FOOTHILL-DE ANZA
Community College District

SOUND FISCAL MANAGEMENT
Self-Assessment Checklist

for Fiscal Year Ended June 30, 2014
(Completed January 2015)

1. **Deficit Spending:** Is this area acceptable? **Yes**

Is the district spending within their revenue budget in the current year?
The California Community Colleges System Office uses the financial reports from our unrestricted general fund that encompass both the General Purpose Fund (Fund 114) and the Self-Sustaining Fund (Fund 115) for its analysis. The district focuses on the General Purpose Fund because this fund captures most of the district's operating revenue and expenses.

This Sound Fiscal Management Self-Assessment Checklist summarizes activities in the General Purpose Fund for fiscal year 2013/14 and also projects balances for the fiscal year ending June 30, 2015.

In fiscal year 2013/14, the district projected a $3.1 million deficit in revenue versus planned expenditures. This deficit increased to approximately $5.6 million after a 2.07% COLA was approved for all employees by the Board of Trustees in October of 2013, but was partially offset by increased revenue generated from non-resident tuition. The district planned to use 2013/14 stability funds to close the deficit by the end of the fiscal year.

The colleges and Central Services agreed to develop plans to permanently close the budget deficit through increased enrollments, with the corresponding apportionment, or through additional budget cuts to be implemented over the next couple of years dependent upon how long the stability fund is available to close any structural deficit.

As of June 30, 2014, the district ended the fiscal year with a slight deficit due to planned expenditures for critical scheduled maintenance projects. Although the district ultimately ended the year with a relatively small deficit, it is relevant to point out that revenues exceeded budgeted projections by approximately $4 million and we received full FTES apportionment funding from the state even though the district was below its FTES target by 330 FTES at year end. The increase in revenue was mainly due to increased non-resident tuition income and additional one-time money from the state due to a reduced deficit factor from the prior fiscal year. There was also a decrease in expenses from what was projected in the adopted budget in employee health benefit costs. This was a carry-over from past budget projections when the district was self-insured and has been adjusted for the 2014/15 fiscal year adopted budget. Due to Senate Bill 361 (SB361) rules, the district qualified for stabilization funding from the state and we received our full base allocation for fiscal year 2013/14 in spite of the drop in FTES. Additionally, productivity did not drop significantly during the FTES loss; in other words, we did not overspend in faculty costs to generate the lower level of FTES. Carefully managed one-time stability funds will allow the district to comfortably delay implementing additional cuts in 2014/15 while we continue to develop plans to either increase FTES production or decide where expenses will be cut on a permanent basis.

For fiscal year 2014/15, the district has projected a budget deficit of approximately $2 million. This projected deficit is smaller than what was projected in 2013/14 due to increased revenue projections in non-resident tuition, reduced expense projections in employee benefit costs, and a small .85% COLA from the state. The 2014/15 deficit will again be closed through use of the $16.5 million stability fund. Salary COLA negotiations are in progress with all bargaining units and any agreed-upon increases will add to the current $2 million deficit, but can also be offset through utilization of the stability fund for fiscal year 2014/15.

The projected balance for the stability fund at the end of fiscal year 2014/15 is approximately $14.4 million. This will decrease by whatever amount of COLA may be negotiated and approved by the Board before the end of the fiscal year. In addition, the district projects to have approximately $14.5 million in unrestricted college and Central Services carryover funds, $2.3 million in restricted district carryover funds, $1-2 million in the Enrollment Stimulus Fund, and the requisite 5% General Fund Catastrophic Reserve (approximately $8.6 million).

Has the district controlled deficit spending over multiple years?
Yes, deficit spending has been controlled over multiple years. The positive net change in fund balance for the district's General Purpose Fund was $3.4 million for fiscal year 2009/10, achieved mostly through reduced spending. In 2010/11, the General Purpose Fund balance increased to $8.3 million, mostly due to one-time funds received from state stability funding as well as additional reductions in spending. The district experienced a $6.6 million deficit in spending in 2011/12. This was due to a workload reduction of 7.7%, which resulted in ongoing cuts as well as one-time mid-year cuts implemented as a deficit factor due to the student fee shortfall and property tax shortfall. The district anticipated these reductions and closed this $6.6 million deficit with one-time stability funds. In 2012/13, due to careful budget planning, reduced spending, and one-time stability funds received from the state, there was a positive net change in fund balance of $6.5 million. In 2013/14, the district experienced a small deficit of approximately $1 million due to planned expenditures over revenues for critical scheduled maintenance projects. This deficit was closed with one-time stability funds.

Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?
During difficult budget years, the district reduces ongoing expenditures and sets aside one-time funds (e.g. the stability fund) to bridge budgeted deficits. At the same time, the district revises ongoing revenue and expenditure estimates to reflect changes as anticipated. Budgets are revised accordingly as new economic information becomes available.

Are district revenue estimates based upon past history?
District revenue estimates are based on a combination of: 1) enrollment estimates generated from collaboration between the district Business Services office and the campuses' enrollment management teams, 2) historical data, 3) the campuses' input on locally generated income, and 4) state assumptions on COLA, growth, the state funding formula (SB361), and lottery estimates, etc.

Does the district automatically build in growth revenue estimates?
The district's growth revenue estimates are based on the colleges' FTES growth estimates that include both resident FTES apportionment funding and non-resident tuition income.

2. **Fund Balance:** Is this area acceptable? **Yes**

Is the district's fund balance stable or consistently increasing?
Yes, the district's undesignated fund balance in the General Purpose Fund is very stable, varying between $6.7 million and $16.5 million in excess of 5% contingency for the past three years (see

Attachment). This increase in the General Purpose Fund balance is intentional and a planned outcome of hard work and dedication by many departments, achieved through a drastic reduction in operating expenses, restricted spending on discretionary "B" budget, and savings from positions held vacant throughout the year. These funds are designated to close operating deficits on a one-time basis, to preserve our staffing levels as long as possible, and to be available to offset any cuts on a one-time basis in fiscal year 2013/14 and beyond.

Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?
See question and answer above.

3. **Enrollment:** Is this area acceptable? **Yes**

Has the district's enrollment been increasing or stable for multiple years?
In fiscal year 2009/10, the district was subject to a state-imposed workload reduction of 3.39% and, in fiscal year 2011/12, to further workload reductions of 7.71%. In addition, due to a variety of adjustments to state requirements for course repeatability, etc., the district's enrollment declined further and in fiscal year 2011/12 was approximately 300 FTES below the funded base. We built our 2012/13 fiscal year budget based on reduced revenue corresponding to the drop in FTES in fiscal year 2011/12.

In fiscal year 2012/13, district enrollment again declined from the previous year. We reported 1,683 FTES below what was budgeted at the beginning of the year. During this FTES decline, our productivity did not decline significantly so additional money (approximately $7.5 million) fell to the district's ending balance for fiscal year 2012/13 due to state stabilization funding.

District enrollment declined further in 2013/14, down 330 FTES from 2012/13. In 2014/15, as of Period P-1, which was filed with the state this month, enrollment is down an additional 516 FTES. Taking into account the challenges of enrollment management, we are cautiously optimistic that, as of this point, we have reached a point of enrollment stability. We are continuing to put our best efforts into recouping lost FTES during the rest of fiscal year 2014/15 and heading into fiscal year 2015/16.

Are the district's enrollment projections updated at least semiannually?
Yes, enrollment projections are reviewed and updated at the beginning of every academic quarter.

Are staffing adjustments consistent with the enrollment trends?
The Board approved a "growth model" which funds additional positions, both teaching and support staff, in direct proportion to FTES growth. While the law requires an increase in full-time faculty consistent with FTES increases, the district's model uses the same rationale for growth and reduction of non-teaching positions.

Does the district analyze enrollment and Full-Time Equivalent Students (FTES) data?
Yes, every quarterly report includes an analysis of FTES and productivity. In addition to this report to the Board, the Office of Institutional Research generates frequent reports, which are shared with the enrollment management teams and senior staff at both campuses. These reports are generated beginning several weeks before each quarter in order to facilitate trends analysis and to display comparative data. District staff also has access to an FTES database. This database shows enrollment trends down to the individual class and instructor level and can be aggregated by department, division, and college.

Does the district track historical data to establish future trends between P-1 and annual for projection purposes?
Yes, the Chief Instructional Officer at each college is responsible for forecasting winter and spring enrollment at P-1. It is through this analysis that the "multiplier" is adjusted on the Apportionment Attendance Reports (CCFS-320) to ensure consistency with projections.

Has the district avoided stabilization funding?
No. The district experienced a decline in FTES in fiscal year 2010/11 of 4.4%, or 1,406 fewer FTES, resulting in stability funding of $6.5 million. In fiscal year 2012/13, we received stability funding due to a decline in enrollment. In 2013/14, we also experienced a decline of 330 FTES, triggering stability funding again. Both colleges are developing schedules to maintain enrollment at the budgeted level, and management efforts are focused on maximizing student access.

