Chapter 32

# Fiscal Management Policies

Boards of trustees have a responsibility to ensure the financial strength and stability of the institutions they govern. Boards fulfill that responsibility through adopting useful and relevant board policies and criteria that guide how the district manages its money.

This chapter covers the types of board policies that are often found in the fiscal, business, or administrative operations sections of a board policy manual. It outlines many of the questions and concepts that boards address as they set standards and parameters for the CEO.

## Laws, Regulations, and Other Constraints

Boards do not make fiscal policy nor do administrators make implementing regulations in a vacuum. Board policies and administrative procedures in the fiscal area are constrained and informed by state and federal law, state regulations, accreditation standards, and commonly accepted accounting principles used by auditors as standards.

As described in the previous chapters, state law and regulations determine to a large part the revenue colleges receive and put limits on how funds are budgeted. These laws and regulations provide the direction that the legislature has determined is necessary to manage and safeguard public funds. The Education Code also contains laws that cover accounting systems, budget controls, audits, special funds, bonds and their use, equipment replacement, budget transfers, management of property, requisitions and warrants, and a variety of other fiscal operations. The California Code of Regulations, Title 5, contains further detail on how funds are budgeted, accounted for, expended, and reported. The California Community College Budget and Accounting Manual, developed by the System Office, further defines budgeting, accounting, and reporting systems.

Regional accrediting standards also contain references to fiscal operations. Standard Eight of the 1996 Accreditation Handbook contains five standards related to physical resources and their management. Standard Nine lists 15 standards in the areas of financial planning, financial management, and financial stability. The standards are designed to assure that physical resources support the purposes and goals and that financial planning is realistic, long-range, and tied to educational planning. They also require that financial management practices are timely, dependable and maintain institutional integrity; and that there are policies that ensure current and future fiscal stability.

Many board policies reflect and reinforce laws, regulations, and accrediting standards. Effective boards clearly state that their CEOs and staff will adhere to laws and standards and avoid unethical and imprudent practices in managing the finances.

## Fiscal Policy Categories and Concepts

The types, range, and specificity of fiscal policies adopted by board vary widely from district to district. The following examples illustrate some of those varying approaches.

## Delegation to the CEO

The chief executive officer is responsible to make recommendations to the board, carry out board policy and administer the institution. In the fiscal area, board policies often delegate to the CEO the responsibility and authority to:

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

## 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 in areas such as multi-year contracts with unions, capital construction, and new program development.

## Budgeting and Budgets

Budgets and the board's role in budgeting were described in the last 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 insfrastructure
- budget assumptions are made public and discussed,
- an inclusive budget process that appropriately involves employee groups,
- sufficient information to ensure that the board understands the budget and how it furthers district and college goals.

## Fiscal and 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, they might require that spending is done in accordance with the budget and commonly accepted principles of sound accounting practice.

Wise boards delegate significant authority to the CEO and staff to expend 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, seeking bids, and accounting. The standards usually reflect the values that institutional practices are prudent, fair, flexible, and maintain the long-term fiscal integrity and reputation of the district.

Boards also are responsible to authorize alternative financial resources needed to manage the cash flow of the district and fund capital purchases. Colleges are eligible for tax-exempt lines of credit to meet short-term needs. Tax and Revenue Anticipation Notes (TRANs) are short-term loans issued in anticipation of receiving public funds—careful investment of these notes may result in some net revenue for the district in addition to providing solid working capital.

Revenue bonds, lease purchases, and certificates of participation (COPs) are different options used by districts for major equipment and facility-related purchases. Boards are also responsible for seeking voter approval for general obligation bonds for major building and program development.

### Facilities, Asset Protection and 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

### Compensation and Collective Bargaining

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 supported by projected revenues. Illustrations of possible parameters or targets for salaries and benefits such as:

- 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

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 and salaries and benefits are negotiated through a more informal "meet and confer" process). Board policies include delegation to, authority of, and parameters for district representatives in the negotiating process.

# Summary

Governing boards are responsible for the short and long-term fiscal health and stability of their districts. They fulfill their responsibility by adopting policies that contain criteria for financial planning and budgeting, expending and accounting for monies, and managing the assets of the district. These policy criteria provide the framework for administrative regulations and procedures and guide the decisions of the CEO and other college staff.

Chapter 33

# Monitoring Fiscal Status

The previous chapters have described the board's responsibilities for understanding the fiscal environment, adopting policies to guide fiscal practices, and developing and approving a budget. This chapter completes the cycle of board fiscal responsibilities-monitoring the fiscal health of the district. Prudent boards require that systems are in place that assure their communities and the state that public funds are expended wisely and prudently.

