1. Deficit Spending – Is this area acceptable?  YES

Q: Is the district spending within their revenue budget in the current year?

A: In 2012-13, because of the passage of Proposition 30 and the budget savings that occur every year when district budgets are not fully spent, we expect that revenues will meet or exceed expenses.

2011-2012: Additional Ongoing and One-Time State Funding Cuts Force Deficit Spending

The District did not deficit spend from 2002-2003 through 2010-2011, and the District’s final annual actual revenues exceeded final expenditures. The District’s Adopted Budget does not always reflect a balanced budget due to contingency set-asides and conservatively budgeted revenue and expense estimates. Unspent contingencies and operating expenses, salary savings, and growth revenues achieved above projections have resulted in the final actuals reflecting a “balanced” spending plan each year for the last nine years.

A structural deficit occurred for the first time in the 2011-2012 Adopted Budget approved on September 14, 2011. The budget reflected budgeted expenses in excess of budgeted revenues by $6,926,724, and included a contingency for FTES Generation of $700,000. The budget plan was based on an estimated $6,147,776 in ongoing and one-time State Apportionment cuts due to a Base Apportionment cut, two “Trigger Cuts”, and an enrollment fee shortfall. The Adopted Budget estimated an ending fund balance at June 30, 2012 of $5,826,398, or 7.08% of budgeted expenses.

The $6,147,776 in estimated State cuts represented a 7.4% reduction in ongoing base funding and a 1.85% reduction in one-time funding. These cuts were in addition to $2,503,923 million in Categorical funding cuts (a 50% reduction) and $2,516,754 in Base Apportionment cuts (a 3.35% Base reduction) that occurred in 2009-2010. Since 2007-2008 the District was subject to 28.4% of one-time and ongoing cuts.

Due to the large magnitude and detrimental cumulative effects of the 2009-2010 and 2011-2012 cuts, the District made a decision to use one-time fund balance dollars in excess of the District’s 6% minimum target to fund expenses in 2011-2012, and then identify ongoing budget solutions for implementation in 2012-2013 to begin to address the structural deficit. With 78% of all expenses earmarked for salaries and benefits, this decision was necessary to preserve jobs and continue to offer quality instruction, student services, and administrative support.

Because of expense budget savings encouraged due to the deficit spending, by June 30, 2012 actual expenses were in excess of actual revenues by $3,825,719 versus the budgeted deficit spending of $6,926,724. This resulted in an actual ending fund balance of 11.55% versus the budgeted 7.08%. This caused the actual ending fund balance to be $3,101,005 higher than the projected $5,826,398 for a total ending fund balance of $8,927,403. The expense savings offset by revenue shortfalls are detailed below:

2011-2012 Fund Balance Increase from 7.08% (budget) to 11.55% (actual)

- $1,468,801 - Unspent salary and fringe budgets due to vacant positions/strategic hiring
- $1,360,605 - Unspent Instructional Service Agreement (ISA) Contract Expense offset by additional adjunct/overload expense due to shifting from ISA FTES to on-ground FTES
- $1,220,436 – Unspent discretionary budgets due to prudent spending:
  o $633,933 - Operating Expenses (Utilities, Postage, Advertising, etc.)
  o $376,631 - Adult Hourly and College Assistants
  o $209,872 - Supplies and Materials
• $344,877 – Unspent H & W Pool Balances (carries over to following year)
• $224,648 – Unspent Capital Outlay and Inter-fund Transfers
• ($242,876) – Shortfall of local revenue and grant indirect support
• ($1,275,486) – Revenue Shortfalls (State Apportionment cuts and adjustments)

2012-2013 Mid-Year: Passage of Proposition 30 Averts Third Round of Ongoing Cuts

A second year of structural deficits occurred in the 2012-2013 Adopted Budget, approved on September 12, 2012, which reflected budgeted expenses in excess of budgeted revenues by $5,147,165. This was because the budget plan was based on the “worst case” scenario of the failure of Proposition 30, which would have forced an ongoing Base Apportionment cut estimated at $4,631,754.

Even with the $7.7 million in budget solutions implemented by Executive Cabinet, the District was still deficit spending and using one-time fund balance dollars to cover current year expenses which reduced the fund balance to 6% or $4,650,524 at June 30, 2013.

With the Passage of Proposition 30 in November 2012, the District’s budget situation improved and the District became cautiously optimistic by revising its 2012-2013 budget plan to reflect the elimination of the Base Apportionment cut of $4,631,754. Also, an estimated $751,085 in growth funding allocated by the State Chancellor’s Office as partial workload restoration of the 2009-2010 base cut was added to the District’s current budget based on the First Principal Apportionment statement received in February 2013.

The following chart illustrates how the passage of Proposition 30 has improved the District’s 2012-2013 budget projections and is estimated to eliminate deficit spending in the current year.

Santa Clarita Community College District
2012-2013 Unrestricted General Fund Budget
With and Without Prop 30

<table>
<thead>
<tr>
<th></th>
<th>Adopted Budget 2011-2012</th>
<th>Adopted Budget 2012-2013</th>
<th>Adjusted Budget 2012-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>75,391,386</td>
<td>75,584,994</td>
<td>77,131,060</td>
</tr>
<tr>
<td>Trigger Cut Nov 2012 (Without Prop 30)</td>
<td>(4,631,754)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(82,318,110)</td>
<td>(83,800,405)</td>
<td>(84,018,494)</td>
</tr>
<tr>
<td>Net - Deficit Spending</td>
<td>(6,926,724)</td>
<td>(12,847,165)</td>
<td>(6,887,434)</td>
</tr>
</tbody>
</table>

2012-13 Budget Solutions:

|                               |                      |                        |
| New Revenues                  | 1,375,000             | 1,375,000               |
| Expenditure Cuts              | 6,325,000             | 6,325,000               |
| Total Budget Solutions        | 7,700,000             | 7,700,000               |

Revised Deficit Spending:

|                               |                      |                        |
|                               | (6,926,724)           | (5,147,165)             | 812,566                  |

Add Beginning Fund Balance:

|                               |                      |                        |
|                               | 12,753,122            | 9,797,689               | 8,927,403                |

Ending Fund Balance:

|                               |                      |                        |
|                               | 5,826,398             | 4,650,524               | 9,739,969                |

Ending Fund Balance %:

|                               |                      |                        |
|                               | 7.1%                  | 6.0%                    | 12.6%                    |
Proposition 30 Provides Benefits and Challenges

Community College funding has been reduced over the last five years as a result of the State Economic downturn with 10% base revenue cuts, no COLA, and no Growth funding. Proposition 30 is a temporary fix to prevent further erosion of K-12 and Community College budgets. Even with Proposition 30 Community College budgets are still below 2007-2008 levels.

Key Proposition 30 details include:

- **No new Funding has been provided for K-12 or Community College Districts.**
  - Apportionment Budgets are held at the same level.
    - 2011-2012 - $69 million
    - 2012-2013 - $69 million
    - 2012-2013 without Proposition 30 - $64.5 million
- **The funding is short-term.**
  - 4 years: 25% Sales Tax Increase
  - 7 years: Income Tax increase - $250,000 single/$500,000 joint
- **Proposition 30 will generate an estimated $855 million for community colleges, more than the $355 million shortfall that it was expected to fill.**
  - The balance of $500 million was allocated to other State agencies by transferring funds over the Prop 98 Guarantee.
- **The restrictions of Proposition 30 include.**
  - Non-Administrative Costs Only – Includes Instruction and Student Services Salaries and Benefits
  - Annual Reporting, Annual Audit and Annual Public Disclosure
- **The benefits of Proposition 30 include.**
  - Budget reductions were averted and protected programs, staff and students
  - Restored class sections that allowed approximately 78,000 FTES to be served

**Q: Has the district controlled deficit spending over multiple years?**

**A:** For 9 years, from 2002-03 to 2010-2011, the District’s Actual Revenues exceeded its Actual Expenses and again in 2012-13. In 2011-12, the State budget deficit resulted in a 9.2% revenue reduction for Community College Districts (on-going 8.6%, 1.4%) which imposed a Structural deficit on the district. By 2012-13, after making nearly $8 million in budget reductions, the District will achieve a balanced budget.

The District has effectively controlled deficit spending in the last nine years, with the District’s actual revenues exceeding actual expenses in fiscal years 2002-2003 through 2010-2011. The District also projects that actual revenues will exceed actual expenses in the 2012-2013 fiscal year, so the only year with deficit spending is 2011-2012, to date. It is commendable that the District took a conservative approach to budgeting to ensure that any revenue shortfalls would not detrimentally affect the District with departments making budget cuts as necessary. In fact, considering that the District’s State General Apportionment funding has been subject to several deficits and reductions that often had to be handled mid-year, it is remarkable that the District has been able to control deficit spending and avoided taking actions such as instituting wage reductions, furloughs, lay-offs, and severely decreasing the number of class sections offered.

