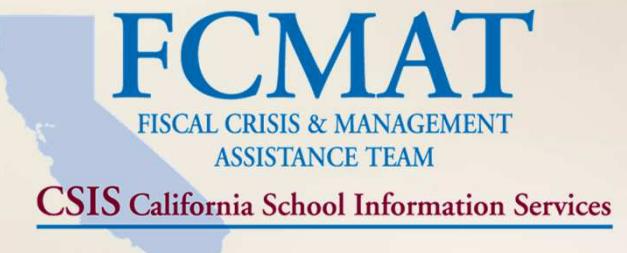


Ensuring the Financial Health of a Community College District

October 26, 2015

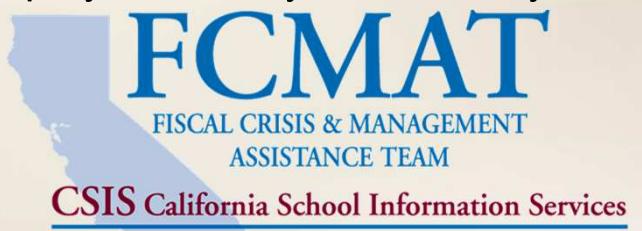
ACBO 2015 Fall Conference

Michelle Plumbtree
Chief Management Analyst



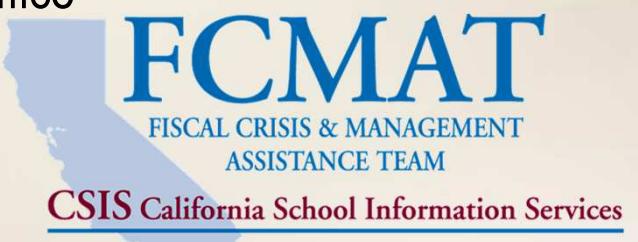
The Role of FCMAT

- FCMAT can help in:
 - Determining the extent of the problem
 - Providing recommendations in specific areas that FCMAT has been asked to review
 - Providing facts that help resolve disputes
 - Developing recovery plans
 - Performing fraud investigation
- FCMAT also advises legislators on the need for state loans/takeovers
- FCMAT can be a valuable resource before you get into trouble, so ask for help
- If you get into trouble, FCMAT will almost certainly play a role in your recovery



What is “Financially Troubled?”

- A financially troubled district:
 - May have a history of deficit spending
 - Has unusual fluctuations in FTES
 - May be receiving stability revenue
 - May have GF unrestricted fund balance that is trending negative regarding the percentage related to expenditures and other outgo
 - Cannot maintain a prudent, GF unrestricted fund balance of 5%
 - May not conform to multiyear projection standards
 - May not have enough cash to meet its obligations
 - May have audit findings about “going concern” issues or on material internal control audit findings
 - Has poor communication with the Systems Office



Indicators of Potential Risk or Insolvency

- Leadership breakdown
- Ineffective communication
- Collapse of infrastructure
- Inadequate budget development
- Limited budget monitoring
- Lack of data accuracy, collection and reporting
- Human resources weaknesses
- Inattention to and/or high levels of debt
- Cash monitoring and accounting deficiencies



What Can Districts Do in Anticipation of an Uncertain Fiscal Environment

- Plan—current plus two years +
- Keep your budget assumptions current
- Spend restricted dollars first
- Keep enrollment and staffing numbers current
- Build reserves/fund balance if possible
- Be careful about debt, including OPEB bonds
- Manage cash
- Forgo big/expensive budget decision unless you can truly afford them

Remember, always think about the future. How will today's decisions affect future years' budgets?



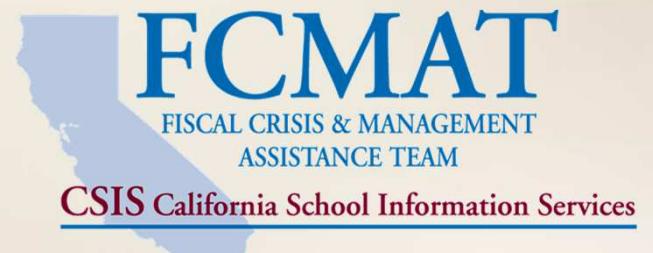
What Can Districts Do to Manage Cash?

- Have a system in place to analyze and monitor cash flow on a regular basis—all funds
- Report cash flow status and projection to the board on a regular basis
- Conserve cash when possible—all funds
- Build reserves/fund balance—all funds
- Consider creating spending plans to manage available cash
- Consider options for dry period financing (borrowing)
- Don't run out!



