

STANDARD SEVEN

Finance



Introduction

Several major changes at the college in the past ten years have affected the Finance Department:

1. Major budget cuts and a change in the funding formula for higher education in Oregon;
2. The \$42.8 million Bond Levy for the Millennium2 construction project;
3. Lane's Administrative Systems Renewal (LASR) project;
4. The new governance system, including a representative Finance Council.

1. Budget Cuts and the New Financial Picture

In the past ten years, Lane has confronted fiscal challenges unique in its history. The economic environment is much more volatile as compared to the 1990s, when property taxes provided 41 percent of college revenue as compared to 17 percent in FY 04. As a result of Ballot Measures 5, 47, and 50, significant funding for the college was transferred to the state. The distribution of state funds through the funding formula required Lane to grow relative to other state colleges; in 1995, because of this funding

formula, while the college grew at 4-5 percent, the funding did not keep up with the growth. To accommodate this, the college made budget reductions each year from 1995-2001, with one exception.

Recognizing the need to cut its budget while preserving as many offerings as possible, the college depleted reserves and maintenance expenses during these years. However, in 2001, when the American economy went into recession after the financial markets' decline in 2001, Lane was further adversely affected by the state's inability to sustain funding levels. Statewide budget cuts of \$45 million over two years forced Lane to bear \$2.2 million in cuts, and an unanticipated \$3 million public pension liability when the markets rapidly declined. Following six previous years of cutting, these cuts and liabilities had a serious effect.

Implicitly, the citizens of Oregon have demonstrated unwillingness in recent years to support 75 percent of the cost of a community college education. Through ballot measures and state budgeting, voters and legislators have left it up to colleges like Lane to keep their doors open

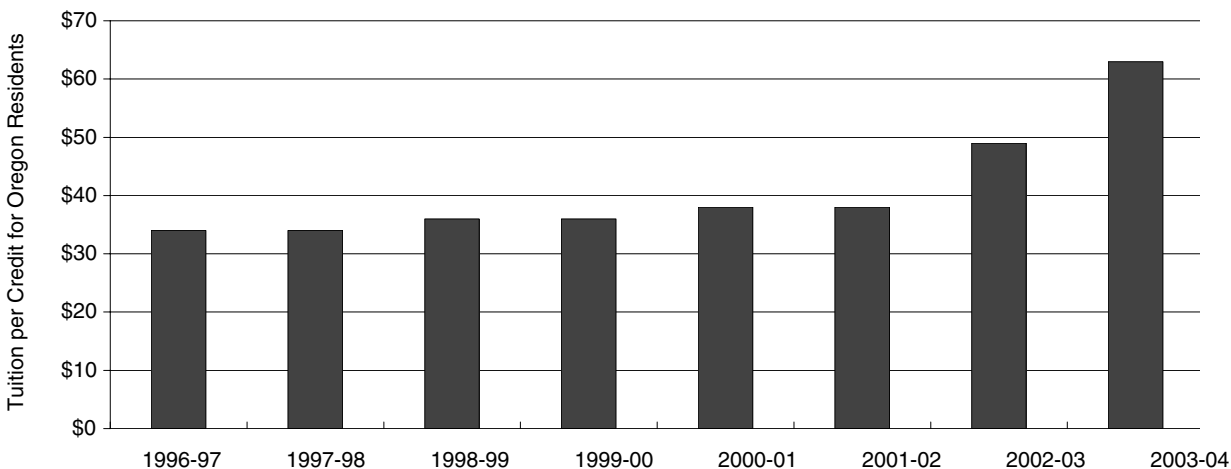


Figure 7-1: Tuition Rates 1996-present. (Source: Profile of Lane Community College).

using other means. One effect has been tuition increases: the college has gone from being the second lowest in tuition in 2001 to the fifth highest in 2004. Still, Lane maintains affordability relative to other two- and four-year public and private institutions.

Since tuition is the only resource over which the college has control to maintain its comprehensive offerings, tuition increases have been the only alternative to program cuts. For FY 03, Lane’s Board of Education approved a \$10 per credit tuition increase, plus another \$1 per credit of tuition to replace miscellaneous instructional fees that are less than \$10 per class. In addition, the board approved a \$3 per-credit technology fee, \$1.50 of which was a replacement for the then-current technology-user fee. Figure 7-1 illustrates the increases in tuition from 1996-present.

The recommended budget expenditures for 2002-03 included a \$9,820,278 decrease in basic operating expenditures (Personal Services, Materials & Services, and Capital Outlay). This decrease included approximately \$5 million in program and service reductions. The goal of the Executive Team in recommending a budget with a large tuition increase and large reductions in General Fund support of programs and services was to bring the college to financial stability in the ensuing fiscal year.

The proposed total General Fund budget for 2003-04 was \$70,623,034, which was a 1.4 percent increase over the 2002-03 adopted budget. However, total budgeted operating revenues (total Resources minus the Beginning Fund Balance) for 2003-04 were 1.5 percent less than operating revenues for the 2002-03 adopted budget.

Lane has sought the proper balance between student affordability and accessibility to quality instructional programs and services. The Executive Team decided that further significant cuts to instructional programs would compromise student accessibility to comprehensive offerings, and rejected a strategy of watering down quality. On April 28, 2003, the Lane Board of Education approved a \$14 per credit tuition increase for FY 04. The board also approved a pilot differential pricing program for several Professional/Technical programs and most Physical Education classes. The recommended budget expenditures included a nearly \$2-million decrease in basic General Fund operating expenditures, including \$1,471,000 in program and service reductions.

These years of cuts, while painful, have put Lane in a more stable financial position for 2004-05. At the same time, it is recognized that the next biennium will likely bring revenue shortfalls once again.

Additionally, the tuition increases and expenditure reductions of the past two years have brought problems of their own that must be addressed:

- the erosion of affordability for some students;
- a decline in the capacity of the college to serve students both in the number of classes offered and in direct student services;
- significant increases in workload for college staff.