The chart below illustrates the State General Apportionment funding cuts and deficits which were related to the District from 2002-2003 through 2011-2012 based on the State Chancellor’s Office Recalculation statements, and the revised estimate reflecting no funding cut for the 2012-2013 fiscal year. Cuts and deficits to the District’s General Apportionment funding totaled almost $20 million during this period. The cumulative ongoing effect of these cuts totals over $77 million.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Deficit Funding of Growth (Ongoing Cuts)</th>
<th>Mid Year Cuts (Ongoing Cuts)</th>
<th>Property Tax Shortfalls (One-time Cuts)</th>
<th>Base Reductions (Ongoing Cuts)</th>
<th>Totals By Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2004</td>
<td>636,513</td>
<td>-</td>
<td>419,565</td>
<td>946,945</td>
<td>2,003,023</td>
</tr>
<tr>
<td>2004-2005</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2005-2006</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2006-2007</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2007-2008</td>
<td>1,507,053</td>
<td>-</td>
<td>227,388</td>
<td>-</td>
<td>1,734,441</td>
</tr>
<tr>
<td>2009-2010</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,516,754</td>
<td>2,516,754</td>
</tr>
<tr>
<td>2010-2011</td>
<td>-</td>
<td>-</td>
<td>240,338</td>
<td>-</td>
<td>240,338</td>
</tr>
<tr>
<td>2011-2012</td>
<td>-</td>
<td>-</td>
<td>1,335,351</td>
<td>5,477,347</td>
<td>6,812,698</td>
</tr>
<tr>
<td>2012-2013 (Estimated)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Totals By Category</td>
<td>7,155,491</td>
<td>480,108</td>
<td>3,341,132</td>
<td>8,941,046</td>
<td>19,917,777</td>
</tr>
</tbody>
</table>

**General Apportionment State Funding Cuts and Shortfalls**

(Based on State Chancellor's Office Recalculation Data, Unless Noted)

- **Q:** Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions?
- **A:** Potential deficit spending is avoided by any combination of increasing revenues, decreasing expenses, or drawing on the fund balance reserve, as appropriate.

**Other Revenue Sources:**
- In recent years, some budget augmentations have been covered by identifying ongoing, commensurate revenue increases resulting from local revenue, grants, partnerships with businesses, or other revenue sources. Growth revenue has not been provided by the State since 2008-2009, except for small amounts of enrollment “growth” funding in 2010-2011 and 2012-2013 that were allocated to districts as partial restoration of the 2009-2010 base cuts.

**Expenditure Reductions:**
- Budget augmentations may also be offset by expenditure reductions in other budget line items or generating cost savings through energy efficiency programs, etc.

**Expenditure Trends:**
- Business Services reviewed all discretionary budgets with the respective Executive Cabinet member while developing the 2011-2012 budget. Expenditure trends and current needs were analyzed to fine tune budgets and identify expenditure reductions to avoid deficit spending and ensure budget dollars were allocated to areas where trends showed a need for the allocations.

**Budget Savings Solutions:**
- Executive Cabinet did extensive work while developing the 2012-2013 budget in order to identify $7.7 million in budget solutions. These budget solutions, which were shared with the campus community on June 4, 2012 in a campus-wide budget update, included $1,375,000 in new revenues and $6,325,000 in expenditure reductions.

- **Q:** Are district revenue estimates based upon past history?
- **A:** Local revenues like Community Services, International Students Program, Civic Center, and Grant Indirect Revenues are based on past history. Apportionment Revenues are provided by the State with the Annual Budget Workshop materials.
Computational Revenue:

Computational Revenue is based on historical State revenue estimates in order to determine how much will be paid through student enrollment fees and property tax revenues with the balance contributed by State Apportionment payments. By formula, current year Base apportionment revenue is based on historical revenue: Prior year Base revenue plus Growth plus COLA, if allocated by the State, becomes Computational Revenue.

Other Revenues:

We have historically used prior year revenues to estimate current year revenues for all other revenues such as local revenues which include rental of campus facilities, Community Extension income, Non-resident and International Student Tuition, and indirect support revenue from grants. Other State revenues outside Total Computational Revenue are based on information provided in the State Chancellor's Office Annual Budget Workbook.

Base Cuts:

In 2006-2007 the State Chancellor's Office implemented the SB361 funding formula and developed a new Base revenue for all community colleges by using final FTES for 2005-2006 multiplied by the new equalized base funding rate and adding the basic allocation. In 2009-2010, due to a Statewide base cut of $192 million (a 3.3% reduction), the District's base revenue was reduced by $2.5 million and the base FTES were commensurately "rebased" (reduced) to preserve the per FTES funding. This occurred again while developing the 2011-2012 Adopted Budget when another Statewide base cut of $313 million (a 7.3% reduction) reduced the District's base revenue by almost $4.3 million and the base FTES were again "rebased" (reduced).

Q: Does the district automatically build in growth revenue estimates?

A: If there is funding at the State Level. However, since 2009-10, a 20% reduction in FTES has occurred because no growth projections or FTES targets have been established because of the State deficit. So no growth revenue has been budgeted. Instead, the State has funded “Restoration or Enrollment” revenue for Districts to restore access to students.

Prior to 2009-2010, Growth revenues were conservatively budgeted based on a reasonable estimate of what growth would be achieved by the District. Growth revenue estimates have been based on the District's growth cap estimated by the State Chancellor's Office which was calculated based on changes in adult population, high school graduates, and facilities coming on-line, and then adjusted down (deficited) to equal the statewide growth revenue appropriation. College of the Canyons has received a great benefit from the "facility factor" which is based on new facilities coming on-line by December of that fiscal year. The facility factor was put into the formula after a recommendation was made to the Commission on Innovation in August 1993 by the Facility Task Force, chaired by COC Chancellor Dr. Dianne Van Hook.

The SB361 growth formula was never finalized due to the State Budget deficit. Administrators from our District participated in a task force comprised of Chief Business Officers and researchers who worked with the State Chancellor's Office to advocate for using more applicable data for the growth cap, including: district specific adult population growth changes (not just the primary county data), more recent data for high school graduates, and continuing to include the facility factor (to support the many new facilities being built as a result of recent General Obligation Bonds passed by community colleges). In addition, with the recent focus on economic stimulus and the critical role played by community colleges to retain existing workers or train new workers, it was recommended to include factors representing such activities as local business partnerships, to fund education workforce grants, students placed in jobs, business training, etc. The current factor of County unemployment is insufficient to capture all of this activity.

The Department of Finance suggested that growth caps be based on only the Districts’ primary county growth rate which would be very detrimental to our District and to 49 of the 72 districts statewide based on a study performed by our District in 2008 of county growth data versus the blended rate currently being used by the State Chancellor's office. For our District, the Los Angeles County growth rate of .82% does not represent the robust growth of the population in our service area that has historically occurred in the Santa Clarita Valley.
The District does not expect that the methodology to be used to calculate District growth caps will be addressed by the system until after all workload reductions made in 2009-10 and 2011-12 have been restored, which may take several more years.

The following chart illustrates how funded growth has varied drastically from the District's approved growth caps and deficited growth caps over the last 18 years. In years of adequate State growth funding, the District was funded at or above the approved growth cap. In years of inadequate State growth funding, the District was funded well below the approved growth cap.

**History of Growth Funding**

The following chart illustrates the history of systemwide and COC growth funds for the past 18 years. Some key observations are:

**1995-2013 - 18 years:**
- The average systemwide growth allocation was 2.13%.
- The average COC growth allocation was 12.01%, far exceeding the systemwide average due to our service areas rapid growth.
- Due to insufficient systemwide funding for growth, the District only received average growth funding of 8.71%.
- Growth has provided on-going cumulative base funding for COC totaling over $454 million in the past 18 years.

**1995-1996 through 2006-2007:**
- There was a systemwide growth allocation from which growth was allocated through district growth rates.

**2007-2008 through 2008-2009:**
- There was a systemwide growth allocation from which growth was allocated through district “deficited” growth rates.

**2009-2010:**
- State revenue deficits resulted in reduced revenue allocations to community colleges, and no growth allocation.

**2010-2011:**
- The State Chancellor’s Office did not publish growth rates and the statewide “growth” allocation was used as “partial restoration” of the base cut in 2009-2010.
2011-2012:
- State revenue deficits resulted in reduced revenue allocations to community colleges, and no growth allocation.

2012-2013:
- The State Chancellor’s Office did not publish growth rates and the statewide “growth” allocation was used as “partial restoration” of the base cut in 2009-2010.

