APPENDIX A: Board of Education Policies - Monitoring Report

February 4, 2015

Presented by Greg Holmes, Chief Financial Officer

POLICY NUMBER: **BP 220**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **DEFINITION OF A BALANCED BUDGET**
ADOPTED: January 14, 2004
REVIEWED: November 8, 2006
REVIEWED: September 15, 2009

The board directs the president to develop annual budget recommendations that are in accordance with the college's strategic plan and conform to the requirements of Local Budget Law (ORS 294.326). The budget shall provide for:

- **Annual operating expenditures not to exceed projected revenues (Expenditures shall be budgeted according to the college's strategic priorities.)**

  At the time the fiscal year 2014-15 budget was developed, projections for current year revenue and expenditures were balanced through budget reductions and available fund balance.

- **Debt service, both current (due in less than 12 months) and long term**

  The fiscal year 2014-15 budget provides for debt service requirements through a levy of property taxes for bonded debt, and transfers from other funds to cover financing obligations and PERS bonds repayments.

- **Reserves for maintenance and repairs to its existing facilities**

  Budget exigencies have prevented full funding of Board-approved increases in major maintenance and capital improvement. The fiscal year 2014-15 budget and future year budgets assume maintenance of current funding levels.

- **Reserves for acquisition, maintenance and replacement of capital equipment.**

  The capital outlay reserve has been withheld in fiscal year 2014-15 to support budget balancing reductions. The reserve is assumed to be funded in future fiscal years.

- **Reserves for strategic capital projects**

  A reserve of $870,000 for Capital expenditures was established in December 2011.

- **Funding levels to fulfill future terms and conditions of employment, including early retirement benefits**

  The current budget contains allocations for agreed upon salaries and fringe benefits necessary to meet estimated obligations for fiscal year 2014-15. Early retirement obligations are funded based on regular actuarial analysis.

- **Allocations for contingencies (unforeseen events requiring expenditures of current resources)**

  The current budget contains allocations for contingencies in accordance with Board Policy E.070.

- **Ending Fund Balances (according to policies set specifically for that purpose)**

  The ending fund balance meets requirements set by board policy.

  Lane has a further responsibility to:

  - Plan how it will spend any “onetime” unanticipated revenue, allocating it strategically and prudently between:
    - The restoration of any shortfall to ending fund balances,
    - Currently unfunded projects in the strategic plan, and/or
    - Holding some or all of it in reserve during financially volatile periods.

  Consistent with this policy the college did not spend “one time” funds for recurring purposes during fiscal year 2013-14. For 2014-15, the board has approved spending of one time funds for Financial Aid default management and workforce development.

- **Permanently stabilize its finances in their entirety (operating budget, reserves, contingencies and ending fund balances) when it perceives a long term change (increase or decrease) to its available future recurring resources.**

  Consistent with this policy the board revised Ending Fund Balance Policy (BP245) from a 5% ending fund balance to 10% of expenditures and transfers.

POLICY NUMBER: **BP295**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **UNAPPROPRIATED ENDING FUND BALANCE**
ADOPTED: January 14, 2004
REVIEWED: December 6, 2006
REVIEWED: September 15, 2009

The president shall assure budgeting that maintains the estimate of unappropriated ending fund balance at no less than three percent of the general fund operational expenditure budget.

The budgeted unappropriated ending fund balance meets board policy requirements as of June 30, 2014.

POLICY NUMBER: BP245
POLICY TYPE: BUDGET AND FINANCIAL
POLICY TITLE: ENDING FUND BALANCE
ADOPTED: January 14, 2004
REVIEWED: February 14, 2007
REVISED: October 19, 2009

The president shall assure budgeting that maintains the estimate of unappropriated ending fund balance at no less than three percent of the general fund operational expenditure budget.

Lane Community College shall maintain an "unrestricted" General Fund Ending Fund Balance equal to or greater than 10% of total expenditures and transfers.

The Ending Fund Balance target shall include the Unappropriated Ending Fund Balance (UEFB) as set by board policy BP 295. When the Ending Fund Balance falls to 9% or less, the college shall adopt a plan to replenish the Ending Fund Balance to 10% within two years. When the Ending Fund Balance exceeds 11%, balances in excess may be set aside for reserves or investment in one-time expenditures.

If the total Ending Fund Balance (including restricted) falls to levels that require short-term borrowing, the levels set by this policy shall be automatically reviewed and adjusted as necessary.

The Ending Fund Balance for fiscal year 2013-14 is compliant with board policy.

POLICY NUMBER: BP290
POLICY TYPE: BUDGET AND FINANCIAL
POLICY TITLE: STABILIZATION RESERVE FUND
ADOPTED: January 14, 2004
REVIEWED: January 10, 2007
REVISED: October 19, 2009

The board may require the president to establish a separate "reserve fund" (as described in ORS 341.321 and ORS 294.525) for the purpose of providing short-term stabilization in anticipation of possible shortfalls in revenue.

