrestricted general fund balance, including:

Analysis of spending patterns will include a review of the current, historical and projected revenues and expenditures. Attention will be given to districts that have a pattern of deficit spending in the current year, and greater scrutiny will be made if there is a history of deficit spending.

Full-Time Equivalent Students (FTES) review will include looking at the FTES patterns in relation to statewide patterns and the potential impact upon revenue. Attention will be given to districts with unusual material fluctuations in their FTES. Districts receiving stability revenue will be further evaluated.

Staffing expenditure (salaries and benefits) increases that are expected to exceed projected revenue increases.

Other factors will be reviewed for pertinent information that could have an impact upon a district's financial condition. Attention will be given to any potential problems such as: a "going concern" audit finding, material internal control audit findings, pending legal actions, late filing of annual audit or financial & enrollment reports and other fiscal or administrative problems that are identified.

Districts are encouraged to regularly complete the and review it with their board and executive staff. This checklist can provide early detection indicators of potential district fiscal concerns and provide districts with the opportunity to identify and address problems at the earliest possible time.

### **Follow-up Actions**

Based upon the overall assessment and severity of problems identified, the Chancellor's Office will take follow-up actions to investigate and validate whether or not a district requires periodic monitoring, management assistance and/or fiscal crisis intervention. The specific follow-up actions taken by the Chancellor's Office will vary depending upon the overall assessment of the district's condition and the severity of the possible fiscal problems. After discussion with the district, the Chancellor's Office will make one of the following determinations:

**No further follow-up is necessary.** Based on further analysis and evaluation of information gathered after the assessment of the primary/secondary criteria, a determination has been made by the Chancellor's Office that no further follow-up is necessary by the district.

**Periodic monitoring is necessary.** Districts in this category will be required to do the following:

- Complete the Sound Fiscal Management Self-Assessment Checklist and submit to the

Chancellor's Office with evidence that the district's governing board has been appropriately informed.

- Update and submit their Quarterly Financial Status Report, CCFS 311Q to reflect the district's current fiscal status.
- Develop and submit to the Chancellor's Office a written action plan developed by the district that satisfactorily addresses the identified fiscal concerns.
- Chief Business Official (CBO) and/or other appropriate key staff will maintain regular communication with the Chancellor's Office regarding recovery progress.

The district requires management assistance and will be monitored more closely. Districts in this category have one or more deficiencies that require outside assistance and require closer monitoring by the Chancellor's Office through the following actions:

- Complete the and submit to the Chancellor's Office with evidence that the district's governing board has been appropriately informed.
- Submit the CCFS 311Q monthly to reflect the district's fiscal status.
- Submit to the Chancellor's Office a management assistance plan that addresses the identified concerns developed with the aid of the Fiscal Crisis and Management Assistance Team (FCMAT) and/or other specialized external assistance.
- The District CEO and CBO, as needed, will participate in a quarterly review and round table discussion with the ACBO Fiscal Standards and Accountability Committee on the district's fiscal condition and recovery.
- Depending on the severity of the problem, the district may be required to submit a detailed recovery plan for achieving fiscal stability and an education plan demonstrating the impact of the fiscal plan on the district's education program. This recovery plan needs the district's governing board approval.

The district requires immediate fiscal crisis intervention. The district's recovery plan for achieving fiscal stability and the educational plan demonstrating the impact of the fiscal plan on the district's educational program have been found to be deficient, the district has substantially failed to implement the plans OR the plans have not been completed in a timely manner. Intervention is determined to be necessary because a district's financial data indicate a high probability that, if trends continue unabated, the district will need an emergency apportionment within three years or that the district is not in compliance with the principles of sound fiscal management specified in Education Code Section 58311. Therefore, the Chancellor, in accordance with California Code of Regulations Title 5 Sections 58312 et seq., has the authority to take any of the following actions at district expense:

- Conduct a comprehensive management review of the district and its educational programs and an audit of the financial condition of the district.
- Direct the district to amend and readopt the fiscal and educational plans prepared pursuant to CCR T5 Section 58310 based on the findings of the comprehensive audits.
- Direct outside fiscal crisis intervention assistance from FCMAT, other specialized external assistance and/or through the appointment of a Special Trustee to help address the fiscal concerns and to assist with the district's recovery.
- Assign a Special Trustee to assume management and fiscal control of the district to the extent deemed necessary in order to achieve fiscal stability or solvency and also implement the principles of sound fiscal management.