### HISTORY OF SYSTEMWIDE AND COLLEGE OF THE CANYONS GROWTH FUNDS

<table>
<thead>
<tr>
<th>Year</th>
<th>Systemwide</th>
<th>COC</th>
<th>COC</th>
<th>$ Value of Growth Funds</th>
<th>Total $ Value of Growth Funds</th>
<th>Cumulative Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Funding</td>
<td>Factor</td>
<td>Rate</td>
<td>Systemwide %</td>
<td>Received Over Systemwide %</td>
<td>$ Value of Growth Funds</td>
</tr>
<tr>
<td>1995-96</td>
<td>1.17%</td>
<td>7.00%</td>
<td>6.60%</td>
<td>537,822</td>
<td>623,432</td>
<td>537,822</td>
</tr>
<tr>
<td>1996-97</td>
<td>1.46%</td>
<td>16.33%</td>
<td>16.20%</td>
<td>2,032,363</td>
<td>2,237,977</td>
<td>2,570,184</td>
</tr>
<tr>
<td>1997-98</td>
<td>3.00%</td>
<td>15.20%</td>
<td>11.50%</td>
<td>1,401,231</td>
<td>1,745,796</td>
<td>9,960,439</td>
</tr>
<tr>
<td>1998-99</td>
<td>3.00%</td>
<td>15.29%</td>
<td>16.60%</td>
<td>2,140,648</td>
<td>2,663,186</td>
<td>6,112,063</td>
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<tr>
<td>1999-00</td>
<td>3.50%</td>
<td>21.69%</td>
<td>22.70%</td>
<td>3,578,376</td>
<td>4,215,438</td>
<td>9,690,439</td>
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<tr>
<td>2000-01</td>
<td>3.50%</td>
<td>13.94%</td>
<td>15.50%</td>
<td>2,597,420</td>
<td>3,468,204</td>
<td>12,287,858</td>
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<tr>
<td>2001-02</td>
<td>3.00%</td>
<td>11.50%</td>
<td>7.90%</td>
<td>1,503,662</td>
<td>2,371,160</td>
<td>13,791,521</td>
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<tr>
<td>2002-03</td>
<td>3.00%</td>
<td>14.22%</td>
<td>11.00%</td>
<td>2,494,097</td>
<td>3,429,384</td>
<td>16,285,618</td>
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<td>1.50%</td>
<td>14.02%</td>
<td>5.10%</td>
<td>849,257</td>
<td>2,062,481</td>
<td>19,239,801</td>
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<td>2004-05</td>
<td>3.00%</td>
<td>19.99%</td>
<td>8.9%</td>
<td>2,834,914</td>
<td>4,276,396</td>
<td>22,074,715</td>
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<td>2005-06</td>
<td>2.00%</td>
<td>6.81%</td>
<td>8.43%</td>
<td>3,357,366</td>
<td>4,401,648</td>
<td>25,432,082</td>
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<td>2006-07</td>
<td>2.00%</td>
<td>15.28%</td>
<td>6.71%</td>
<td>2,722,554</td>
<td>3,876,668</td>
<td>28,154,636</td>
</tr>
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<td>2007-08</td>
<td>2.00%</td>
<td>28.41%</td>
<td>9.00%</td>
<td>4,284,709</td>
<td>5,508,911</td>
<td>32,439,344</td>
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<tr>
<td>2008-09</td>
<td>0.00%</td>
<td>6.32%</td>
<td>0.00%</td>
<td>-</td>
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<td>32,439,344</td>
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<tr>
<td>2009-10</td>
<td>2.20%</td>
<td>not released</td>
<td>2.20%</td>
<td>-</td>
<td>1,752,490</td>
<td>32,439,344</td>
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<tr>
<td>2010-11</td>
<td>0.00%</td>
<td>not released</td>
<td>0.00%</td>
<td>-</td>
<td>-</td>
<td>32,439,344</td>
</tr>
<tr>
<td>2011-12</td>
<td>0.92%</td>
<td>not released</td>
<td>1.20%</td>
<td>162,200</td>
<td>751,085</td>
<td>32,601,544</td>
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<tr>
<td>Totals</td>
<td>38.25%</td>
<td>216.22%</td>
<td>156.75%</td>
<td>32,601,544</td>
<td>46,043,110</td>
<td>454,414,530</td>
</tr>
</tbody>
</table>

Average 2.13% 12.01% 8.71%

Note: In 2007-2008, the Chancellor’s Office began issuing a constrained growth factor that was reduced to match available funding statewide. In 2010-2011 and 2012-2013, growth rates were not published and the statewide “growth” allocation was used as “partial restoration” of the base cut in 2009-2010.

2011-12
No allocation for traditional growth or for growth allocated to districts as partial workload restoration was provided for the Community College system, so the District did not build a growth revenue estimate into its budget projections. The State Chancellor’s Office did not calculate growth caps or deficited growth caps for Districts in 2011-2012.

2012-2013 Mid-Year
The District did not build in a growth revenue estimate in the 2012-2013 Adopted Budget because it budgeted conservatively assuming Proposition 30 would not pass in November 2012.

However, with the passage of Proposition 30, and the issuance of the 2012-2013 First Principal Apportionment statement (P1), the District received growth funding for 2012-13 in the amount of $751,085. This funding was applied by the State Chancellor’s Office as a partial restoration of the 2009-2010 base cut and workload reduction, and restores 169 FTES to the District. This revenue has been added to the 2012-2013 current budget plan and is reflected in the February 2013 Financial Report to the Board of Trustees.
This growth/restoration allocation contains a small portion of funding that was earmarked for other districts, but because they did not produce the necessary restored FTES at P1 the growth was redistributed to districts like Santa Clarita who had the necessary increase in FTES to earn the funding. If other districts grow by the Second Principal Apportionment (P2), our District’s allocation may be reduced.

2. **Fund Balance – Is this area acceptable?**  YES

- **Q:** Is the district’s fund balance stable or consistently increasing?
- **A:** In 2011-2012 the fund balance has been stable at 6% or more but has decreased as a result of the decision the District made to use fund balance dollars for expenses in 2011-2012 due to the magnitude of cumulative State funding cuts in 2009-2010 and 2011-2012.
- **A:** In 2012-2013 the fund balance is expected to increase in 2012-2013 due to the $7.7 million budget savings achieved to offset 2011-2012 State revenue reductions and unspent expense budgets.

**2011-12**

As recommended by the State Chancellor’s Office, the Board Approved Budget Parameters require a minimum 5% fund balance and state that the District will make every effort to maintain a minimum 6% fund balance. The Parameters go on to state that a larger fund balance will be maintained during State economic downturns. Despite almost $20 million in State revenue cuts since 2002-2003, the District's actual ending fund balance has consistently increased through 2010-2011 as the District’s annual revenues increased from growth revenues, unspent expense budgets and unused contingencies planned for State budget cuts.

Finally, in 2011-12, the District’s fund balance declined by $3,825,719, from 15.98% to 11.55%. This unusual decline in the District’s ending fund balance was the cumulative result of the 2009-2010 base cuts and the 2011-2012 base and one-time cuts brought on by large State deficits. As stated earlier, due to the large magnitude and detrimental cumulative effects of these cuts, the District made a decision to use one-time fund balance dollars in excess of the District’s 6% minimum target to fund expenses in 2011-2012, and then identify ongoing budget solutions for implementation in 2012-2013.

**2012-2013 Mid-Year**

As a result of prior base cuts and in anticipation of more base cuts in 2012-2013, the District’s management team worked tirelessly while developing the 2012-2013 budget to reduce expenses and identify new revenue sources totaling $7.7 million to offset the severe cuts in 2009-2010 and 2011-2012 and position the District to maintain at least a $6 million reserve in the scenario that Proposition 30 did not pass.

The chart below illustrates the 2012-2013 ending fund balance at $11,600,680, or 15.35%. This consists of the budgeted ending fund balance at March 31 2013 plus the following estimates of budget savings and shortfalls:

- $1,286,814 - Unspent Instructional Service Agreement (ISA) Contract Expense offset by additional adjunct/overload expense due to shifting from ISA FTES to on-ground FTES
- $460,547 - Unspent salary and fringe budgets due to vacant positions/strategic hiring
- $297,944 – Unspent adult hourly and college assistant budgets
- $83,685 – Unspent discretionary budgets due to prudent spending:
- $(345,430) – Revenue Shortfalls from out of state and international student tuition, Interest Income, indirect support from grants, and MAA funding.

The actual ending fund balance at June 30, 2013 will differ from the estimated ending fund balance because actual revenues received and actual expenses paid out will vary from budgeted amounts.

Also, any enrollment fee or property tax shortfall contained in the Second Principal Apportionment statement released in May 2013, will adversely affect the ending fund balance. The final ending fund balance will be calculated after the fiscal year books are closed in August 2013.
Unrestricted General Fund Balances  
2003-2004 through 2012-2013

Q: Is the fund balance increasing due to ongoing revenue increases and/or expenditure reductions?
A: In 2011-2012 even though the fund balance declined due to on-going State revenue cuts of $5.5 million and one-time cuts of $1.3 million it still remained stable, above 6%.
A: In 2012-2013 the fund balance is expected to increase due to budget solutions identified by Executive Cabinet which included expenditure reductions of $6.3 million and new local revenues of $1.4 million.

2011-2012
In 2011-2012, the District’s Unrestricted General Fund revenue declined due to 7.4% ongoing base reduction and a 1.8% one-time apportionment cut. These cuts totaled over $6.8 million. No COLA was allocated to the Community College System, so the District was required to absorb forced cost increases without additional funds. The District’s ending fund balance declined by $3,825,719. It is important to note that the District was able to offset a large portion of the $6.8 million in 2011-2012 State Apportionment cuts through strategic enrollment management decisions that included reducing Instructional Service Agreement (ISA) sections instead of on-ground classes and controlling over cap FTES, and prudent spending that resulted in salary and expense savings that were applied to the ending fund balance.