To fulfill the monitoring role, governing boards receive periodic reports on expenditures and revenues as measured against criteria for fiscal health. These reports provide the CEO an opportunity to assure the board that its policy standards are met. The reports may alert the board to major changes in revenues and expenditures and allow for discussion about the implications for the long-range fiscal status of the district. In addition to considering periodic reports, each district is required to conduct an independent, external audit of programs and funds.

## Benchmarks for Monitoring

It is important that a board work with the CEO to identify specific benchmarks (criteria) the board will use as it monitors and assures the fiscal health of the district. Examples of possible criteria include:

- Revenues and financial commitments are projected far into the future.
- There are sufficient resources for planned expenditures.
- Fiscal and educational planning are linked.
- An adequate cash reserve level is defined.
- Plans are in place and funds are allocated for repair and replacement of equipment and facilities.
- A management information system exists that provides timely and accurate fiscal information.
- Fiscal policies and procedures are known and adhered to.
- Effective internal controls are in place and followed.
- Auxiliary activities (such as the foundation and bookstore) support the mission of the college and are fiscally accountable.
- Risks are assessed and a plan exists for fiscal emergencies
- General fund balances or reserves do not drop below a specified limit.
- General fund balances are stable over the years.
- There is no deficit spending.
- Borrowing or transferring funds to meet cash flow needs is limited.
- Long-range salary, benefits, or debt commitments do not exceed projected revenues.
- Enrollment does not significantly decline over time.
- Categorical, special, or restricted funds are not used to support general expenses.

- There are no significant delays in submitting required reports.
- Bills and debts are paid in a timely manner.

Financial statements, external audits and periodic reports covering the identified and agreed upon criteria are usually sufficient for the board to assume compliance with its policies and standards. It is unusual and unnecessary for trustees or boards to review individual warrants or expenditures. Boards may wish to occasionally hold a study session to enable them to understand and become comfortable with the processes and controls used to manage the finances of the district.

# Financial Statements

In addition to locally developed fiscal monitoring reports, the CCC System Office requires districts to submit a brief Quarterly Financial Status Report on a specific form (CCFS-311Q), which is presented to the board for review and discussion prior to submission. The contents of this report are:

Section I:

- *Revenues* from the general fund and other financing sources received in the three prior years and projected for the current year.
- *Expenditures* from the general fund and other outgo spent in the prior three years and projected for the current year.
- *Contingency* reserves (restricted and unrestricted) projected for the current year.
- *General fund ending balances* for the three prior years.
- *FTES* (enrollment) for the three prior years and projected for the current year.
- *General fund cash balances* for the same quarter in the prior three years and projected for current year.

This information allows boards to compare revenues, expenditures, reserves, balances, and enrollment information and to assess how the financial situation is changing. Significant changes in these numbers should be discussed and the implications for the college explored.

Section II of the Report compares the projected current year budget with year to date expenditures. Trustees may look at whether spending is occurring at the rate expected. For instance, if half the year is gone but a category of expenditure is significantly below or over half of the budget, the board will want to understand why.

Section III of the Report requests districts to report employee contracts settled during the quarter and to provide salary and benefit increases. Sections IV and V ask the district to report significant financial events and problems. Most boards will have already discussed items in these sections separate from the report.

As stated above, boards generally receive other financial statements to assist them in monitoring. Formats for these financial statements vary considerably from district to district. Trustees are encouraged to meet with the chief executive and perhaps the chief business officer to become familiar with the report format used in their district.

As boards review the fiscal statements and monitoring reports, they will want to think about the following:

- Are there any significant changes in the assumptions upon which the budget was built? What unanticipated problems or issues have cropped up?
- Are there major differences between projected and actual amounts of revenues and expenditures? Why?

- Are the projected reserves still adequate? Have greater-than-anticipated transfers been required? Why?
- Are revenues adequate to meet projected expenditures?
- Are the different types of funds being managed appropriately, according to their purposes?
- In multi-college districts, are there significant issues at any of the campuses or differences between campuses?
- Are debts and bills being paid in a timely manner? Are receivables being collected in a timely manner?
- Does the college have sufficient cash on hand to meet its obligations?

# The External Audit

A board of trustees helps assure good practices in fiscal management by contracting with an independent firm to audit the fiscal operations of the district. Independent local audits are required annually under Section 84040 of the California Education Code. The board selects the auditor, expects the administration and staff to cooperate with the audit process, reviews the audit findings, and ensures that appropriate corrective action is taken.

### Hiring an auditor

Boards generally establish criteria for the selection of the audit firm and ask the chief executive to solicit proposals from a number of auditing firms to conduct the external audit. The responsibilities of the auditor are to:

- report on financial statements,
- prepare a management letter highlighting weaknesses in internal control and ways to increase efficiency and effectiveness, and
- report on compliance with federal and state requirements.