The proposed 2004-05 budget reflects a three-pronged strategy to address these problems: additional allocation of recurring funds only to the most critical strategic needs; investments in one-time resources from Ending Fund Balance to strengthen some programs/services or fund projects that will save money on a recurring basis; and establishment of a “financial stabilization reserve.”

The total General Fund budget for Fiscal Year 2004-05 is \$79,232,500, an 11.6 percent increase over the 2003-04 adopted budget. (Most of the increase is due to tuition-based classes moved from a Special Revenue fund and a higher beginning fund balance.) Moreover, the administration recommended no major expenditure reductions and only a \$1.50 per credit inflationary adjustment in tuition as called for by Board Policy D.110. The budget also extends differential pricing to a second year. Finally, it should be noted that legislation passed in 2003 to reform Oregon Public Employees Retirement System is before the Oregon Supreme Court, and should the court overturn some or all of the reform legislation, the college may need to pay higher PERS costs. The college’s special PERS reserve is budgeted at approximately one-half the savings realized by the college as a result of the reform legislation.

2. The \$42.8 Bond Levy

The Millenium2 Bond Construction Project affected the financial picture at Lane in several ways. During the planning and design phase of the Bond Project, \$42,770,000 in General Obligation Bonds issued in 1995 was invested while Lane developed plans; this investment eventually accrued into more total building funds, which proved essential to the final picture. Workload in College Finance was directly affected during this

time, as staff worked to oversee this huge project over a decade, including its accounting areas and debt oversight.

3. Lane’s Administrative Systems Renewal (LASR) Project

Since 2001, college financial officers have been working on LASR, a \$4.8 million campus conversion from Lane’s previous administrative software to Banner. Lane moved to Banner for two reasons. First, support for the college’s old mainframe computer was terminated, making it impossible to get parts to make repairs should the mainframe break down. In addition, the previous software did not allow staff and students to transact business over the Internet, a direction Lane wanted to pursue.

During LASR implementation, Lane held campus-wide meetings each month to keep staff apprised of progress and to provide training opportunities for transition from the old system to the new. Banner enables staff and students to transact business in a digital environment. The college is currently in Phase III implementation. While the long-term investment in time and money will eventually provide the college with efficient and integrated administrative systems, including the finance area, the learning curve has been steep and its impact on workload has been felt in Finance.

4. New Finance Council

The budget planning and allocation process has undergone evolutionary change as a result of college-wide assessment over the last ten years. Many events have contributed to the college’s developing a more participatory process of budget development: a shift in the college culture; the hiring of a new president; and severe budget cuts in 2001-03, with concurrent concerns about representation in budget policy discussions. The principle of broad participation was first embodied in the Budget Advisory Group (BAG) and the Criteria Application Work Group (CAWG). This principle has been more fully articulated in the current charter of the Finance Council within the new governance structure (see Standard 6).

The purpose of the broadly representative Finance Council is to:

- develop college-wide financial and budget policies;
- update the Long-Range Financial Plan;
- evaluate the financial performance of the college;
- evaluate and assess the results of policies, planning and the annual budget process;
- recommend changes as necessary.

The Accreditation Self-Study has also impacted Finance. Many suggestions from the Standard 7 Team have been followed up on. Progress made on these recommendations is summarized in a table in the Exhibit Room.

Financial Planning

While ensuring the proper stewardship of public funds by setting appropriate limits, Oregon law and state practices grant a high degree of financial autonomy to local community colleges (7.A.1). The State Board of Education maintains the responsibility to make requests for legislative appropriations and establishes the standards for the distribution of funds appropriated for community colleges. In practice, the State Board works with community colleges through the Commissioner for Community Colleges and Workforce Development to cooperatively recommend budget requests and distribution of appropriations. Moreover, Oregon law authorizes Lane's board (as well as the board of each state community college) to manage financial resources according to local needs. As a result, once state funds are distributed through the approved funding formula, Lane's board has control over budgeting and spending of these funds in the district's best interests. Appendix C includes the current funds revenue in Table 1 and current funds expenditure in Table 2.

Tax Support for the College

Oregon law also empowers Lane's board to levy property taxes on district residents within the constraints of constitutional limitations on property taxes, and grants the board authority to incur bonded indebtedness within prescribed limits. Lane's board policy delegates financial authority to the college's president, within specific policy limitations. Within the limits of state law, Lane's board has established financial policy

statements and delegated appropriate authority to the president to implement those policies.

In the last decade, local control has eroded somewhat for two reasons. First, the passage by voters of a constitutional limitation on property taxes forces a much greater reliance by local community colleges on state appropriations. Second, the recent recession of the state economy has reduced state revenues. While voter limitations on property taxes curtail Lane's ability to raise local funds, the state's revenue problems may lead the state Legislature toward a "micro-management" of community colleges. For example, a Special Session in 2002 passed legislation to retract state aid and appropriations for "Self-Improvement" classes. This action departed from the past practice of local control.

Budget Committee Makeup

The vice president for college operations is responsible for operating procedures to implement policy. Previous budgeting groups have linked budget policy to maintaining long-term viability and helping the college fulfill its comprehensive mission. The work of the Finance Council will continue to ensure that financial planning and budgeting at Lane support the mission and goals of the college.

By statute, a budget committee comprised of county citizens and the board reviews and approves the college budget. All processes comply with Oregon Revised Statutes pertaining to budgets and public funds. Lane's efforts over the past few years to "right size" itself for future financial stability have proven successful. Despite recent challenges represented by state budget shortfalls, Lane maintains adequate financial resources to support the scope of its programs and services as defined by the college's vision, mission, and core values.

The college's financial management system ensures financial integrity, and in this regard the annual independent audits have proven exemplary. Lane recently hired an internal controls accountant to enhance and strengthen the college's internal oversight process. The implementation of Banner augments the security and integrity of budget processes and the data upon which they rely.

The Lane Community College Foundation oversees fundraising and development for the college. Incorporated in 1971, the Foundation provides individuals, corporations, foundations and groups with opportunities to support the educational programs of the college. Governed by a twenty-four member Board of Trustees, the Foundation is a 501(c)(3) organization. All gifts to the Foundation qualify for the maximum allowable deduction under the law.