2012-2013 Mid-Year
For 2012-2013, the Unrestricted General Fund revenue is estimated to increase with the passage of Proposition 30. This will allow the district to maintain its fund balance, with a slight increase projected due to the new ongoing revenue from growth funds used as workload restoration. As stated earlier, the 2012-13 budget plan also includes $7.7 million in budget solutions that assist the District in slightly increasing the 2012-13 ending fund balance. The $7.7 million in budget solutions for 2012-2013 included $1.375 million in new revenues and $6.325 million in expenditure reductions.

The chart below illustrates how the Unrestricted General Fund Revenue has consistently increased year to year from 2000-2001 to 2008-2009 as the District earned ongoing growth funding that permanently increased base revenue.
- In 2009-2010, the revenue decline correlates to the 2009-2010 base cut.
- In 2010-2011, the revenue increase correlates to the receipt of growth funding provided as partial restoration of the 2009-2010 base cut.
• In 2011-2012, the revenue decline correlates to the additional base cut as well as one-time cuts.
• In 2012-2013, the increase correlates to new local revenues (budget solutions) and growth funding provided as partial restoration of the 2009-2010 base cut.

<table>
<thead>
<tr>
<th>General Fund Unrestricted Revenue (in millions)</th>
<th>$46.8</th>
<th>$50.8</th>
<th>$58.4</th>
<th>$70.1</th>
<th>$76.3</th>
<th>$81.4</th>
<th>$80.0</th>
<th>$81.6</th>
<th>$74.3</th>
<th>$78.5</th>
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<tbody>
<tr>
<td>2003/04</td>
<td></td>
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<td>2004/05</td>
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<td>2005/06</td>
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<td>2006/07</td>
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<td>2007/08</td>
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<tr>
<td>2008/09</td>
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<td></td>
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<tr>
<td>2009/10</td>
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<td>2010/11</td>
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<td></td>
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<tr>
<td>2011/12 (est.)</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>2012/13</td>
<td></td>
<td></td>
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</table>

3. **Enrollment – Is this area acceptable?**  YES

**Q:** Has the district’s enrollment been increasing or stable for multiple years?

**A:** Enrollment has decreased by approximately 20% since the FTES rebasing in 2009-2010 that cut FTES in conjunction with State funding reductions.

The District’s enrollment had been increasing steadily for over 20 years, with the exception of 1993-1994 when the Northridge Earthquake caused a mid year decline in our Spring 1994 enrollment.

This changed in 2009-2010, when the District had a decline in enrollment due to a systemwide base cut of $192 million and a commensurate “rebasing of FTES”. The State included this base cut in the 2009-2010 Budget Act due to financial difficulties at the State level. The rebasing of FTES allowed all the districts in the system to reduce the number of FTES served commensurately with their share of the base cut in order to preserve the per FTES funding allocation amounts as defined in SB361, which provided equalized funding per FTES.

A second base cut in 2011-2012 of $385 million again prompted the State Chancellor’s Office to rebase our FTES, producing a second reduction in the District’s funded FTES. The State Chancellor’s Office has requested all Districts avoid serving large numbers of unfunded FTES because of the financial drain associated with paying the costs of education for these students without any State funding stream. In response to the budget cuts, our Enrollment Management Team has worked to align course offerings with available resources.

Our leadership consistently provides input regarding changes to the funding formulas at the system level, as well as works with our legislators to advocate for sufficient growth funds for the Community College system. In the past this has enabled us to serve the students who come to us and get paid for it. As the State recovers from the Recession, there is an expectation that new State Apportionment revenues earmarked for “growth” funds will be used to restore the system’s workload reductions from 2009-2010 and 2011-2012.
2011-2012
In 2011-2012, the District received funding for 13,997 FTES, which was a reduction of 1,251 from the 15,248 funded in the prior year. This reduction is due to the rebasing of FTES that accompanied the base cut of $5,477,347, which was our District’s share of the $385 million ongoing base cut. The District successfully aligned course sections with funding, and did not have any unfunded FTES. Also, Instructional Service Agreement FTES were reduced in order to minimize the impact on local residence and maximize the amount of on-ground courses available.

2012-2013 Mid-Year
In 2012-2013, the District received funding at the First Principal Apportionment for 14,166 FTES, which is an increase of 169 FTES from the 13,997 funded in 2011-2012. This increase is due to the $50 million in Statewide growth funding allocated as partial restoration of the 2009-2010 base cut. This increase in funded FTES is an estimate, and will be adjusted by the State at the Second Principal Apportionment statement and at the Recalculation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Unfunded FTES</th>
<th>Funded FTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>00/01</td>
<td>17</td>
<td>8,618</td>
</tr>
<tr>
<td>01/02</td>
<td>467</td>
<td>9,301</td>
</tr>
<tr>
<td>02/03</td>
<td>34</td>
<td>10,328</td>
</tr>
<tr>
<td>03/04</td>
<td>181</td>
<td>10,719</td>
</tr>
<tr>
<td>04/05</td>
<td>0</td>
<td>11,263</td>
</tr>
<tr>
<td>05/06</td>
<td>0</td>
<td>12,262</td>
</tr>
<tr>
<td>06/07</td>
<td>0</td>
<td>13,296</td>
</tr>
<tr>
<td>07/08</td>
<td>347</td>
<td>14,190</td>
</tr>
<tr>
<td>08/09</td>
<td>1,136</td>
<td>15,467</td>
</tr>
<tr>
<td>09/10</td>
<td>1,685</td>
<td>14,902</td>
</tr>
<tr>
<td>10/11</td>
<td>46</td>
<td>15,248</td>
</tr>
<tr>
<td>11/12</td>
<td>0</td>
<td>13,997</td>
</tr>
<tr>
<td>12/13</td>
<td>52</td>
<td>14,166</td>
</tr>
</tbody>
</table>

**Q:** Are the district’s enrollment projections updated at least semi-annually?
**A:** Enrollment projections are updated weekly and shared with the Enrollment Management Committee and Executive Cabinet at monthly meetings.

The District’s enrollment projections are updated weekly based on analysis of FTES data reviewed by the Chief Instructional Officer and forwarded to the Enrollment Management Committee. The Enrollment Management Committee meets monthly to discuss the projections, and the projections are also discussed twice a month at Executive Cabinet. Enrollment estimates are also updated at least quarterly in conjunction with the filing of the CCFS320, the Apportionment Attendance Report. Enrollment management strategies are adopted or adjusted based on these updated enrollment projections (see sample below).
### Enrollment Management Projections (Sample Data)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Summer (forward and part II of previous year)</td>
<td>579.5</td>
<td>1,209.9</td>
<td>1,249.9</td>
<td>759.5</td>
<td>37.0</td>
<td>37.0</td>
<td>202</td>
<td>295</td>
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<tr>
<td>Fall</td>
<td>4,590.1</td>
<td>5,360.7</td>
<td>5,327.2</td>
<td>5,123.5</td>
<td>5,552.3</td>
<td>5,552.3</td>
<td>1,324</td>
<td>1,354</td>
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<tr>
<td>Winter</td>
<td>484.8</td>
<td>641.8</td>
<td>426.9</td>
<td>309.5</td>
<td>292.8</td>
<td>292.8</td>
<td>85</td>
<td>81</td>
</tr>
<tr>
<td>Spring</td>
<td>4,448.8</td>
<td>5,052.8</td>
<td>5,071.2</td>
<td>5,182.7</td>
<td>5,503.0</td>
<td>5,275.3</td>
<td>1,539</td>
<td>1,551</td>
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<tr>
<td>Summer (first half counted in the fiscal year)</td>
<td>20.7</td>
<td>3.7</td>
<td>0.0</td>
<td>527.3</td>
<td>1,384.5</td>
<td>1,500.0</td>
<td>0</td>
<td>460</td>
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<tr>
<td>Flex</td>
<td>256.1</td>
<td>282.0</td>
<td>285.6</td>
<td>211.3</td>
<td>139.0</td>
<td>144.3</td>
<td>77.4</td>
<td></td>
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<tr>
<td>Non-credit</td>
<td>455.5</td>
<td>772.6</td>
<td>675.0</td>
<td>466.8</td>
<td>318.1</td>
<td>314.6</td>
<td>151.1</td>
<td>80</td>
</tr>
<tr>
<td>ISAs</td>
<td>3,680.6</td>
<td>3,279.2</td>
<td>3,253.1</td>
<td>2,544.8</td>
<td>770.9</td>
<td>800.0</td>
<td>464.2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>14,516.1</td>
<td>16,602.8</td>
<td>16,288.9</td>
<td>15,294.2</td>
<td>15,247.7</td>
<td>13,996.6</td>
<td>14,144.1</td>
<td>11,850.1</td>
</tr>
<tr>
<td>Funded FTES</td>
<td>14,189.6</td>
<td>15,467.0</td>
<td>14,902.5</td>
<td>15,247.7</td>
<td>13,996.6</td>
<td>14,127.0</td>
<td>3,260</td>
<td>3,224</td>
</tr>
<tr>
<td>Overcap</td>
<td>326.5</td>
<td>1,135.8</td>
<td>1,684.5</td>
<td>46.5</td>
<td>17.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Q:** Are staffing adjustments consistent with the enrollment trends?  
**A:** Staffing increases and decreases are consistent with enrollment trends, which are driven by State funding levels and regulated by other laws like the Faculty Obligation Number (FON) and Fifty Percent Law.