The board selects the auditing firm, the CEO manages the audit process, and the board has final authority to review the audit findings. Boards often follow the practice of changing the audit firm every few years in order to ensure fresh, objective perspectives. The board monitors that corrective actions recommended in the management letter are implemented.

# Monitoring by the State

The System Office is responsible for monitoring the fiscal condition of local districts (Section 58310 of the Code of Regulations). As stated earlier, districts are required by law to submit quarterly reports, certified by the local board, to that office. The System Office uses these reports to monitor and evaluate the financial condition of districts. Some of the criteria used to determine whether System Office staff should be concerned about the fiscal health of a district are:

- the general fund balance is less than 3 percent (minimum) or 5 percent (prudent) of expenditures
- a major decline of the general fund balance over several years
- borrowing or transferring funds at year end for cash flow
- general fund deficit spending pattern over several years
- salary increases exceeding a specified threshold for two or more years
- significant FTES decline or unfunded FTES
- notices or alerts from the district and/or county

- commingling Certificates of Participation money with general operating funds or using COPs for general operations
- significant delays in submitting required reports

Colleges and districts in which one or more of these conditions exists may be put on a "watch" list by the System Office, which means their reports and fiscal conditions may be closely scrutinized. In serious cases, the System Office may provide technical assistance and closely monitor the budgeting and accounting practices of a district until it recovers its fiscal strength. In extreme cases, the System Office may take over control of a district to get is finances in order.

# Summary

Governing boards hold the property of the community college district in trust for the benefit of their communities. Part of their responsibility as trustee boards is to ensure that public funds are budgeted and used prudently, legally, and effectively. They do so by understanding and influencing the fiscal environment that surrounds the college; establishing clear policy criteria that guides budgeting and fiscal operations; approving budgets that support the achievement of the educational mission; and finally, monitoring the fiscal status of the district to ensure that it is healthy for both the short and long-term.

Boards monitor the fiscal health and stability of the district by ensuring adherence to policies, monitoring the status through review of financial statements and reports, overseeing an external audit, and following the criteria and standards established by the System Office and Accrediting Commission. The future of the colleges and their communities depends on the effectiveness of boards in performing their fiscal responsibilities.

Chapter 34

# Glossary of Financial Terms

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| 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 unites or others for goods and services provided, but not yet collected. |
| Allocation | Division or distribution of resources according to a predetermined plan. |
| Apportionment | Federal, state or local monies distributed to college districts or other governmental units according to certain 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. |
| Assessment Districts | A geographical area - much like 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 documents, records and accounts for the purpose of determining 1) that all present fairly the financial position of the district; 2) that they are in conformity with prescribed accounting procedures; and 3) that they are consistent with the preceding year. |
| Auxiliary Operations | Service activities indirectly related to teaching and learning. Food service and dormitories are considered 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. |
| Base Year | A year to which comparisons are made when projecting a current condition. |
| Block Grant | A fixed sum of money, not linked to enrollment measures, provided to a college district by the state. |
| Bonds | Investment securities (encumbrances) sold by a district through a financial firm for the purpose of raising funds for various capital expenditures. |
| 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 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. |

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| **Budget Act** | The legislative vehicle for the State's appropriations. The Constitution requires that it be passed by a two-thirds 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 Projects** | Capital Projects Funds are used for the acquisition or construction of capital outlay items, e.g. buildings, major equipment. |
| **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 the economically disadvantaged, low-income (EOPS), scheduled maintenance, instructional equipment, and matriculation. |
| **Certificates of Participation (COPs)** | Certificates of Participation are used to 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. |
| **Cost of Living Adjustments (COLA)** | An increase in funding for revenue limits or categorical programs. Current law ties COLAs to indices of inflation, although different amounts are appropriated in some years. |
| **Current Expense of Education** | Usually regarded as expenses other than capital outlay, community services, transportation (buses) and selected categorical funds. |
| **Disabled Student Programs & Services (DSPS)** | Categorical funds designated to integrate disabled students into the general college program. |
| **Education Code** | The body of law which regulates education in California. Implementing regulations are contained in the California Administrative Code, Title 5, the Government Code, and general statues. |
| **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. |
| **Enrollment Cap** | A limit on the number of students (FTES) for which the state will provide funding. |
| **Enrollment Fee** | Charges to students on a per-unit basis, and established in the Education Code. |
| **Equalization** | Funds allocated by the legislature to raise districts with lower revenues toward the statewide average. |
| **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. |