Budget and Strategic Planning

Since 2001, Lane's budget development principles and criteria have explicitly tied in with the college's strategic plan (7.A.2). These principles and criteria guide and shape the college's three-year budget projections. In December 2000, with board approval, the Executive Team (ET) adopted a set of financial strategies developed by the Budget Advisory Group (BAG), whose membership includes students, faculty, staff, and administrators. The Facilities Management Team's priority list of capital improvement projects, major maintenance plans and schedules, and the Capital Assets Replacement Forecast (CARF) also contribute to shaping Lane's budget. Each of these documents align priorities with the college's mission and goals.

Building on the Budget Principles and Criteria and the work of the Criteria Application Work Group (CAWG) since 2000, the new Finance Council will continue to closely align its planning with the college's strategic plan and goals. The major update of Lane's Strategic Plan has provided important guidance for financial planning. In the new governance structure, the system of planning will tightly align with the system of resource allocation.

Long-Range Planning

The 2004-08 Strategic Plan explicitly provides the framework for the Draft Long-Range Financial Plan. The draft plan was developed by the Budget Office, based in large part on the policy work and recommendations of the BAG. The BAG reviewed the draft over several meetings, making changes to it and suggesting improvements. The Plan devotes a section to future issues such as state revenue uncertainties; tuition rates; building a sustainable ending fund balance; labor-intensive

services; rising costs of health care; PERS uncertainties; rising energy costs; deferred maintenance needs; under-funding of equipment replacement. The plan calls for the college to address these issues through the strategic plan. The plan calls for the college to achieve and sustain financial stability by:

- a. Balancing General Fund budget;
- b. Stabilizing tuition rates;
- c. Building a financial stabilization fund;
- d. Building capital reserves.

This plan will be reviewed by the Finance Council in Fall 2004.

The Banner information system provides an opportunity to produce financial data to support long-term financial planning. The system's current-year and prior-year financial information can be downloaded directly into Excel or Access and the information can be sorted and summed however a staff member wants. Once data are sorted with historical information, staff can use Excel's or Access's financial analytic functions to look for trends or make projections. The college is beginning to explore how the data warehouse and Oracle Discoverer can also be used to perform the same tasks. The college has purchased a data warehousing system to support this activity.

Resource Allocation

The adopted budget for Fiscal Year 2003-04 included an additional \$500,000 annual allocation for equipment replacement and major facilities maintenance; this amount has increased to \$700,000 for 2004-05; the Draft Long-Range Financial Plan calls for building an equipment reserve fund until it reaches a \$400,000 annual level where regularly scheduled equipment replacement and major maintenance can take place and there are enough funds to make significant progress each year on the backlog in these two areas.

Resources for capital needs had been diverted to general operating uses because of state revenue problems. The college has made a commitment to integrating long-range and short-term planning and planning for contingencies. While the college faces some deficits in 2006-07, it is hoped that adjustments made in the recent past and improvements in the current system will help the

college successfully weather those challenges without significant disruption.

Open Budget Approval Process

The college adheres to Oregon state law, which requires budget approval and adoption to be an open, public process. Lane publishes an annual budget, which is distributed to appropriate constituencies; the policies, guidelines, and processes for developing the budget are clearly defined and followed. When necessary, budget revisions are made promptly and these changes are distributed appropriately (7.A.3).

The Budget Development Calendar is posted on the Lane website. The college distributes copies of the budget document to the State of Oregon (in accordance with the law), the Budget Committee, the presidents of the two unions, the president of Associated Students of Lane Community College (ASLCC), and every department of the college. Copies are available to the public at the Library, in the Budget Office, at the Downtown Center, and at the centers in Florence and Cottage Grove. The college keeps copies of the annual budget document for all years from the inception of the college on file in the Budget Office and in the Library. Beginning in 2003-04, the budget document is also available on the college website.

Budget Assumptions used to make revenue and expenditure projections are adopted annually by the board and posted on the budget development website, as are the budget policies, guidelines, criteria and process. Frequent memos from the president and special meetings help facilitate communication about budget development issues with students and employees throughout the year. Transfer resolutions, approved by the District Board, are required by law to move budget authority between funds and sub-funds. These are done at regular intervals throughout the fiscal year. The college passed supplemental budgets in 2001-02 and 2002-03. The Lane Board approved them in accordance with Oregon Local Budget Law, which requires prior public notice and approval by resolution at a public board meeting.

Debt Authority and Limits

Debt for capital outlay purposes is periodically reviewed, carefully controlled, and justified, so as not to create an unreasonable drain on resources for educational purposes. Board policy C.040, which was just revised, guides the use and limit of debt (7.A.4).

Board Policy E.100 defines the responsibility and authority for borrowing; a limit to debt is set by policy such that the college must “maintain a balanced relationship between debt service requirements and current operating needs.” Annual financial statements include balance sheets that clearly state the college’s capital debt. Lane has a clear and stable plan for retiring current debt, which includes approximately \$43 million in voter-approved general obligation bonds that will be retired in 2009, and a \$2 million bank loan that will be retired in 2012. Additionally, the college sold \$52 million in taxable pension bonds in May 2003 to pay off 75 percent of the college’s PERS unfunded actuarial liability. Debt service covers 25 years. The board has recently reviewed and clarified its policies on debt limits and the rationale for borrowing

Strengths:

- Lane’s budget development process is increasingly open and representative. All budget documents are available on the website for public scrutiny. The college makes efforts to educate all constituencies on the budget process.
- The Draft Long-Range financial plan is tightly linked to the goals of the Strategic Plan
- When fully implemented, Banner will support long-range financial planning.
- Lane’s capital debt level compared to total budget is relatively low and is within the guidelines set by law and policy.

Challenges:

- Because community colleges fall under the State Board of Education, community college budget issues can get lost in competition with K-12 concerns.

