

FINANCIAL OVERSIGHT AND MONITORING

I. Purpose

The purpose of financial oversight and monitoring by the Board of Trustees is to exercise due diligence over College financial activities through planning and reporting based upon criteria established by the Board as well as other legal requirements and restrictions. This includes budget development, on-going financial monitoring, and compliance with budget and other relevant parameters.

In order to provide better defined policy guidance to the administration and to establish expense parameters and define reporting requirements, the College's Board of Trustees annually reviews and approves a budget for General Fund operations for the ensuing fiscal year. The College's Board of Trustees also approves capital projects upon request as outlined in the Capital Projects Policy.

II. Scope

The adopted budget serves as a financial plan for the administration as well as a basis of financial reporting to allow the Board of Trustees, on behalf of the students and public, to monitor and exercise appropriate due diligence over the financial affairs of the College.

Sarbanes-Oxley was adopted into law 2002 and applied to publicly traded companies. However, to conform with relevant professional guidance for higher education arising from the adoption of Sarbanes-Oxley and the desire to comply with the spirit of the law, the Board of Trustees must exercise clear and transparent due diligence in its oversight of College financial activities and establish reporting and monitoring requirements necessary to fulfill its fiduciary duties.

III. General

Required Monthly Financial Reporting

A. Statement of Net Position: The Statement of Net Assets assesses the balance of the College's *assets* (the resources it can use to provide service and operate the College) against its *liabilities* (its obligations to turn over resources to other organizations or individuals). The difference between the College's assets and its liabilities is called *net position*. Net position is an indicator of the College's *financial position* (its financial standing at a given point in time). Financial position can be tracked over time to assess whether the College's financial health is improving or deteriorating. To assess the overall health of the College, in addition to the financial position, other non-financial factors, such as the trend in enrollment, student retention, condition of the infrastructure, and the strength of the faculty must be made.

1. Individual line items with variances from the prior year to the current year that exceed +/- \$100,000 and greater than 5% must be identified and the reason for the variance explained.

B. Statement of Investments: The Statement of Investments summarizes the makeup of the College's short and long-term investments, the anticipated average annual yield,

and the estimated annual income. The allowable investments, amounts, and term lengths are subject to the College Investment policy and State of Michigan investment laws for public institutions.

1. Any significant changes in investments and changes from short-term to/from long-term investments will be included within the variance explanations for the Statement of Net Position.

C. Statement of Revenues, Expenses, and Changes in Net Position: This financial statement presents how the College's finances are changing each fiscal year, which runs from July 1 to June 30. The flow and measurement of the College's revenues and expenses during the fiscal year are reported. The resulting change in net position indicates if the College's funds are increasing or decreasing its financial position.

1. A summary of the current change in financial position for all fund types other than the General Fund is reported in the monthly financial statement report to the Board of Trustees.

D. General Fund Operating Revenues, Expenses, and Transfers - Adopted Budget and Actual: The General Fund is the College's main accounting fund and records the transactions of the College's operating activities. This financial schedule presents the current year's earned revenues, incurred expenses, and approved transfers as a percentage of the original, or if applicable, amended budget. The current year activity is compared to the prior year's earned revenue, incurred expenses and approved transfer as a percentage of the prior year fiscal year total. The current percentage of budget realized is compared to the rate of revenue earned, expenses incurred, and transfers completed at the same point in time in the prior year.

1. The percentage of current year budgeted revenues recognized by source is compared to the percentage of prior year actual revenues recognized. Individual revenue sources that the variance is 5 percentage points higher or lower from the prior year must be identified and the reason(s) for the variance explained.
2. The percentage of current year expenses budgeted for each major category is compared to the percentage of prior year actual expenses incurred. Individual expenses that have a variance of 5 percentage points higher or lower from the prior year must be identified and reason(s) for the variance explained.
3. The percentage of current year transfers budgeted is compared to the percentage of prior year actual transfers completed. Individual transfers that the variance is 5 percentage points higher or lower from the prior year must be identified and the reason(s) for the variance explained.

E. Detail Operating Expenses: Adopted Budget and Actual Expenses - Comparison by Division and by Account: This financial schedule presents the General Fund total Divisional operating expenses in two methods. First, the budget for each Division within the College and second, the detail operating expense classifications.

1. The percent of budgeted current year expenses incurred for each Division is compared to the percentage of prior year actual expenses incurred. Divisional expenses that the variance is greater than \$100,000 and 5 percentage points higher or lower from the prior year must be identified and reason(s) for the variance explained.
2. The percentage of budgeted current year expenses incurred for each expense classification is compared to the percentage of prior year actual expenses incurred. Individual classifications that the variance is greater than \$100,000 and 5 percentage points higher or lower from the prior year must be identified and reason(s) for the variance explained.

F. Capital Projects: The Capital Projects schedule presents all of the Board approved and in process Board approved capital projects. The statement provides a summary of the approved project budget and the cumulative project expenses from the project's inception and Board approval through the current financial period.

No funds shall be transferred out of General Fund unrestricted fund balance and no contingency funds may be utilized without prior approval of the Board of Trustees.

The annual budget shall include a vacancy factor for overall salaries and benefits. The vacancy factor will serve to limit over-budgeting and help keep tuition and fee costs as low as possible.

The administration will report material variances from the adopted budget revenues or expenses as outlined above to the Board of Trustees at the next scheduled meeting. The President shall notify the Board if the administration will present a request for necessary amendments to the budget as a result of the noted variances.

The external auditor will present the Comprehensive Annual Financial Report, the Single Audit Act Compliance Report, and the Independent Auditors Communication with Those Charged with Governance to the Audit Committee and then submit the reports and communication directly to the Board of Trustees with copies to the President and Chief Financial Officer. The external auditor will present the College's financial audit at a public board meeting.

IV. Responsibility

Responsibility for the interpretation and administration of this policy is delegated to the Chief Financial Officer or his/her designee.

Adopted: June 5, 2006

Revised: June 15, 2009, 12/17/2018