4. **Unrestricted General Fund Balance:** Is this area acceptable? **Yes**

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)?
Yes, the district's unrestricted general fund balance has consistently been maintained above the minimum prudent level of 5%. The California Community Colleges System Office requires that we report the unrestricted general fund balance and other required financial information in the Annual Financial and Budget Report (CCFS-311). The unrestricted general fund balance includes the General Purpose Fund (Fund 114) and the Self-Sustaining Fund (Fund115). The unrestricted general fund balance for the past five years is shown below:

Fiscal Year	Actual
2009/10	22.4%
2010/11	28.8%
2011/12	24.2%
2012/13	29.6%
2013/14	28.7%

Is the district's unrestricted fund balance maintained throughout the year?
Yes, the district's unrestricted fund balance was maintained at or above 28.7% of the total unrestricted general fund expenditures in any given month throughout fiscal year 2013/14. It is our ongoing strategic plan to retain a portion of the general fund balance as a stability fund to offset unforeseen operational expenses and to delay budget cuts while the district adjusts expenditures to revenues.

5. **Cash Flow Borrowing:** Is this area acceptable? **Yes**

Can the district manage its cash flow without inter-fund borrowing?
Yes, during the past five years, the district maintained a positive cash flow in the unrestricted general fund without inter-fund borrowing.

Is the district repaying TRANS and/or borrowed funds within the required statutory period?

The district has not borrowed funds through a TRANS since fiscal year 1996/97 when it issued a TRAN in the amount of $4.4 million. The district did not issue a TRAN in fiscal year 2013/14.

6. **Bargaining Agreements:** Is this area acceptable? **Yes**

The fiscal year 2013/14 state budget included a 1.57% cost-of-living revenue adjustment and the Board agreed to a 2.07% salary COLA for all employee groups. Although this increased salary expense added to the structural budget deficit, due to budget projection adjustments and increased revenue projections, the 2014/15 budget deficit is down $1 million from the prior year to $2 million. The colleges and Central Services will make plans to make the necessary cuts to balance the budget over the next one-to-two years depending on enrollment/apportionment, additional COLA from the state, and how long the stability fund can be used to close the deficit.

Since the new CalPERS administered health benefits plan was implemented in July 2012 (as recommended by the Joint Labor Management Benefits Committee (JLMBC) and approved by the bargaining units), plan rates are now assessed by CalPERS and are more stable/predictable than when the district was fully self-insured for the health benefits program (administered under United Healthcare). New rates and enrollment trends have resulted in adjustments to our current projections. We have reduced the employee health benefit expense projection in the 2014/15 Adopted Budget by approximately $3 million.

7. **Unrestricted General Fund Staffing:** Is this area acceptable? **Yes**

Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?
Permanent staffing is managed through position control and is budgeted from ongoing revenue when available. Any increases in staffing are funded using the district-developed growth model, which is based on FTES growth and corresponding ongoing revenue growth.

In October 2013, the Board of Trustees approved a salary COLA increase of 2.07%, one-half percent more than the COLA approved in the state budget for community college funding for fiscal year 2013/14. The district was able to approve this additional half-percent in salary COLA due to large reserves set aside that will cover the increase for several years and the commitment by the colleges and Central Services to cut expenses in other areas of the budget as required to balance the budget. Current salary COLA negotiations for 2014/15, in respect to the .85% COLA provided by the state, are ongoing and will not be concluded by the time this report is made public.

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%)?
Yes, for fiscal year 2013/14, the percentage of district general fund budget allocated to salaries and benefits was 80%. For fiscal year 2014/15, the district is budgeting 82%

8. **Internal Controls:** Is this area acceptable? **Yes**

Does the district have adequate internal controls to ensure the integrity of the general ledger?
Yes, in addition to the annual financial audit report, which includes a report on internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, the district contracted with an independent certified public accounting firm over the past eight years to perform performance audits on Measure E Overhead, De Anza College Cash Handling Procedures, District Procurement Card, Foothill College Cash Handling Procedures, Measure C Overhead, Police Parking Fees Cash Handling Procedures, De Anza College Facilities Rental Cash Handling Procedures, Foothill College Cashiering Services Petty Cash/Change Fund, ERP Security, and Foothill College Kinesiology, Facilities Rentals, and Cash Handling Procedures. In fiscal year 2013/14, the District contracted for a performance audit on the District Procurement Card.