- Economic downturns in the Oregon economy have made strategic financial planning for three to five years a difficult task. Due to the state's shift away from localized property taxes as a source of funding education, just under half of Lane's annual General Fund revenue arrives in the form of state aid.
- For the college to make progress, the board must remain committed to long-range contingency funding/reserves even during difficult fiscal times.
- The complexities of public funding (property taxes and state aid) and the size of the college make it difficult for employees, students, board members, and district citizens to truly understand Lane's budget in detail.
- The Long-Range Financial Plan needs to include consideration of appropriate use of borrowing to further college goals.

Improvement Plans:

- Since changes to the levels of local financial autonomy are almost exclusively the purview of the state Legislature, the college is working to form appropriate alliances to educate legislators of the impact of their decisions on community college students.
- The board has adopted Policy E.050, Capital Reserve Funds, which requires that Lane utilize reserve funds to adequately maintain and repair college facilities according to the Major Maintenance Schedule. The Draft Long Range Financial Plan includes allocation plans for facilities renovation, remodeling and major maintenance essential to maintaining a high-quality learning environment.
- The administration will work with the board to ensure effective communication of long-term and short-term budgeting needs.
- Lane will develop training modules for students, employees and board members, that will help individuals in each group to better understand Lane's budget and the materials available on the budget development website.
- The Finance Council will work with College Council to consider how borrowing enhances Lane's ability to meet its strategic goals.

Adequacy of Financial Resources

Lane seeks and utilizes various sources of funds adequate to support its programs and services. Lane's mission, goals, and priorities are reflected in allocation of these resources (7.B.1).

There are five major categories of revenue to the college:

- State and federal
- Property taxes
- Tuition
- Instructional fees
- Other revenue

The state allocation to community colleges has declined in the last two years and the tuition has increased during the same period (see Introduction). Figure 7-2 traces the level of funding in these categories over the last nine years.

The college has made significant efforts to diversify revenue sources, including growth in the Foundation, increases in grant funding, and growth in the number of contracts with local partners in business and industry. Lane's annual financial reports show the variety of revenue sources to the college General Fund and other funds. Foundation data show increases in the sources of donations to the college and increases in the dollar amounts of donations.

Adequate resources are available to meet debt service requirements of short-term and long-term indebtedness without adversely affecting program quality. Three years' history of the amount borrowed for capital outlay and operating funds is maintained. A five-year projection of future debt repayments is maintained (7.B.2). Annual financial statements contain realistic projections of future debt repayments for the life of each debt. Such repayment does not impede the college's fulfillment of its mission and goals. Past annual financial statements present the history for amounts borrowed by the college.

Despite reductions in the state budget, the college projects financial stability such that projections for fiscal years 2005 and 2006 indicate no reduction in staff or programs during these two

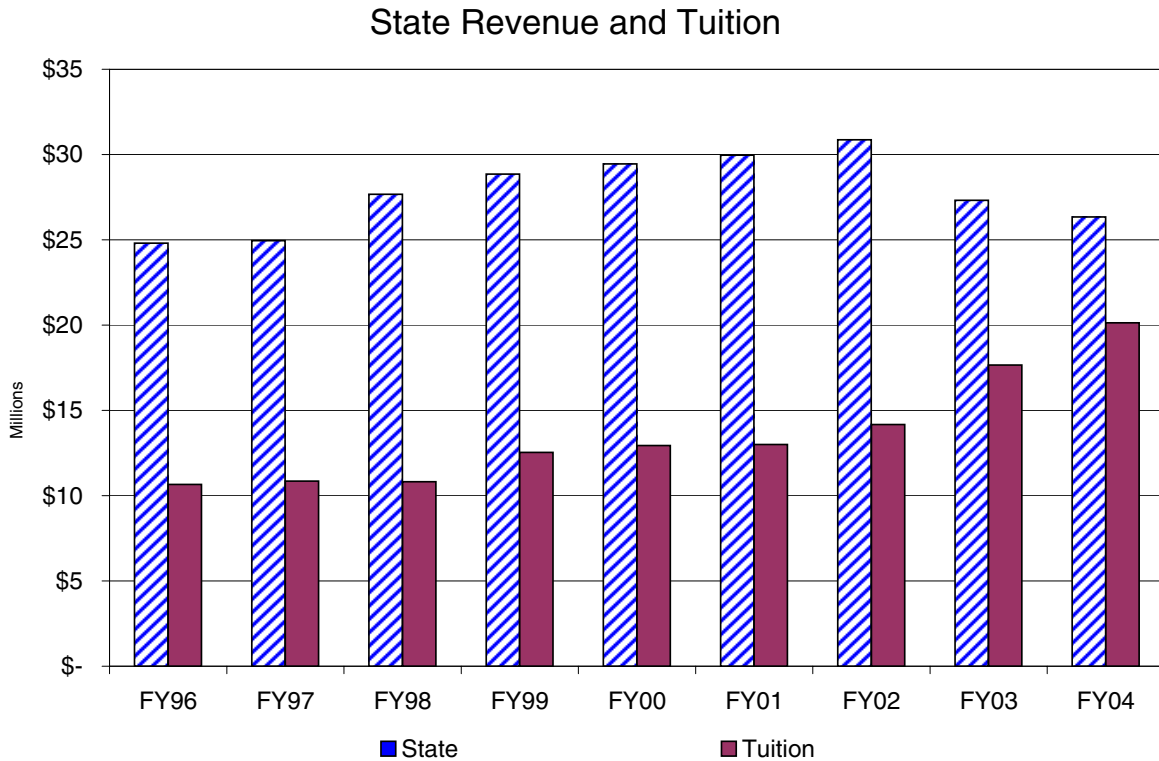


Figure 7-2: Revenue Sources of Lane Community College (Source: Draft Long-Range Financial Plan).

years (7.B.3). Achieving financial stability is a Strategic Direction of the college for 2004-08. Newly adopted Strategic Directions for the college include fiscal stability as a primary focus for the next three years (7.A.2).

The Draft Long-Range Financial Plan, which is strategically guided, includes several steps to achieve and sustain financial stability, including the following:

1. Balance the General Fund budget.
2. Stabilize tuition rates.
3. Build financial stabilization fund.
4. Build capital reserves.