A stabilization reserve fund may be established under one or more of the following circumstances:

- **State budget appropriations for community colleges are not approved by the time the college budget is approved and adopted.**
- **A situation exists where significant changes in enrollment are possible but not reasonably predictable.**
- **When any major revenue source has a reasonable possibility of decreasing after the college budget is approved and adopted.**
- **When any operating expenditure that is beyond the control of the college could reasonably be expected to increase after the college budget is approved and adopted.**
- **Any other situation in which the board determines that there is a reasonable expectation that major shifts in revenue or expenditures could occur during the budget year.**

Stabilization reserve levels:

- **Minimum reserve levels shall be at the discretion of the board and the president.**
- **Maximum reserve levels shall be no more than the maximum reasonably estimated shortfall at the time of the adoption of the budget.**

Stabilization reserves will be reviewed annually as part of the budget development process. The stabilization reserve fund shall be closed out when the board determines that the precipitating threat to revenues and/or expenditures no longer exists. As long as the conditions exist that caused the fund to be established, the funds shall be kept in reserve for the purpose intended. If and when the fund is closed out, any remaining balance shall be released for use as a resource in the General Fund.

The president recommended and the board approved a reservation of $3.5 million of the ending fund balance in 2009 for a Financial Stabilization Reserve in order to prepare for potential changes in state funding in both the current and next biennium. The reserve has been used to mitigate declines in state funding and enrollment in the prior and current fiscal years.

POLICY NUMBER: **BP230**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **CAPITAL RESERVE FUNDS**
ADOPTED: January 14, 2004
REVIEWED: February 14, 2007
REVIEWED: October 19, 2009

The college shall establish and maintain separate "reserve funds" (as described in ORS 341.321 and ORS 294.525) in Capital Projects Fund IV for the following purposes:

1. **To replace capital equipment that is broken or beyond its useful life as determined by the Capital Assets Replacement Forecast;**
2. **To maintain and repair college facilities according to the Major Maintenance Schedule;**
3. **To maintain and upgrade the college's information/telecommunications system according to planning schedules maintained by Information Technology;**
4. **To build new instructional facilities and/or to purchase property that facilitates planned long-term growth of the college.**

Appropriate levels of funding for reserves will be determined using existing college decision-making structures. The president will make recommendations to the Board of Education for approval to establish and fund these reserves.

Optimal funding levels will be determined using benchmarks, professional standards and best practices from other colleges and adapting these to Lane's specific situation. It is expected that full funding of these reserves will take place over a number of years and that annual transfers to these reserves will be budgeted from the General Fund and other sources as appropriate.

As required in ORS 294.525, the board shall periodically review the reserve fund "and determine whether the fund will be continued or abolished." While ORS 294 allows review to take place every 10 years, reserve funds established under these policies shall be reviewed (a) annually by the president; and (b) at least every three years or more frequently as determined by the board.

As allowed in ORS 294.525, the board may determine at any time that a reserve fund is no longer necessary or that some or all of the reserves may be transferred to the General Fund.

The board established a Capital Reserve Fund of $870,000 in December 2011 from residual proceeds of past debt issues related to Capital Projects.

POLICY NUMBER: **BP255**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **BUDGETING OF NON-RECURRING RESOURCES**
ADOPTED: January 14, 2004
REVIEWED: March 14, 2007
REVIEWED: November 4, 2009

Non-recurring resources are resources that are not part of an annual revenue stream. Non-recurring resources include but are not limited to such categories as:

- **Fund balances (i.e., "carryover")**
- **Reserves**
- **One-time grants or awards of money**
- **Funds withheld from annual budget allocations (e.g., funds held back from annual General Fund transfer to Capital Repair & Improvement)**
- **Special allocations from the state (e.g., allocations from the Emergency Board)**
- **Other special allocations (e.g., "seed money" for a project)**

Non-recurring resources shall not be budgeted for ongoing recurring expenditures. Non-recurring resources may be allocated for one-time expenditures including but not limited to the following:

- **Capital equipment**
- **Capital construction**
- **Investment in a new program or service that will move to recurring funding sources after a specified trial period**
- **Projects related to the strategic directions of the college.**

However, the college shall not rely on non-recurring resources for funding ongoing needs such as major maintenance and equipment replacement.

The college did not budget from non-recurring resources in the current 2014-15 budget.

POLICY NUMBER: **BP270**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **GENERAL FUND CONTINGENCY**
ADOPTED: January 14, 2004
REVIEWED: April 23, 2007
REVIEWED: November 4, 2009

Board Contingency:
The annual budget shall set aside approximately one-half percent (0.5%) of the budgeted revenues each year for Board Contingency. Use of Board Contingency shall be at the discretion of the Board of Education and shall be allocated by formal approval of the board according to its policies.

Administrative Contingency:
Administrative Contingency shall be approximately one percent (1%) of the budgeted revenues each year. Administrative Contingency shall be allocated by approval of the president.