Does the district have adequate internal controls to safeguard the district's assets?
Yes, the district has written cash handling procedures for De Anza College and Foothill College as well as for district petty cash to safeguard cash. In addition to the required annual audit, the district goes above that requirement and contracts for annual performance audits at its various cash collection points. The district also has Board Policy and Administrative Procedures on Capitalization of District Property and on Disposal of District Property.

9. **Management Information Systems:** Is this area acceptable? **Yes**

As of the close of the 2009/10 fiscal year, all modules of the Ellucian/Banner Enterprise Resource Planning (ERP) system have been fully implemented and are functioning satisfactorily. The modules included in the new ERP include: Web Portal, Finance, Human Resources & Payroll, Financial Aid, Student, Advancement, Document Management System, and Degree Audit. Custom reports for all modules have been, and continue to be, developed providing the specialized data needed for our department functions. Management is confident that the continued creation and refinement of custom reports from Ellucian are meeting all critical data reporting requirements. Data inconsistencies previously noted by staff have been addressed. District administration, working closely with Educational Technology Services (ETS) and external consulting services, continues to refine data collection and reporting processes to increase the return on investment from the ERP. As the management and staff of various business units throughout the district have the capacity to utilize additional functionality of the ERP, such as document management, ETS is working with those units to deploy these features.

10. **Position Control:** Is this area acceptable? **Yes**

Is position control integrated with payroll?
Yes, there is a very strong position control system in place that requires the assignment of a unique position number and designated funding for each position hired.

Does the district control unauthorized hiring?
Yes, all positions to be re-filled, or newly created positions, are assigned a position control number. Each "staffing requisition," which is necessary to start the hiring process, must be approved by Chancellor's Staff and must have a valid position control number.

Does the district have controls over part-time academic staff hiring?
Yes. Each year, the district budgets the dollar amount to be allocated for part-time faculty (1320) based on total FTES, less the number of full-time faculty, and driven by the agreed-upon productivity numbers. The colleges are responsible for developing a schedule of classes synching with the agreed-upon budget. Changes in FTES targets or productivity budgets need to be agreed upon at the district level so budgets can be adjusted accordingly. While there has been no formal administrative procedure in recent years for penalties or incentives if the colleges varied from FTES or productivity targets, there has been continuous adherence to these budgets with very little variance.

11. **Budget Monitoring:** Is this area acceptable? **Yes**

Is there sufficient consideration to the budget, related to long-term bargaining agreements?
Yes. (See Question 6, above.)

Are budget revisions completed in a timely manner?
Yes, budget revisions are processed within the fiscal month they are received and are subject to the board's review and approval with each quarterly report.

Does the district openly discuss the impact of budget revisions at the board level?
Yes, the board receives a complete reconciliation of all revisions and transfers processed in each quarter, and the Vice Chancellor of Business Services or the Director of Budget Operations answers all questions as requested.

Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified?
Yes, the board receives and approves a complete reconciliation of all revisions and transfers processed in each quarter, as well as the Quarterly Financial Status Reports (CCFS-311Q), which includes a summary of costs due to collective bargaining agreements.

Has the district's long-term debt decreased from the prior fiscal year?
Yes, the long-term debt decreased in comparison to the prior fiscal year. In August 2013, the district issued a capital lease to refinance an existing Certificate of Participation (COP); however, the net effect of the refinancing still resulted in a decrease in long-term debt, in comparison to the prior fiscal year.

Has the district identified the repayment sources for the long-term debt?
Yes, the long-term debt is financed through special revenue sources. The parking structure debt is financed through parking fee revenue. The technical infrastructure debt is financed through the district general fund. The Foothill College Campus Center debt and the De Anza College Campus Center debt are financed through campus center use fees. The Foothill College Bookstore equipment acquisition is financed through the Foothill College Bookstore operations.

Does the district compile annualized revenue and expenditure projections throughout the year?
Yes, the District Budget Committee and the Audit and Finance Committee review revenue and expense projections at the end of each quarter before the Board of Trustees approves them in the quarterly reports.

12. **Retiree Health Benefits:** Is this area acceptable? **Yes**

The most recent actuarial report, dated August 29, 2013, represented a valuation of our retiree health program as of July 1, 2013. We are required to update this report every other year. The next actuarial report to update our Actuarial Accrued Liability (AAL) and Annual Required Contribution (ARC) will be prepared in the summer of 2015. In order to contain ever-increasing costs, the district converted its health care plan from a *self-funded* model to participation in the CalPERS Health Care program as of July 1, 2012.