Since fiscal year 2002, the college’s administration has provided an analysis of the annual audit of the financial statement with regard to the financial stability of the college. Despite having operating deficits in recent years due to reductions in state funding, the ending fund balance in the General Fund remains at an

acceptable level. In January 2004, the board approved policies that define a balanced budget in specific operational terms and require a plan for regaining financial stability when the ending fund balance is lower than the limits set by policy. The college will implement this policy both in its Strategic Plan and its Long-Range Financial Plans.

Transfers and Interfund Borrowing

Transfers among major funds and interfund borrowing are legal and guided by clearly stated policies in accordance with prudent financial planning and control (7.B.4). The college adheres to Oregon Revised Statutes (ORS) policies on interfund transfers and borrowing. ORS 294.361 sets legal guidelines for interfund borrowing and transfers (7.A.1). The record of budget transfers has been consistent with college financial policies and practices. On January 14, 2004, the Lane Board approved policy E.080 which addresses interfund borrowing.

Program Resources and Financial Aid

Lane allocates adequate financial resources for the support of all of its offerings, including specialized occupational, technical and professional programs (7.B.5). Historically, the college has allocated a substantially larger portion of revenue to instruction and student services compared to the Oregon community college average as seen in Figure 7-3. While instruction and student services allocations were high, college support was lower than the average for the Oregon community colleges (Figure 7-3). However, in 2002-2003, instructional allocation at Lane dropped lower than the average for Oregon community colleges, while college support continued to remain lower and student services continued to remain higher than the average for Oregon community colleges (Figure 7-4).

Funding from the state has been inadequate to keep up with rising costs of programs. The failure of state aid since 2000 to increase sufficiently to cover Lane’s increasing operating costs has resulted in a 75 percent increase in tuition from 1999, when tuition was \$36 per credit, to 2004, when it rose to \$63 per credit. Recently, the college has piloted a differential pricing schedule for some higher-cost professional technical programs as a response to budget cuts that

threatened the programs. The board approved a second pilot year for this program and will continue to assess its effect on enrollment.

Lane identifies the sources of student financial aid for current enrollments and provides evidence of planning for future financial aid in light of projected enrollments. It monitors and controls the relationship between unfunded financial student aid and tuition revenues (7.B.6). The structure, rules and logic of financial aid are utilized to help plan for future student usage of financial aid. For example, the Financial Aid Office maintains a ‘Year End Plan’ for Federal Financial Aid, an ‘Overcommitment’ report based on the ‘Year End Plan,’ and tracks proposed tuition increases throughout the budget calendar and enters any changes into Banner’s Financial Aid packaging module. Banner provides excellent tools to analyze and monitor student financial aid programs. Because Banner software is widely used in educational institutions, Banner keeps their programs updated for the latest changes in federal aid regulations.

Lane maintains current financial aid methods and procedures by keeping in touch with financial aid administrators throughout the region and the country. The college holds memberships in the

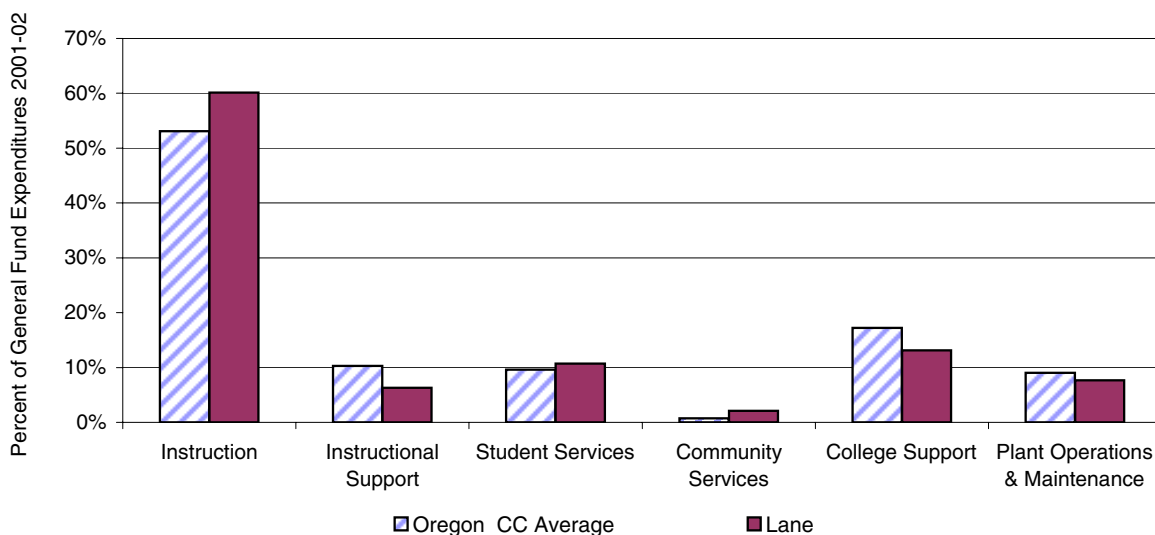


Figure 7-3: Lane Operating Expenditures by Category (Source: Oregon Department of Community College and Workforce Development 2001-2002 Profile).