Over the years, staffing continued to grow and adjustments were made consistent with growth in enrollment funding. Likewise, staffing has declined slightly due to the 2009-2010 and 2011-2012 reduced enrollment targets. These declines in staffing have been accomplished through resignations and retirements. Notably, in 23 years, College of the Canyons has not had to issue lay off notices for lack of funds, even in 2001-2002 when the State deficiited growth funding and in 2002-2003 when the State implemented mid-year budget cuts. In 24 years, three people have been laid off, one due to a departmental reorganization and two due to cuts in categorical funding by the State.

Between 1998 through 2012, overall staffing has increased 125 percent, consistent with the increases in enrollment trends as well as requirements to meet the full-time faculty obligation. During periods where the State provided growth funding, the District took advantage of surplus funds to hire in advance of the Full-Time Faculty Obligation. In fact the District exceeded the amount of full time faculty required in Fall 2008 by 14.55 FTE.

As of Fall 2012 the District was .50 FTE ahead of the requirement of 176.8. Note that the District was allowed to count faculty who retired in June 2012 toward the Fall 2012 compliance number due to the late timing of their Board approved SERP retirements.
Q: Does the district analyze enrollment and full-time equivalent students (FTES) data?

A: Enrollment and full-time equivalent student data are continuously analyzed to ensure enrollment numbers are in alignment with the District’s comprehensive Enrollment Management Plan and Budget.

The District develops a comprehensive enrollment management plan, facilitated by an Enrollment Management Committee that meets monthly to evaluate and develop strategies that addresses current growth targets or unfunded FTES and focus on ensuring student access and retention. We also disaggregate our enrollment data, evaluating trends to help inform our enrollment management efforts.

In years where growth funding is allocated to the Community College system, enrollment management strategies include:

- Expanding into new markets
- Marketing concurrent enrollment
- Adding new on-line classes
- Developing business/industry partnerships
- Offering new majors and certificate programs
- Growing our non-credit class offerings
- Adding innovative programs such as GOI and PAL
- Expanding offerings at the Canyon Country Campus

In years where growth funding is not available for increases in FTES, or base cuts reduce the level of FTES the District will be funded for, enrollment management strategies include:

- Concentrating on Basic Skills, Career Technical Education, and Transfer courses
- Reducing the number of sections based on student demand
- Promoting efficiencies – higher fill rates in classes
- Re-evaluating programs with low enrollment
- Reducing the amount of Instructional Service Agreement FTES to preserve on-ground sections
The District continuously analyzes enrollment and FTES data. FTES, headcount, and numbers of sections are analyzed weekly by census type and term. These analyses are augmented with analyses of student profiles, course taking patterns, and ad hoc requests that inform enrollment management strategies.

As shown in the FTES chart in Item 3, total FTES has increased from 8,635 in 2001-2002 to an estimated 14,218 in 2012-2013, an increase of 65% in 13 years.

**Q:** Does the district track historical data to establish future trends between P1 and Annual for projection purposes?

**A:** Historical data is used to project end of year FTES and enrollment.

The District monitors the current status of enrollment and FTES and applies historical data to project end of year FTES and enrollment. Analyses of FTES are updated weekly to help further identify where the college stands in terms of FTES and provides direction to mid-year adjustments in enrollment management, including addition or reduction of course sections.

**Q:** Has the district avoided stabilization funding?

**A:** The District has never taken stabilization funding. Stabilization funding means that a district’s revenue is not reduced in the current year when the FTES target is not achieved. The District then has to meet the target in the subsequent year or funding will be reduced that year.

The District has avoided stabilization funding since it was opened in 1969. The District has not experienced the cycle of decline, and future enrollment projections are positive, pending adequate funding from the State.
4. Unrestricted General Fund Balance – Is this area acceptable?  YES

- **Q:** 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)?
- **A:** For over 23 years the District has maintained a fund balance at or exceeding 5%.

The District’s Unrestricted General Fund Balance has been maintained at or above the recommended minimum prudent level of 5% of the unrestricted general fund expenditures for over 23 years. In fact, the District’s budget committee, “PAC-B,” establishes each year in its budget parameters that the Unrestricted General Fund Balance goal is a minimum of 6%, with a larger fund balance maintained during State economic downturns to protect the District against mid-year cuts and other unscheduled revenue shortfalls. The budget parameters are submitted to the Board of Trustees each year for approval.

- **Q:** Is the district’s unrestricted fund balance maintained throughout the year?
- **A:** The fund balance is maintained at a 6% minimum throughout the year and reported to the Board in the Monthly Financial Report. Beginning in February, a Savings/Shortfall schedule is developed to reflect changes in the budget that resulted in a higher fund balance percentage.

The fund balance is maintained at 6% throughout the year. Monthly financial reports are provided to the Board of Trustees that include an update on the status of the fund balance. If adjustments are required at P1 due to any prior year adjustments for changes in growth, property tax deficits, etc., the District typically has already made provisions for these adjustments based on estimates at the time of year end close. Because these estimates are conservative and
assume the largest reductions, the District can benefit if these adjustments are less than projected.

5. Cash Flow Borrowing – Is this area acceptable? YES

- **Q:** Can the district manage its cash flow without inter-fund borrowing?
- **A:** Cash borrowing is used only due to timing differences where revenue is received after expenses are incurred and due to deferrals of State Apportionment funding for payment in the next fiscal year.

**2011-2012**

For 2011-2012, the District was able to manage its cash flow without Board of Trustees approved inter-fund borrowing except in the case of two unique circumstances:

- **State Funded Capital Construction Fund**
  - The Unrestricted General Fund provided inter-fund borrowing to the State Funded Capital Construction Fund while the District waited for State Capital Construction reimbursements due to the District.
  - The District is required to use its own funds for State Construction expenses temporarily (unless Capital Outlay Grant Financing is available) and then wait the 60-90 days it takes to receive reimbursement from the State.
  - At June 30, 2012, the amount of interfund borrowing from the Unrestricted General Fund to the State Capital Outlay fund totaled $213,418.80.

- **Unrestricted General Fund**
  - The District faced an unprecedented $18 million Apportionment deferral at June 30, 2012, increased from $13.2 million in 2010-2011.
  - This increase was directly attributable to the State increasing the Statewide community college deferral in 2011-12 to $961 million (up from $832 million in 2010-2011) and due to the State withholding apportionment funds in May 2012 due to the State’s cash flow crunch and their anticipation of RDA residual payments.
  - As a result of these unprecedented challenges, the District’s Unrestricted General Fund borrowed $880,000 from the District’s Debt Service Fund to provide cash flow for June 2012 expenses.
  - This interfund loan was paid back in July 2012 when deferral payments were received from the State.

**2012-2013 Mid-Year**

For 2012-2013, the District issued an $8 million TRANS in March 2013 (more details are included in the next section) and also anticipates using inter-fund borrowing for cash flow management. This inter-fund borrowing is anticipated to include:

**Loans from the Unrestricted General Fund:**

- Loans from the Unrestricted General Fund to the State Funded Capital Construction Fund are anticipated at June 30, 2013 due to reimbursements due to the District from the State for Library Expansion Equipment purchases.

**Loans to the Unrestricted General Fund:**

- The 2012-2013 State Budget Act includes both intra-year and inter-year State Apportionment deferrals for CA Community Colleges. The systemwide deferrals for 2012-2013 are as follows:
  - $150 million deferred from July 2012 until December 2012.
  - $50 million deferred from September 2012 to January 2013.
  - $100 million deferred from October 2012 to January 2013.
  - $801 million deferred from January 2013 through June 2013, repaid in July 2013.
- The passage of Proposition 30 and the establishment of the Education Protection Act (EPA) brought a new cash flow challenge.
  - For 2012-2013, the Community College System’s entire allocation of EPA funding currently estimated at $828 million is scheduled to be received in late June 2013.
For our District, that equates to over $11 million in State support coming in the last month of the fiscal year.

- As a result of the Apportionment deferrals and EPA funding challenges the district is planning to supplement the $8 million TRANS with inter-fund borrowing from various funds. The following maximum inter-fund loans were Board approved for fiscal year 2012-2013:
  - $3.5 million from the Retiree Benefit Fund (69)
  - $2.5 million from the Debt Service Fund (29)
  - $850,000 from the Locally Funded Capital Fund (43)
  - $600,000 from the Field Turf Sinking Fund (49)

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

A: *The District repays borrowed funds within the required periods.*

Due to the challenges described above from State Apportionment Deferrals and late payment of EPA funds in 2012-2013, the District issued an $8 million TRANS in March 2013. The TRANS requires repayments (called set-asides) scheduled for August and November 2013. The District will comply with this repayment schedule.