# Accrediting Commission for Community & Junior Colleges Standards for Financial Resources

Colleges must meet accreditation standards in order to qualify for accreditation. The following standard applies to the financial resources of the district. Other standards in Standard III apply to human and physical resources and technology. The standard is followed by the guidelines for visiting teams to use during their visit and review of the college's self-study.

## **Standard III.D Financial Resources Planning**

1. Financial resources are sufficient to support and sustain student learning programs and services and improve institutional effectiveness. The distribution of resources supports the development, maintenance, allocation and reallocation, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability. (ER 18)
2. The institution's mission and goals are the foundation for financial planning, and financial planning is integrated with and supports all institutional planning. The institution has policies and procedures to ensure sound financial practices and financial stability. Appropriate financial information is disseminated throughout the institution in a timely manner.
3. The institution clearly defines and follows its guidelines and processes for financial planning and budget development, with all constituencies having appropriate opportunities to participate in the development of institutional plans and budgets.

## **Fiscal Responsibility and Stability**

4. Institutional planning reflects a realistic assessment of financial resource availability, development of financial resources, partnerships, and expenditure requirements.
5. To assure the financial integrity of the institution and responsible use of its financial resources, the internal control structure has appropriate control mechanisms and widely disseminates dependable and timely information for sound financial decision making. The institution regularly evaluates its financial management practices and uses the results to improve internal control systems.
6. Financial documents, including the budget, have a high degree of credibility and accuracy, and reflect appropriate allocation and use of financial resources to support student learning programs and services.
7. Institutional responses to external audit findings are comprehensive, timely, and communicated appropriately.
8. The institution's financial and internal control systems are evaluated and assessed for validity and effectiveness, and the results of this assessment are used for improvement.
9. The institution has sufficient cash flow and reserves to maintain stability, support strategies for appropriate risk management, and, when necessary, implement contingency plans to meet financial emergencies and unforeseen occurrences.
10. The institution practices effective oversight of finances, including management of financial

aid, grants, externally funded programs, contractual relationships, auxiliary organizations or foundations, and institutional investments and assets.

### **Liabilities**

11. The level of financial resources provides a reasonable expectation of both short-term and long-term financial solvency. When making short-range financial plans, the institution considers its long-range financial priorities to assure financial stability. The institution clearly identifies, plans, and allocates resources for payment of liabilities and future obligations.
12. The institution plans for and allocates appropriate resources for the payment of liabilities and future obligations, including Other Post-Employment Benefits (OPEB), compensated absences, and other employee related obligations. The actuarial plan to determine Other Post-Employment Benefits (OPEB) is current and prepared as required by appropriate accounting standards.
13. On an annual basis, the institution assesses and allocates resources for the repayment of any locally incurred debt instruments that can affect the financial condition of the institution.
14. All financial resources, including short- and long-term debt instruments (such as bonds and Certificates of Participation), auxiliary activities, fund-raising efforts, and grants, are used with integrity in a manner consistent with the intended purpose of the funding source.
15. The institution monitors and manages student loan default rates, revenue streams, and assets to ensure compliance with federal requirements, including Title IV of the Higher Education Act, and comes into compliance when the federal government identifies deficiencies.

### **Contractual Agreements**

16. Contractual agreements with external entities are consistent with the mission and goals of the institution, governed by institutional policies, and contain appropriate provisions to maintain the integrity of the institution and the quality of its programs, services, and operations.



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