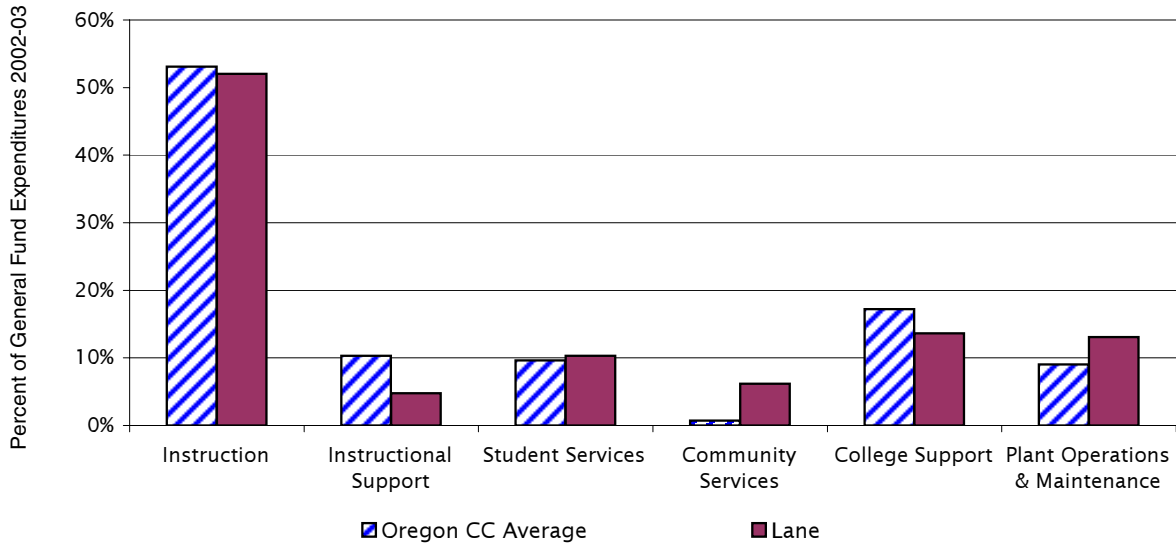


Figure 7-4: Lane Operating Expenditures by Category (Source: Oregon Department of Community College and Workforce Development 2002-2003 Profile).

Oregon State Community College Directors Group, the Oregon Association of Student Financial Aid Administrators, the Western Association of Financial Aid Administrators and the National Association of Financial Aid Administrators to help identify new sources of student financial aid.

Reserves

Lane is building adequate financial reserves to meet fluctuations in operating revenue, expenses and debt service (7.B.7). While there was no explicit policy concerning reserves in place in 1994 during the previous self-study, through sound financial management, the college had healthy reserves in the form of a large ending fund balance and some capital reserves, with some fluctuations. Since 1999, when finances tightened due to increased costs and state budget cuts, the reserves were spent down in order to continue to offer programs and support operations. When it became clearer that the temporary lean times would extend into the foreseeable future, it also became clear that the college needed a policy to build reserves even in lean times.

Board Policy E.040 provides the ability to establish a financial stabilization fund in anticipation of revenue shortfalls. Current

projections show revenue shortfalls beginning with the 2005-07 Biennium. With this projection in mind, the adopted FY 05 budget allocated \$500,000 toward the financial stability fund. A history of General Fund ending fund balances is in the past five years’ annual financial reports available in the Exhibit Room. Board policy A.040.4 limits expenditures in any fiscal year to conservatively projected resources for that period (see also A.040.6, and A.050). Board financial policies regarding Financial Stabilization, Reserve Funds, Ending Fund Balance, and Balanced Budget guide the college’s policies for reserves.

Auxiliary Enterprises

The college understands the financial relationship between its educational and general operations and its auxiliary enterprises and their respective contributions to the overall operations of the college. Auxiliary enterprise income balances education and general operations (7.B.8). The college requires that Auxiliary units (“Enterprise Zones”—the Bookstore, Food Services, Printing & Graphics, Hospitality & Conference Services) operate without direct financial support from the General Fund. After an assessment of its prior policy of requiring an 8 percent budget contribution to the college, the board directed Operations to develop appropriate methods of

generating a budgeted level of revenue to the General fund from the Enterprise Zone Units. The Bookstore, Printing and Graphics, Laundry, and, in the future, the Conference and Hospitality Services and Food Services now contribute 50 percent of their carryover to the General Fund in recognition of overhead costs; these units pay for custodial work in their own areas. An analysis demonstrated that this 50 percent carryover was a realistic way to replace the 8 percent of budget previously charged, while allowing for an occasional bad year.

If an Enterprise Zone's income revenue does not meet or exceed its expenditures, the vice president for operations, the budget office, or the Budget Committee may approve transfers from the General Fund to the other fund. In the past, the college has had to support some functions, such as Food Services, because of the narrow margin under which they operate, and their important support function. However, Food Services are much healthier than they were ten years ago, ending each year generally in the black, and contributing small amounts of carryover. The college is working hard to make auxiliary units and the general fund relationship much more explicit to all staff, and to clarify expectations on both sides.

Strengths:

- Lane's diversity of revenue sources was noted in its new Standard and Poor's Bond Rating Report.
- In the face of state and national economic pressures, the college has taken steps in strategic and the financial planning to achieve stability and maintain quality.
- Financial projections for fiscal years 2005 and 2006 indicate that no reduction in staff or programs will be necessary during these two years.
- Lane's five-year history of program reductions and additions shows that the college adjusts its programs as needed.
- The college has maintained its emphasis on quality in its allocation of resources and has maintained its comprehensive mission in the face of state cuts.

- The college gives out more financial aid to students than any other community college in Oregon.
- The new Banner system is an important tracking tool for financial aid.
- Good fiscal management and reserves helped Lane weather recent budget cuts better than it otherwise would have.
- The college has recognized the need for a policy to guide build-back reserves after an extended period of state cuts led to spending down reserves.
- Lane's Enterprise Zones serve important recognized functions at the college and do not place an unnecessary burden on the General Fund budget. These units have contributed positively to the college financially and also to students.

Challenges:

- Since Fiscal Year 1998, General Fund expenditures have exceeded revenues in all but one fiscal year.
- Significant decreases in public funding for education put increasing pressure on the college to develop other revenue sources.
- Locating alternative means of funding takes time and energy away from the central mission of the college.
- Decreases in state funding compelled Lane to increase tuition in fiscal years 2003 and 2004 as well as to initiate a differential fee for certain professional technical programs.
- State revenues in the early 2000s have been volatile and unreliable. Since state aid has been just under 50 percent of the college's total General Fund revenues, this situation has made long-term financial planning extremely difficult.
- Campus staff are encountering a learning curve with the implementation of Banner's Finance reporting systems.
- College reserves are at an all-time low when it is facing future projections of inadequate revenue.
- Not all staff fully understand the relationship between the General Fund and the Enterprise Zones.