Prior to this recent TRANS issuance, the District had not issued a TRANS since 2003-2004. The District previously relied on inter-fund borrowing and LA County Treasury borrowing (only allowed through the last Monday in April) to assist with cash flow. However, for 2012-2013, detailed cash flow analysis for May and June showed that the combined negative cash flow effects of the State Apportionment deferrals and the late EPA payments could not be handled with interfund borrowing alone. As a result, the Mid-Year TRANS was issued.

6. **Bargaining Agreements – Is this area acceptable? YES**

Q: *Has the district settled bargaining agreements within new revenue sources during the past three years?*

A: *The District has historically settled bargaining agreements using new revenue sources.*

Historically, the District has settled bargaining agreements using new revenue sources. Three year agreements were negotiated with the COC Faculty Association (COCFA) and the Classified-California School Employees Association (CSEA) for 2005-06 through 2007-08, and with the Part-time Faculty United – AFT (AFT) for 2004-2005 through 2006-2007 (extended through 2007-2008) using new COLA and growth funds from the State’s annual budget. Using the Total Compensation methodology, allocations were made to fund Increases in total salaries or health and welfare.

Negotiations were finalized with COCFA, CSEA, and AFT for the 2008-2009 year. The resulting agreements were funded utilizing existing ongoing revenue. For COCFA and CSEA, the negotiations resulted in no change in their salary schedules; however the District continued to fund steps and column advancements. CSEA received a one-time allocation of $125,110 to their Health and Welfare Benefits Pool. AFT received a 1% increase to their salary schedule, retroactive to July 1, 2008, with the provision that the next opening for salary negotiations would be 2010-2011.

For 2009-2010, negotiations were finalized with CSEA, and resulted in no change in their salary schedule and a one-time allocation of $262,456 to their Health and Welfare Benefits Pool, which was funded from existing ongoing revenue. COCFA negotiations are still underway, and as noted above, AFT was not planning to renegotiating compensation in 2009-2010

For 2010-2011 a CSEA Memorandum of Understanding (MOU) was negotiated that resulted in no change in their salary schedule and an on-going increase of $388,542 to their Health and Welfare Benefits Pool. This increase in benefits was funded with ongoing revenues. The MOU also outlined revisions regarding how health and welfare shortfalls will be handled in the future, and approved a move to the SISC Health Benefit Plan in an effort to reduce costs. For AFT, an agreement was reached in October 2011 that
included a 2% increase effective August 22, 2011. For COCFA, a partial negotiated agreement has been approved that includes a one-time deposit to their Health and Welfare Pool in the amount of $175,000.

2011-2012
For COCFA, a .77% increase to the Health and Welfare contribution was negotiated, with no Increases to the salary schedule. Steps and columns continued to be funded per the Bargaining Agreement.

For CSEA, a .96% increase to the salary schedule was approved in February 2013 as a result of negotiations and Fact Finding. This increase was retroactive to July 1, 2011.

For AFT, a 2% salary schedule increase was approved effective August 2011.

2012-2013 Mid-Year
For 2012-2013, negotiations continue with all three groups.

Q: Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?
A: The District negotiating team always works to identify and ongoing revenue source for any new bargaining agreements before they are settled and Board approved.

The on-going revenue source is always identified through total budget analysis performed prior to any settlement discussion to ensure that the total compensation increase can be sustained.

Q: Did the district correctly identify the related costs?
A: Costs have been correctly estimated and closely match the final actual costs.

The District uses estimates based on budgeted wages and projected health and welfare costs to determine the amount of ongoing or one-time allocations that can be negotiated. This amount is usually very close to actual amounts at year end.

Q: Did the district address budget reductions necessary to sustain the total compensation increase?
A: If budget reductions are necessary to sustain total compensation increases, these reductions are identified during negotiations.

As a general rule, budget reductions have not been necessary to sustain the total compensation increases. In the rare case that an ongoing allocation amount was negotiated at a level higher than what was included in the budget, budget reductions were identified to offset the increased negotiation amount.

7. Unrestricted General Fund Staffing – Is this area acceptable? YES

Q: Is the district ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses?
A: The District ensures it is not using one-time funds to pay for permanent staff, except in 2011-2012, when the District used fund balance dollars that were in excess of a 6% reserve to pay for ongoing expenses.

The District and its staff understand the concept of one-time and on-going funds and avoid the use of one-time funds to pay for permanent staff or other on-going expenditures whenever possible. One-time funds are only used for one-time expenditures such as scheduled maintenance, equipment, supplies, travel, college assistants or other discretionary expenditures that are adjusted each year based on need, growth, etc.
As noted earlier in Section 1, in 2011-2012 the District used fund balance dollars to fund on-going expenses while formulating budget solutions for implementation in 2012-2013. It is important to note that most colleges were faced with using fund balance dollars in 2012-2013 due to the high percentage of fixed costs in their Unrestricted General Fund.

**Q:** Does 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 2003-2004 is 85%)?

**A:** The District’s budget allocated to salaries and benefits is in line with the statewide average.

### 2011-2012

In 2011-2012, salaries and benefits represented 84.77% of total general fund expenditures. This includes expenses for instructor salaries for Public Safety Agency classes taught through Instructional Service Agreements (ISA’s).

### 2012-2013 Mid-Year

The 2012-2013 Adopted Budget reflects salaries and benefits at 85.9% of total general fund expenditures. This includes expenses for instructor salaries for Public Safety Agency classes taught through Instructional Service Agreements (ISA’s). The increase in the percentage of salary and benefits in relation to total general fund expenditures is a function of the fact that the District has severely cut operating expenses over the last four years in response to State funding cuts.

### 8. Internal Controls – Is this area acceptable? YES

**Q:** Does the district have adequate internal controls to insure the integrity of the general ledger?

**A:** The District’s auditors indicate that internal controls are in order and the District always receives a positive comment in the annual audit.

The District is fiscally dependent on LACOE, the Los Angeles County Office of Education. This means that not only do District personnel review the controls in place and integrity of the general ledger and related transactions, but LACOE personnel also perform a review. As a result, many controls have been implemented that contribute to the integrity of the general ledger. Examples include: requirements for board approved contracts, monitoring the limits for total vendor expenditures to ensure bid limits are not exceeded, Board of Trustees expense reimbursements and travel approved, etc.

**Q:** Does the district have adequate internal controls to safeguard the district's assets?

**A:** Internal controls such as asset tagging and an annual re-inventory of all tagged items safeguard the District’s assets.

The District’s assets are "tagged" upon receipt and logged into an inventory listing based on a process established with AssetWorks Inc., a community college vendor that provides inventory valuation and tracking services for the purposes of insurance and GASB 35 capital asset tracking. Assets are inventoried annually by AssetWorks, and exception reports are provided to the District and any discrepancies are researched. Assets disposed of by the District are submitted for Board of Trustees approval.

In addition, a capital asset policy has been developed based on a recommendation by the District’s auditors that provides for proper procedures associated with asset tracking and valuation. The District’s capitalization threshold is $5,000 for equipment and $150,000 for capital construction. The District tags and tracks any item valued at $1,000 or more to deter misuse or theft. Items valued at under $1,000 are also tagged and tracked if feasible.
9. **Management Information Systems – Is this area acceptable?**  YES

- **Q: Is the district data accurate and timely?**
- **A:** District data such as enrollment numbers and student attendance accounting are produced on a regular basis and reviewed to ensure we are on target.

  District data is produced on a regular basis and is accurate and timely. At the District Chancellor’s request, we revisit FTES projections on a weekly basis in Executive Cabinet and update them on a regular basis to ensure that we are on target. Also, data from the MIS system are used to complete attendance reporting reports to the State Chancellor’s Office on time and for the District’s auditors in a form that is easy to review.

- **Q: Are the county and state reports filed in a timely manner?**
- **A:** Required reporting including financial reporting and student attendance reporting are filed accurately and on time.

  County and State reports are filed in a timely manner. This includes the CCFS320, which is filed for P1, P2, Annual and Recalculation, and the CCFS311Q and CCFS311A reporting.

- **Q: Are key fiscal reports readily available and understandable?**
- **A:** Key fiscal reports such as budget reports are available on-line and have been customized to make them understandable.

  Key fiscal reports are readily available on-line to District faculty and staff and can be accessed with minimal training. For instance, budget reports have been customized through programming the Datatel canned reports to make them more user friendly. Also, fiscal reports are presented to the Board of Trustees on a regular basis as information items at board meetings.

10. **Position Control – Is this area acceptable?**  YES

- **Q: Is position control integrated with payroll?**
- **A:** Position control, which is maintained by the Budget Development Department, is integrated with Human Resources and Payroll records to ensure accuracy.