The fiscal year 2014-15 budget contains the following contingency accounts:

Board Contingency: $350,000
(.38% budgeted general fund revenue)

Administrative Contingency: $700,000
(.75% budgeted revenue)

POLICY NUMBER: **BP280**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **INTERFUND TRANSFERS**
ADOPTED: January 14, 2004
REVIEWED: April 23, 2007
REVIEWED: February 3, 2010

All transfers between funds shall be in conformance with ORS 294.361. The Budget Document shall clearly show for each fund the amounts, origin and destination of each transfer. Accompanying documentation shall list the specific purposes for each transfer.

Transfers from the General Fund to other funds (except Fund IX-Special Revenue Administratively Restricted) shall be for the following purposes:

- **Debt service on an obligation incurred as a part of normal operations of the college;**
- **Goods and services provided to General Fund units by units in other funds;**
- **Construction, maintenance and acquisition of facilities and/or real property used by the college in support of its mission;**
- **Acquisition of capital equipment for use by the college in support of its mission;**
- **Matching funds for grants and contracts;**
- **Operation of certain financial aid functions and matching funds required for financial aid grants;**

- **Contractual and legal obligations to employees and retirees for compensation and benefits; Other needs as deemed appropriate and necessary by the board for fulfilling the obligations of the college.**

Since Fund IX contains units that could be considered general operations of the college, the boundary between the General Fund and Fund IX is more "permeable." While units in Fund IX primarily rely on designated revenues, transfers from the General Fund may be used to augment the resources for any or all of these units. The level of funding through General Fund transfers to Fund IX is at the discretion of the board under advice from the Budget Committee and the president.

The fiscal year 2014-15 budget contains interfund transfers made in accordance with this policy and adopted by the board during the budget process. Interfund transfers are presented in the 2014-15 Budget Document, pages 35-36.

POLICY NUMBER:	**BP290**
POLICY TYPE:	**BUDGET AND FINANCIAL**
POLICY TITLE:	**INTERFUND LOANS**
ADOPTED:	June 9, 2004
REVIEWED:	May 9, 2007
REVIEWED:	December 2, 2009
REVIEWED:	January 9, 2013

Loans from one fund to another shall conform to the requirements of ORS 294.460 and be authorized by the Board of Education. Interfund loans may not be from: a Debt Service fund, a Financial Aid fund, employee/retiree benefit funds, or funds legally restricted to specific uses. Repayment of the loan must be budgeted according to an approved schedule and at a stated rate of interest.

The full repayment of interfund loans shall occur no later than:

- **Five years from the date of the loan, if the funds are to be used to acquire or improve real or personal property, or**
- **June 30 of the fiscal year following the year in which the loan was authorized, if the funds are to be used for operating purposes.**

There are no outstanding interfund loans.

POLICY NUMBER: **BP235**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **DEBT ISSUANCE AND MANAGEMENT**
ADOPTED: June 9, 2004
REVIEWED: May 9, 2007
REVIEWED: December 2, 2009

The president shall ensure that sufficient funds are available to meet current and future debt service requirements on all indebtedness, while adequately providing for recurring operating requirements. The issuance of debt limits the college's flexibility to respond to future learning priorities; consequently, the college shall issue and manage debt in a manner which maintains a sound fiscal position, protects its creditworthiness and complies with ORS 341.675 and ORS 341.715.

To meet the objectives of this policy the president shall ensure that the college incurs and services all debts in a manner that will:

- **Maintain a balanced relationship between debt service requirements and current operating needs.**
- **Maintain and enhance the college's ability to obtain access to credit markets, at favorable interest rates, in amounts needed for capital improvements and to provide essential learning services.**
- **Prudently incur and manage debt to minimize costs to the taxpayers and ensure that current decisions do not adversely affect future generations.**
- **Preserve the college's flexibility in capital financing by maintaining an adequate margin of statutory debt capacity.**

The board shall approve borrowing as described in Board Policy C.040. Long-term debt (due more than a year in the future) shall not be issued to fund normal operating needs.

To certify compliance with Lane's legal debt margin, please refer to the college's June 30, 2014 audit report. Computation of Legal Debt Margin on, on page 56, shows that Lane is well within its debt limitation of 1.5% of Real Market Value of taxable property in Lane County, calculated to be $542,586,939. The Budget Office includes future year's debt payment requirements as expenditures in its multi-year financial projections. The most recent credit rating from Standard & Poor's upgraded Lane's rating to "AA-" and stable outlook. The college does not use long term debt to fund normal operating needs.

POLICY NUMBER: **BP265**
POLICY TYPE: **BUDGET AND FINANCIAL**
POLICY TITLE: **FINANCIAL REPORTING**
ADOPTED: March 9, 2005
REVIEWED: June 28, 2007
REVIEWED: January 10, 2010

Lane's annual audited financial statements shall conform to generally accepted accounting principles. Applicable professional accounting standards and guidance shall be incorporated into Lane's financial statements.

To certify compliance, please refer to the college's June 30, 2014 audit report. Page 2, paragraph 3 of the 'INDEPENDENT AUDITOR'S REPORT' states:

"In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Lane Community College and Lane Community College Foundation as of June 30, 2013, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America."