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| Extended Opportunity Programs and Services (EOPS) | Categorical funds designated for supplemental services for disadvantaged students. |
| Fee | A charge to students for services related to their education. |
| Fifty-Percent Law | Requires that fifty percent of district expenditures in certain categories must be spent for classroom instruction. |
| Final Budget | The district budget that is approved by the board in September, after the state allocation is determined. |
| Fiscal Year | Twelve calendar months; in California, it is the period beginning July 1 and ending June 30. Some special projects use 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 auxillary organization to receive, raise and manage funds from private sources. |
| Full Time Equivalent Students (FTES) | A measure used to indicate enrollment and workload. The State General Apportionment is based on FTES. |
| 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. |
| 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. |
| Governor's Budget | The Governor proposes a budget for the state each January. |
| Inflation Factor | An increase in apportionment provided by the state to reflect the increased cost of operation due to inflation. |
| 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. |
| Lottery Funds | The minimum of 34 percent of lottery revenues distributed to public schools and colleges must be used for "education of pupils." Lottery income has added about 1-3 percent to community college funding. |
| Mandated Costs | College district expenditures that occur as a result of federal or state law, court decisions, administrative regulations, or initiative measures. |
| May Revise | The Governor revises his budget proposal in May in accordance with up-to-date projections in revenues and expenses. |
| Noncredit FTES | FTES earned in noncredit courses, generally Adult Education. |
| 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 board. |

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| Object Code | Classification category of an item or a service purchase. The general classification numbers are:<br>1000 Certificated salaries<br>2000 Classified salaries<br>3000 Employee benefits<br>4000 Books, supplies, materials<br>5000 Operation expenses<br>6000 Capital outlay<br>7000 Other outgo<br>8000 Revenues |
| Outsourcing | The practice of contracting with private companies for services such as financial aid programs or food services. |
| Partnership For Excellence | Funds that are specially allocated to the colleges to be used to improve student performance in five areas. |
| Per Capita Personal Income | The average income before taxes of all residents as estimated by the U.S. Department of Commerce. |
| PERS | Public Employees' Retirement System. State law requires school district classified employees, school districts and the State to contribute to the fund for full-time classified employees. |
| Program-Based Funding | The budget formula used by the System Office to determine state allocations to local districts. It does not specify where and how the funds must be spent. |
| Proposition 13 | An initiative amendment passed in June 1978 adding Article XIII A to the California Constitution. Tax rates on secured property are 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 98 | An initiative passed in November 1988, guaranteeing a portion of the state's budget for K-12 and the community colleges. The split was proposed to be 89 percent (K-12) and 11 (CCC), although the split has not been maintained. |
| 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 | Income from all sources. |
| Revenue Limit | The specific amount of student enrollment fees, state and local taxes a college district may receive per student for its general education budget. Annual increases are determined by Proposition 98 formula or the Legislature. |
| Revolving Fund | A revolving cash account to use in securing or purchasing services or materials. |
| 75/25 Ratio | The goal established by AB1725 for the ratio of full-time faculty to part-time faculty. |
| Scheduled Maintenance | Major repairs of buildings and equipment. Some matching state funds are available to districts to establish a scheduled maintenance program. |
| Shortfall | An insufficient allocation of money, requiring an additional appropriation, and expenditures reduction, or deficits. |

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| **State Apportionment** | An allocation of state money to a district, determined by multiplying the district's total FTES times its base revenue per FTES. |
| **STRS** | State Teachers' Retirement System. State law requires that school district employees, school districts and the State contribute to the fund for full-time certificated employees. |
| **Student Financial Aid Funds** | Funds designated for grants and loans to students. Includes federal Pell grants, College Work-Study, and the state funds 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 of the regulations for a categorical program or regulation. |
| **Tentative Budget** | The budget approved by the board in June, prior to when state allocations have been finalized. |
| **Tidelands Oil Revenues** | Money from oil sales on state-owned lands. When available, some of the revenues are appropriated for community college capital outlay needs. |
| **Title 5** | The Section of the Administrative Code that governs community colleges. The Board of Governors may change or add to Title 5. |
| **TOP Code** | Taxonomy of Programs. Numbers assigned to programs to use in budgeting and reporting. |
| **TRANs** | Districts finance short-term cash flow needs by issuing Tax and Revenue Anticipation Notes (TRANs) through bond underwriters. The notes are paid off with operating revenue. |
| **Unencumbered Balance** | That portion of an appropriation or allotment not yet expended or obligated. |
| **Unfunded FTES** | FTES that are generated in excess of the enrollment/FTES cap. |
| **Unrestricted Funds** | Generally those monies of the General Fund 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. |
| **Warrants** | A written order drawn to pay a specified amount to a designated payee. |
| **WSCH** | Weekly Student Contact Hours is part of the formula used to determine faculty workload. |

*This glossary is based on one developed by Tom Van Groningen with revisions by League staff members and James Buysee, Riverside CCD.*