  The Budget Development Department maintains a comprehensive position control system using an Access database that meets auditor requirements for checks and balances and is routinely compared to Human Resources and Payroll records. This system is relied upon heavily by Human Resources and Payroll to confirm employee hiring information, including the related funding. In addition, the database provides reports for the negotiation process and data for the annual benefits statements.

- **Q: Does the district control unauthorized hiring?**
- **A:** Hiring is always done according to board policy and the process is monitored by Human Resources and Business Services.

  Hiring is done according to board policy and accompanying administrative procedures, including; adequate time to advertise the position in a number of publications, review of applications by Human Resources, subsequent evaluation by a diverse committee, initial interviews by the same committee, and final interviews by the appropriate staff and administrators. The recommendation to hire the successful candidate is submitted for authorization to the Board of Trustees by the Superintendent/President. The entire process is monitored by Human Resources and Business Services to ensure that proper documentation and funding supports each position.
Q: Does the district have controls over part-time academic staff hiring?
A: There is a comprehensive procedure for part-time academic hiring that is monitored by Human Resources.

The District follows a comprehensive procedure for hiring part-time faculty that has been approved by the Academic Senate. Part-time academic staff hiring is monitored by Human Resources to make sure that minimum qualifications are met. In addition, the Instruction Office and Human Resources ensure that the teaching load of adjunct faculty members does not exceed 67%. Hiring of part-time academic staff is based on one aspect of the enrollment management plan that projects increases in sections that are, then, taught by part-time academic staff. This strategy compliments the current full-time staffing structure. The district typically meets or exceeds the Full-time Faculty Obligation and for Fall 2012 the District was .50 positions above the established target.

11. Budget Monitoring – Is this area acceptable? YES

Q: Is there sufficient consideration to the budget, related to long-term bargaining agreements?
A: The District Administrators/Lead Negotiators for each Bargaining Unit use current budget data and multi-year projections when considering long-term bargaining agreements.

District Administrators responsible for negotiations take into consideration both the current year budget and the District’s 5 year budget projection for the Unrestricted General Fund. Long term bargaining agreements are entered into only when there are sufficient long-term, ongoing resources to fund them. The 5 year budget projection takes into account long-term obligations and provides a conservative picture of future revenues and expenditures.

Q: Are budget revisions completed in a timely manner?
A: Budget revisions are processed in a timely manner and reported to the Board monthly. Non-wage expenditures cannot be made unless there is sufficient budget.

Budget revisions (transfers) are reported to the Board of Trustees on a monthly basis and are made before non-wage expenditures can occur, thus ensuring a positive budget balance. The Datatel purchasing module does not allow negative budget balances. In addition, monthly reports are distributed to budget managers who have negative balances in part-time salaries and operating expenses. Budget managers are required to make budget transfers from other expense line items immediately to resolve any negative balances.

Q: Does the district openly discuss the impact of budget revisions at the board level?
A: Budget revisions are presented to the Board in the monthly Budget Transfer report and again in the Monthly Financial Report. Questions and highlights are discussed in open session.

The District reports budget revisions and presents a year-to-date Financial Report at the monthly Board of Trustees meeting for approval/ratification/information.

Q: Are budget revisions made or confirmed by the board in a timely manner after the collective bargaining agreements are ratified?
A: Typically bargaining agreements do not require budget revisions.

Collective bargaining agreements do not typically require the board to approve a budget revision, as funds are set aside in the appropriate areas in anticipation of negotiations.

Q: Has the district’s long-term debt decreased from the prior fiscal year?
A: Long term debt which requires District repayment decreased from the prior year. This includes COP’s, equipment leases, an energy improvement loan, retiree health care obligations, and early retirement incentives. General Obligation Bonds are repaid by the taxpayers, not the District.
Long-term debt which requires District General Fund dollars for repayment has historically been at a very low level. This debt includes Certificates of Participation, capital leases, Other Post Employment Benefits (OPEB) obligations, and early retirement incentives.

2011-2012

In addition to the long-term debt that requires District repayment, the District's audited financial statements must reflect General Obligation Bond debt which is paid for by property tax revenues. Total long-term obligations increased from $203,078,103 at June 30, 2011 to $227,162,358 at June 30, 2012. This increase of approximately $24 million can be categorized as follows:

- $37.5 million increase in GO Bond Debt to be paid by property tax assessments. This increase was due to the issuance of $35 million in new GO Bonds in May 2012 under the existing voter approved Measure M allocation totaling $160 million.
- $14.0 million decrease in COP debt which reduces the amount of District funded debt service. Repayment of part of the District's 2006 COP, which were used to fund the construction of the Central Plant, was included in the Measure M approved project list. The second issuance of Measure M GO Bonds in May 2012 provided the funding for this payoff.
- $0.5 million increase in District funded long term obligations due to increases in the District's Supplemental Early Retirement Incentive premiums and the District's OPEB obligations.

The long-term debt at June 30, 2012 consists of $200,834,275 in General Obligation Bond debt (which is paid by local property tax collections) and $26,328,083 in debt that the District will be repaying from various revenue sources. The debt that the District is responsible for consists of two Certificates of Participation (issued in 2006 and 2009); a California Energy Commission loan for energy improvements; a capital lease for Reprographics Department copiers; early retirement incentives; Other Post Employment Benefit (OPEB) obligations; and compensated absences. Part of the debt service on the 2006 Certificates of Participation is funded by the students through a self-imposed Student Center remodel fee as well as student parking fee revenues. The debt service on the 2009 COP will be funded by a provision in the Instructional Service Agreement and Joint Use Agreement between the District and LA County Fire.

Q: Has the district identified the repayment sources for the long-term debt?
A: GO Bonds are repaid by the taxpayers. Student fees provide funds to repay the Student Center remodel and the south parking lot debt. An agreement with the County Fire Agency provides funds to repay the Del Valle construction COP, and energy savings provides funds to repay the loan for energy improvements. District funds are used to repay copier leases, retiree health benefits, and retirement incentives.

In the case of GO Bonds, debt is repaid by the taxpayers. In the case of COPS, student imposed fees for the Student Center remodel project and addition of the South Parking Lot will largely offset the debt service associated with these projects. Debt service on the 2009 COP is funded through a provision in the agreement between the District and the LA County Fire Department that sets aside $1 for debt service repayment for every hour of training provided.

Q: Does the district compile annualized revenue and expenditure projections throughout the year?
A: The budget is revised regularly so that it reflects the most up to date information. In addition projections of savings due to unspent expenses and revenue receipts tracking above or below budgeted levels are shared with the Board monthly beginning in the spring.

The District is constantly revising its Adopted Budget to reflect updated information and the current budget is reported monthly to the Board of Trustees and is used as an annualized revenue and expenditure projection. In addition, the District develops a “Savings/Shortfall” schedule that projects revenue and expenses in the form of any potential variances to budget such as unspent funds that may revert to the ending fund balance or potential revenue deficits at the State level. This report is reviewed regularly by the District Chancellor and Executive Cabinet.
12. Retiree Health Benefits – Is this area acceptable?  YES

- **Q:** Has the district completed an actuarial calculation to determine the unfunded liability?
- **A:** Actuarial calculations are performed by a consultant every two years as required.

The District has been extremely proactive in this area and is monitoring its liability through actuarial studies which were issued in March 2004, September 2007, March 2009, May 2011, and March 2013. Based on the studies, the District has been historically funding its Retire H&W liability annually at the rates indicated in the current report.

In 2012-2013, as part of the District’s budget solutions, the District did not fund the entire Annual Required Contribution (ARC). The District funded the required Retiree Benefit premiums on a pay-as-you-go basis.

The latest actuarial study issued in March 2013 calculates the total Actuarial Accrued Liability (AAL) at $7.6 million. The District’s annual required contribution (ARC) is calculated at $617,803. The District is fortunate to have one of the lowest liabilities in the State. This is due to the lower annual contribution available to retirees of $2,200 per year vs. lifetime PPO or HMO family benefits that have been made available by many other districts to their retirees. In fact, other districts have found themselves in the position of needing to re-negotiate these benefits to minimize their liability.

- **Q:** Does the district have a plan for addressing the retiree benefits liabilities?
- **A:** The District has a very low liability compared to other community colleges, and is addressing the liability by putting aside the annual required contribution per the actuarial study each year.

The District’s Chief Business Officer has attended many presentations on GASB 45 compliance and has been evaluating the products currently available that provide GASB trusts and investment options. The District conducted a Request for Proposals (RFP) and performed additional fact finding in order to conduct a comprehensive evaluation. Our auditors have confirmed that the District is in full compliance with the provisions of GASB 45, meeting the phase two implementation deadline by reporting Other Post Employment Benefits (OPEB) obligations beginning with the 2008-2009 fiscal year’s audit.

The District is currently reviewing its options with regard to establishing an “irrevocable” or “revocable” trust with investments managed by a reputable institution. In the meantime, the District continues to make the annual required contribution (ARC) to a revocable fund established in the County Treasury as budget permits, and has made the ARC contribution each year with the exception of 2012-2013. The District currently has over $2.1 million accumulated in the fund as of the February, 28, 2013 Monthly Financial Report.