Improvement Plans:

- The Financial Plan calls for a balanced General Fund budget.
- The Foundation has improved its fundraising activities and is developing an infrastructure for a capital campaign.
- The college plans to stabilize tuition increases, and will continue to make efforts to find or award financial aid to all students who need it to help offset the impact of tuition increases.
- The Foundation has increased its scholarships and continues to place a high priority on building scholarship funds.
- Lane continues to seek ways of balancing current pressures with long-term needs in both instructional and facilities/operations areas.
- The Lane Board will commit to financial and budget decisions that are driven by sound long-term fiscal policies.
- The college is committed to using the full potential of Banner and will continue to work on facilitating staff transition to the new system. The college will implement Lane's investment in SCT's Financial Aid Datamart as another tool for better reports and statistical analysis.
- The college has committed to building adequate reserves. The Finance Council will also take up this issue.
- The Enterprise Zone staff, in conjunction with the Executive Team, is developing understanding of the financial commitment of the college to Enterprise Zone units and the financial responsibilities of Enterprise Zone units.

Financial Management

The president reports regularly to the board about the financial adequacy and stability of the college (7.C.1). Lane's board policies provide direction for reporting and monitoring financial conditions of the college. Administrative reporting to the board has been consistent and timely. The college has established an "internal controls" function in the budget for FY 04. The college recently purchased a high-performance data warehousing application to help process more frequent and useful financial reporting.

Available in the Exhibit Room are several documents related to reporting, including:

- Board policies A.040 - Financial Planning and Budgeting; A.050 - Financial Condition and Activities and A.070 - Asset Protection (7.A.1).
- Quarterly financial reports to the board
- Annual financial report with administration's analysis
- Annual monitoring reports on board policies (Executive Directions)

Other kinds of internal reporting at the college have been improved through the LASR project. Banner Implementation presented some early challenges in reporting, but has since provided an enhanced reporting function. College Finance at first encountered difficulty generating accurate financial reporting information during the first year of implementation of the Banner financial module in 2002-03; this problem was not repeated during the second year.

The college began implementing Banner's Financial Data Warehouse in May 2004, which greatly improves the reporting function. Individual administrative assistants can customize reports to their specifications, querying a static database by the Banner tool, which takes a nightly "picture" of the current record. This tool provides a more efficient interaction with the database while also safeguarding against slowing down the entire system with live data queries.

The vice president for college operations has overall responsibility for financial functions, and reports directly to the college president. Business functions are well organized and are effectively overseen by the budget analyst, who develops future budgets under Executive Team (ET) guidance (7.C.2). Managers and classified financial staff possess considerable experience in monitoring and processing college financial transactions, ranging from two to sixteen years. The college Finance Department collaborates with Student Services in operation of the "one-stop" Students First! Center to more efficiently and effectively serve students.

Control of Expenditures, Income, and Financial Aid

Expenditures and income from all sources are fully controlled by the college, as is the administration of scholarships, grants in aid, loans, and student employment (7.C.3). Lane’s vice presidents monitor and control expenditures in their areas, including individual departmental areas. Additionally, departmental managers monitor and control expenditures within their own departments. The college uses comprehensive financial projections for planning and budgeting, taking into account all revenue sources and all types of expenditures.

In conjunction with Lane’s vision, mission, core values, the Strategic Plan, and Budget Principles and Criteria, ET uses financial projections to make the final planning decisions for each ensuing year’s budget. Financial aid revenue and expenditures are processed through Lane’s regular finance system; Financial Aid is included in the A-133 audit Fiscal Operations Report, and Application to Participate (FISAP) reports to the Department of Education are available in College Finance.

The college invites and involves all stakeholders in the budget planning process. Prior to the new governance system, Lane had used mechanisms such as the Budget Advisory Group, the CAWG, Managers’ Council, Faculty Council, Classified Council, and Student Government to gather input into the budgeting process. The unit planning process has also begun to develop a system through which departments may collaboratively prioritize initiatives that involve resource allocation. The College Council and Finance Council will have strategic and policy-level input into budgeting in the next budgeting cycle.

Cash Management and Investments Policies

Lane has clearly defined and implemented policies regarding cash management and investments which have been approved by the board (7.C.4). Lane’s board investment policy is flexible and limits risk, permitting all investments allowable to Oregon local governments by law (ORS 294.035). The College Online Policy and Procedure System (COPPS) and ORS procedure

require College Finance to seek investment safety ahead of revenue generation, and diversification of investments to minimize risk. Policy requires College Finance to document its daily investment practices, which provides a good “audit trail” and ensures that board policy will be followed.

Principles of Accounting

Lane’s accounting system follows generally accepted principles of accounting (7.C.5). For more than ten years, Lane has garnered clean reports by independent auditors on its Financial Statements. Unqualified audit opinions on GAAP-compliant financial statements enable Lane to maintain high credit ratings when it must borrow money to continue to fulfill its mission.

SCT Banner enterprise software is designed to be in compliance with generally accepted accounting principles, GFOA Certificate standards, and NACUBO reporting standards. The Banner system empowers all stakeholders to view the college’s financial records directly. Banner empowers departments to generate their own transactions (e.g., budget changes, purchase orders), reducing reliance on centralized finance functions.

Auditing Firm and Reports

Lane has a locally-elected board that must be responsive to the district’s financial needs to fulfill its mission, instead of a “state-wide system.” The board appoints auditors and receives auditing reports (7.C.6).

Under the old Governmental Accounting Standards Board (GASB), Lane’s Funds were presented separately. This made it difficult to see Lane’s financial condition as a whole, because to do so one would have to combine all the reported fragments and very few people had the financial background to do that. However, past difficulties in explaining financial statements and issues to board members may be ameliorated with GASB 34- and 35-compliant (FY 03) government-wide financial statements and Management Discussion and Analysis.