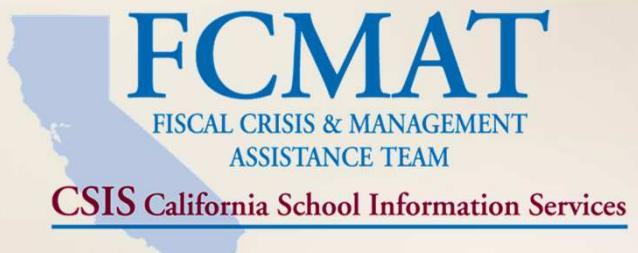
What is Cash Insolvency?

- Generally speaking, cash insolvency occurs when the cash in payroll exceeds the cash available in the county treasury (or other possible sources of cash) and all options for borrowing have been exhausted.
- Cash insolvency is a limited function of deficit spending, erosion of fund balance, and sustained negative cash flow over time.
- If you run out of cash, it's "game over."
- You can receive an authorization for an emergency appropriation, but ...
 - The local governance options is lost
 - The chancellor/president loses their job
 - It's expensive!



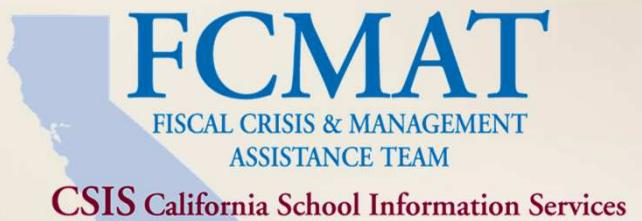
Responsibilities of the District

- Characteristics of districts that avoid pitfalls:
 - Recognize when they have a problem
 - Don't mask the problem (**bad news does not improve with age**)
 - Take advantage of the financial expertise that is available
 - Work collaboratively with oversight agencies
 - Constantly reassess their fiscal position and health
 - Maintain healthy reserves
- Characteristics of districts that require severe measures:
 - Deny they have a problem
 - Resist scrutiny from outsiders
 - Don't seek external assistance
 - Combative with oversight agencies
 - Panic



Fiscal Health Risk Analysis

- Management tool
- 19 Key Fiscal Indicators
- The more indicators (i.e., 7 or more) that apply to your district, the more cause for concern
 - Could have need for some level of fiscal intervention
- The more indicators identified, the greater the potential risk of insolvency or fiscal issues



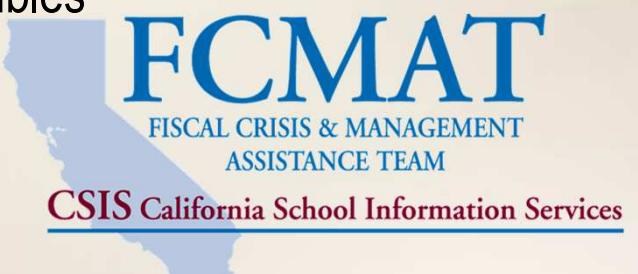
Fiscal Health Risk Analysis Indicators

Deficit Spending	Fund Balance	Reserve for Economic Uncertainty
Enrollment and FTES	Debt	Cash Monitoring
Bargaining Agreements	General Fund	Encroachment
Management Information Systems	Position Control and Human Resources	Budget Development and Adoption
Multiyear Projections	Budget Monitoring and Updates	Retiree Health Benefits
Leadership/Stability	Internal Controls and Annual Independent Audit Report	Facilities
General Ledger		

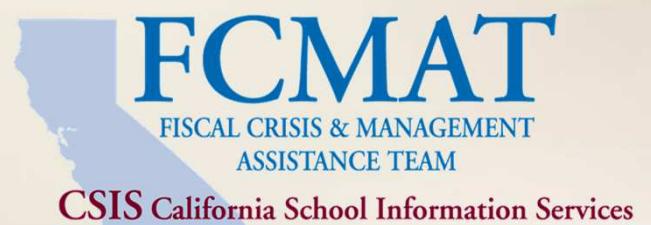


Summary

- A CEO and CBO/CFO have legal fiduciary responsibilities
 - The vast majority discharge this duty well
- Strong leadership makes a difference
- Fiscal transparency and cooperation is critical
- A district and its board must simultaneously:
 - Review and report past budget performance
 - Monitor and revise the current year budget
 - Plan and prepare future budgets
- FCMAT is an agency designed to assist education agencies
- If a board gets into financial trouble, the System Office must step in
- The state does not “bail out” districts from financial troubles
 - A state loan comes with a state trustee and a high cost
- Use as many tools of the trade as you can to help you do your job!



Questions and Answers



THANK YOU!