13. Leadership/Stability – Is this area acceptable?  YES

- **Q:** Has the district experienced recent turnover in its management team (including the Chief Executive Officer, Chief Business Officer, and Board of Trustees)?
- **A:** There has been minimal turnover in Executive Management. In fact, the Chancellor has been with the District 25 years and the most senior Board member has served for 28 years.

The District’s Management Team and Board of Trustees are very stable, as evidenced by the number of years of service listed below. In 2012 the District had the distinct honor of congratulating our long-time Board Member Mr. Scott Wilk on his election to the California State Assembly. Mr. Wilk’s replacement, Mr. Steven Zimmer, was appointed to the Board of Trustees in January 2013.
District Chancellor:
- Dr. Dianne G. Van Hook, Chancellor  
  25 years

Executive Cabinet:
- Mr. Joseph Gerda, Interim Assistant Superintendent/Vice President, Instruction  
  26 years
- Dr. Michael Wilding, Assistant Superintendent/Vice President, Student Services  
  16 years
- Mr. Jim Schrage, Assistant Superintendent/Vice President, Facilities Planning, Operations, and Construction  
  16 years
- Dr. Barry Gribsbons, Assistant Superintendent/Vice President, Institutional Development, Technology and Online Services  
  14 years
- Ms. Sharlene L. Coleal, Assistant Superintendent/Vice President, Business Services  
  12 years
- Mr. Eric Harnish, Special Assistant to the Chancellor/Interim Managing Director, Government Relations and Advocacy  
  11 years
- Mr. Bruce Battle, Interim Managing Director, District Communication and Marketing  
  11 years
- Ms. Diane Fiero, Assistant Superintendent/Vice President, Human Resources  
  9 years
- Dr. Ryan Theule, Dean, Canyon Country Campus  
  5 years

Board of Trustees:
- Board Member – Ms. Michele Jenkins (1984)  
  28 years
- Board Member – Mr. Bruce Fortine (1991)  
  21 years
- Board Member – Ms. Joan MacGregor (1993)  
  19 years
- Board Member - Mr. Michael Berger (2009)  
  3 years
- Board Member – Mr. Steven Zimmer (2013)  
  Appointed January 14, 2013

14. District Liability – Is this area acceptable?  YES

  ▪ **Q:** Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels?
  ▪ **A:** The District performs analysis of potential lawsuits on a regular basis and works proactively to minimize the incidence of claims. If a claim is filed, the District works with the District’s insurance administrator to resolve the claim as efficiently as cost effectively as possible.

  The District’s reserves are appropriate based on the very low incidence of large claims or lawsuits. It has been proactive in diffusing situations by educating managers in effective communication, evaluation, discipline and other employee issues. In the case that a claim is filed, the District engages the services of attorneys with appropriate expertise to provide legal analysis on issues that could result in financial exposure for the District. If a lawsuit is anticipated, the District works in a timely manner with its insurance administrator, Keenan & Associates, to seek a determination of potential liability and will request a claim, if appropriate. This claim is rejected by the Board of Trustees, per Title V regulations, which protects the District by limiting the length of time the plaintiff has to settle or litigate the claim from 2 years to 6 months. The District then works with Keenan & Associates to resolve the claim in a time efficient and cost effective manner.

  ▪ **Q:** Has the district set up contingent liability for anticipated settlements, legal fees, etc?
  ▪ **A:** The District budgets for the costs of anticipated settlements and the related legal fees and costs.

  The District budgets for legal fees annually based on historical trends that have increased slightly over the years as a result of increased claims. However, this amount is unusually low for a district of our size. In addition, funds have been set aside to provide a contingency for the District for settlement or payment towards the $25,000 per incident deductible.
15. Reporting – Is this area acceptable? YES

- **Q:** Has the district filed the annual audit report with the System Office on a timely basis?
- **A:** The annual audit has been filed on time each year. It is submitted to all required agencies by our audit firm.

  The annual audit report is filed on behalf of the District by its audit firm, Vavrinek, Trine, Day and Co., LLP by the December 31st deadline. It is submitted to the Federal Audit Clearing House, the California Department of Education, the Los Angeles County Office of Education, the State Chancellor’s Office and the Department of Finance. In addition, the District submits the audit to EZ Audit for Financial Aid. Also, as part of the continuing disclosure requirement associated with our General Obligation Bonds, we are required to submit annual audits and a continuing disclosure report to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access site (EMMA).

- **Q:** Has the district taken appropriate actions to address material findings cited in their annual audit report?
- **A:** The District has not had any material findings.

  The District has not had any material weaknesses identified in the past 15 years.

- **Q:** Has the district met the requirements of the 50 percent law?
- **A:** The District has met the 50% law requirement consistently over the past 25 years.

  The District has met the requirements of the 50 percent law consistently and has never been in a penalty situation.

- **Q:** 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?
- **A:** All reports listed have been submitted by the stated deadlines.

  Reports are submitted by the District in a timely manner, on or before the stated deadline.

Summary

The State Budget crisis, brought on by a prolonged nationwide recession, resulted in several funding cuts to California Community Colleges from 2009-2010 through 2011-2012. The District lost over 10% of ongoing Base Apportionment funding, lost an additional 2% of funding through one-time cuts and deficits, and absorbed Categorical funding reductions of 50%. These reductions often happened after the fiscal year had begun, which made it very difficult for the District to do budget planning or even to administer a budget after it had been adopted. Through careful planning and identification of new revenue sources and expense reductions, the District has been able to maintain double-digit fund balances despite these severe cuts. The cumulative effect of maintaining adequate reserves in times of economic downturn has provided the District with the ability to withstand reductions and maintain financial stability.

In 2012-2013, the passage of Proposition 30 allowed the Community Colleges to avoid a third Base Apportionment cut and has stabilized 2012-2013 State Apportionment revenue at status quo 2011-2012 levels. Proposition 30 provides protection from further base cuts, but did not provide any new funding and Community College funding is still below 2007-2008 levels.

As the economy recovers, the District is cautiously optimistic that new resources will be available in 2013-2014 to restore community college access, fund Student Success initiatives, provide funding to assist with inflation, and reduce State Apportionment deferrals. Ensuring quality instruction and meeting the educational expectations of the community and its students has always been a priority. The District will continue to align the number of sections offered with revenue provided by the State to minimize District
budget shortfalls while maximizing student access. In addition, efficiency has been increased to over 90%, meaning that most classes are full and the District is providing instruction to as many students as possible.

The District will continue to pursue new and different ways to partner with the community and local businesses, to seek grant funding to sustain and augment critical programs like Nursing and Welding, and to contribute to the economic recovery of California through Career Technical Education programs and retraining plans for Veterans and re-entry students.

Strong and consistent leadership is essential to the long-term success of the District. The District has been privileged to operate under the leadership of Dr. Van Hook for the last 25 years. Dr. Van Hook is the longest seated Chancellor in the Community College System. Dr. Van Hook's experience enhances every area of the District's operations. Her unparalleled leadership has guided the District through the worst recession in its history. She has a clear vision, unparalleled leadership skills, strong technical knowledge, astute ability to assess risk, and has forged lasting relationships with local, State, and Federal Officials and, as a result, can effectively communicate about and advocate for the California Community College System and the District. In addition, the District has two Board Members, Michele Jenkins and Bruce Fortine, who have served the District for 28 and 21 years respectively. Also, Executive Administrators at the District are very seasoned with tenures from 26 years to five years, with seven of the nine Executive Administrators providing dedicated service well in excess of 10 years each.

Leadership has also been identified as a key to success for the future of the Community College system. With retirements in both CEO and Administrative positions throughout the system, the next generation of well-trained leaders will be required to navigate the challenges facing Community Colleges in the next few years. The Leadership Education in Action Program (LEAP) was established by Dr. Van Hook in 2008 to identify and train individuals at the District to become future leaders and has been incredibly successful, helping individuals better understand the global issues affecting community colleges through panel presentations from key State leaders as well as through internal networking with their own colleagues so that they can better understand how to work together in a collaborative way.

Advocacy is also critical to the success of the District with the District Chancellor leading the way to propose legislative changes, meet with legislators, work with the State Chancellor's Office or whatever else it takes to move issues forward for the betterment of the system. An Advocacy Advisory Committee has been established with representative individuals from within the college, the community and local business. The District's Vice President of Business Services is a member of the Association of Chief Business Officers (ACBO) Board, and actively participates in advocacy and analysis of upcoming legislation that affects the financial position of California Community Colleges.

The District is positioned and ready to succeed in the future with well-trained leaders, expertise in community college finance and State regulations, a strategic approach to Enrollment Management, proactive advocacy, grants and business partnerships to increase revenues, a focus on economic development through career technical education, and innovative faculty who are dedicated to student success. Through innovative approaches and proper planning and advocacy, the District will continue its efforts to manage revenues and control expenses in order to allow the District to provide access to students while maintaining fiscal stability.