Does the district have a plan for addressing the retiree benefits liabilities?
Yes, the Board of Trustees adopted a plan at the November 6, 2006, board meeting to fully fund the ARC as calculated in the August 2006 actuarial study. In 2009, after an exhaustive evaluation process, the district opted to leave the Community College League of California (CCLC) Retiree Joint Powers Authority and join the California Employers' Retiree Benefit Trust (CERBT) as sponsored by the California Public Employees Retirement System (CalPERS). As presented in the January 2010 report, the district transferred all funds from the CCLC program to the California Employers' Retiree Benefit Trust. As of June 30, 2014, the District's balance in CERBT was $10,856,831.

13. **Leadership/Stability:** Is this area acceptable? **Yes**

Has the District experienced recent turnover in its management team (including the Chief Executive, Chief Business Officer, and Board of Trustees)?
No. Dr. Linda Thor has been serving as chancellor since February 2010. Vice Chancellor for Business Services, Kevin McElroy, began his assignment approximately six months later in August 2010.

It has now been almost five years since the chancellor began her assignment and over four years since the vice chancellor began his assignment. Both Dr. Thor and Kevin McElroy bring with them a wealth of community college administrative leadership experience.

Dr. Thor worked in the Los Angeles Community College District for sixteen years, serving as president of West Los Angeles Community College for four-and-a-half of those years. She then accepted the presidency for Rio Salado Community College, one of ten colleges in the renowned Maricopa County Community College District in Arizona, where she presided for twenty years prior to arriving at Foothill-De Anza Community College District.

In December 2014, Dr. Thor announced her pending retirement. She has informed the Board that she will separate and retire from her position as Chancellor as of the end of June 2015. The Board will be deciding on the process and timeline for Dr. Thor's successor in early January 2015. It is anticipated that a new chancellor will be identified within a relatively short period after Dr. Thor has left her position (6-9 months or less). The district will be able to maintain business-as-usual until a new chancellor is in place due to the cohesive and long-tenured senior executive team of college presidents and vice chancellors currently in place.

Mr. McElroy joined the Coast Community College District in Orange County in 1984. He started as Director of Fiscal Services on the Golden West campus, and served the next twenty years as the Vice President of Administrative Services for Coastline College.

After Fred Sherman's June 2012 retirement as Vice Chancellor for Technology Services, Joseph Moreau was selected as his replacement and began immediately following Mr. Sherman's departure. Mr. Moreau worked in the California community college system for eighteen years, including eight years as a chief information officer, before accepting the CIO position at State University of New York at Oswego in 2008. Mr. Moreau has twenty-six plus years of experience in the field of technology that he brings to Foothill-De Anza Community College District.

All other members of the Chancellor's Staff have held their positions since at least 2007.

14. **District Liability:** Is this area acceptable? **Yes**

Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?
Although risk management is a decentralized activity across the district, we maintain a comprehensive Risk Management department. This office, in an effort to identify and mitigate potential liabilities and/or litigation, maintains regular communication with administrators throughout the organization. In most cases, careful decision-making, foresight and proactive steps prevent such situations from becoming legal actions. Non-litigated claims against the district were small both in number and cost. When necessary, external legal counsel is engaged. The district maintains a relationship with specialized legal counsel in the areas of construction management and human resources issues. The district is self-insured for Workers' Compensation and is fully funded via the annual actuarial, which adjusts contribution rates as necessary. The district also maintains adequate reserves to mitigate any adverse employment decisions.

15. **Reporting:** Is this area acceptable? **Yes**

Has the district filed the annual audit report with the Systems Office on a timely basis?
Yes, for fiscal years 2009/10 through 2013/14, the annual audit report has been brought first to the Audit and Finance Committee and then to the Board of Trustees. As contractually agreed upon with our external auditors, the auditors have filed the annual report with the System Office on a timely basis.

Has the district taken appropriate actions to address material findings cited in their annual audit report?
Yes, each year we discuss any audit findings and recommendations of the fiscal year just ended with the Audit and Finance Committee. Subsequently, in March of every year we provide the Audit and Finance Committee with the status of the management's response and action taken to correct these findings.

Has the district met the requirements of the 50 percent law?
Yes, for the fiscal years 2009/10 through 2013/14, the district has met the requirements of the 50% law. The percentage of Instructional Salary Costs to Current Expense of Education for each of these years is:

Fiscal Year	Percentage
2009/10	52.73%
2010/11	51.19%
2011/12	51.57%
2012/13	51.45%
2013/14	52.78%

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 System Office on or before the stated deadlines?
Yes, for the years 2009/10 through 2013/14, each of these quarterly and annual reports has been submitted to the System Office by the required deadlines.