Lane’s most current audit report was created under GASB Statement 34 and 35; it presents all of Lane’s financial accounts in a single column. Lane can now be viewed and financially

understood as a single entity. In addition, GASB 34 requires a Management Discussion and Analysis be presented in the audit before the financial statements, in which the institution explains the financial information in general, thus helping a non-accountant to better understand Lane's financial position.

Independent Audit and Its Summary

Lane's consistently "clean" audit opinions demonstrate that the college: follows generally accepted accounting principles in maintaining its books and records; prudently stewards its financial resources for use in its educational offerings. High credit ratings indicate that bond-rating agencies agree that Lane's accounting and financial reporting is excellent (7.C.5). The infrequency of Management Letters indicates that Lane's accounting policies and practices are working well and produce consistently reliable financial information.

Lane considers the Management Discussion and Analysis (plus the first three pages of the financial statement) a summary of the financial statement. The college publishes the entire audit on the web, including the Management Discussion and Analysis (7.C.7)

7.C.8-7.C.10 Not applicable to Lane.

Audits and Controls

Lane's nearly 40-year history of financial operation without major fraud detected validates Lane's strong financial control environment. All managers are directly responsible for monitoring the expenditures of financial resources within their organizations. Lane also exhibits excellent segregation of duties with respect to cash, because all cash is processed in Students First! Center, while bank reconciliations and unannounced cash counts are performed by the Accounting Team. Furthermore, payroll is processed by Human Resources, but distributed (primarily electronically) by the Disbursements Team. Lane has hired an internal control accountant (7.C.11).

With the exception of 2002, Lane's auditor did not issue a single Management Letter, which is indicative of the college's strong controls and

compliance. In 2002, the college accepted auditors' recommendations on two items that have been addressed (7.C.12).

The college agrees to make the audits available to the Northwest Commission on Colleges and Universities (7.C.13). Lane audit reports and Management Letters for FYs 1999-2003 are located in the Exhibit Room.

Strengths:

- College Finance is staffed by competent and experienced individuals who function well and serve the college's finance needs. The vice president for operations has ten years of experience in that role.
- College Finance works with appropriate internal departments to effectively control all expenditures and income.
- The college's investment philosophies are prudent and consistent with those typical of a public institution; asset preservation takes precedence over revenue maximization.
- The Management's Discussion and Analysis is available on Lane's website for the public convenience.
- Lane's creditworthiness stands at 'A+' as of June 2004, as computed by Standard & Poor's Ratings Services.
- The GASB 34 Management Discussion and Analysis has proven useful in helping to explain the complexities of the audits to non-specialists.
- Controls over and monitoring of, federal and other grant and contract expenditures are especially strong; there have been no Single Audit findings since 1994.
- Banner provides robust security, precluding users from entering or changing data in the financial system without proper authorization.

Challenges:

- Some areas of the college are coping with additional responsibilities resulting from present and imminent elimination of financial management positions.
- The learning curve involved in implementing Banner software for Financial Aid and Enrollment Services has proven frustrating at times.

- Current economic conditions indicate that low investment returns must be expected for the foreseeable future.
- The college has encountered difficulty in explaining complex financial statements (appropriate to a college of its size and operations) and issues to board members and other stakeholders, who have different levels of expertise in understanding financial and accounting systems.
- Lane is in process of multi-year Banner software implementation, which will change cash handling procedures and processing of student transactions. This will necessitate documentation of new procedures and controls.

Improvement Plans:

- The college will continue to review workload issues in the Finance Department and consider appropriate staffing levels within fiscal constraints.
- The college will investigate further Banner implementation as a means to more effectively process financial aid applications. Enrollment Services has just undergone a workflow review, and recommendations for increased efficiency will be implemented as feasible.
- In order to augment the college's implementation of Banner, the college is considering purchasing report-writing software and training all employees with financial responsibilities to successfully use such software.
- The college will continue to invest wisely while monitoring investment opportunities as they arise.
- Under the auspices of the new Finance Council, the college will investigate ways to provide better shared understanding of what the financial statements represent and a more in-depth understanding of Lane's complex financial issues.
- The college will document new procedures and internal controls when Banner implementation is completed and effective reporting tools are made available.
- The college will investigate applying for the GFOA Award for Excellence in Government Finance, as evidence of Lane's commitment to outstanding financial reporting.

Fundraising and Development

Fundraising Policies

Lane's Foundation maintains IRS 501(c)(3) documentation and is registered with the Secretary of State as a non-profit organization. Fundraising activities are governed by institutional policies, comply with governmental requirements, and are conducted in a professional and ethical manner (7.D.1). The bylaws of the Foundation establish clear and ethical policies. Agreements between the college and Foundation are clearly drawn. The Foundation uses independent audits, as indicated by 2003-02, 2002-01, 2001-00. In February 2004, the board reaffirmed the Foundation's non-profit corporate status.

Department Fundraising Agreements (PAT agreement): Departments or college areas have a separate account with the Foundation from which they can spend. That department enters into an agreement with the foundation to provide specific help to the Foundation in its efforts to draw donations to its own foundation account. An example would be the Native American long house, which has an account with the Foundation to raise money for construction of the long house; the Long House Project initiates specific campaigns to attract money to that account.

Administration of Funds

The foundation maintains a list of 34 endowments and operates under approved endowment objectives and an investment policy adopted by the Foundation Board. Investment managers are hired and supervised by the investment committee of the Foundation Board of Trustees. Lane maintains complete records of endowment and life income funds and complies with applicable legal requirements (7.D.2).

Relationship between College and Foundation

Although the Foundation exists "for the purpose of advancing and promoting the interest and development of the college and the students, faculty, and community," by agreement between the Foundation's board and the Lane Board, the Foundation's 501(c)(3) status gives it a separate "non-profit corporate status wherein the Foundation board has stewardship of the

Foundation funds.” This agreement was adopted in 1991 and reaffirmed in 2004.

Strengths:

- The college’s president, Board of Education, faculty, classified personnel, and Associated Students of Lane Community College have direct involvement by having representation on the Foundation Board. The Foundation Board has extensive community and professional members.