MATC Budget Document • Fiscal Year 2008–2009

Policy Section

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BOARD POLICY

The MATC Board adopted policies of governance on June 14, 1997. These policies give broad general guidance on significant matters of the district, in the form of Executive Limitations (EL). The board policy related to budgeting requires:

> "Budgeting for any fiscal year or the remaining part of any fiscal year shall follow Board priorities, control College financial risk, and accurately reflect projections of income and expenses. The President shall propose a budget after first seeking broad input from all College constituencies. Budgets will become effective upon approval by the Board."

The additional stipulations by the board are as follows, with the corresponding response in italics:

- Propose a balanced budget with supporting information to enable a reasonable projection of revenues and expenses, separation of capital and operational items and disclosure of planning assumptions.

  The resources and uses of the FY 2008-2009 budget are in balance. The overall budget and the individual fund types have budgets with resources and uses which are in agreement. The planning assumptions and means of revenue and expenditure projection are summarized in the Financial Section of this document.

- Propose a budget that provides the annual funds for board operations, such as cost of fiscal audit, board development and training and board professional fees.

  The individually required components of the budget are included in the general fund budget at levels considered adequate to cover expected needs.

- Propose a budget that takes into account board priorities.

  As detailed on pages 34-36, the 2008-2009 budget was developed through the strategic planning process approved by the district board. This budget includes significant effort to align the activities of the college with the strategic direction established by the Board.

- Propose a budget that includes adequate amounts for non-compensation needs, such as plant and facilities maintenance, instructional equipment, new program and course development, employee development and institutional research.

  The FY 2008-2009 budget includes the items specifically identified above in various areas of the budget. Maintenance is included as "physical plant" expenditures; instructional equipment purchases are included in the capital budget; new program and course development is included in "instruction" expenditures; employee development and institutional research are included as "general institutional" expenditures.

- Propose a capital budget that meets the capital needs of the district.

The capital budget for the district is included in the capital projects fund. Additional detail on the capital budget can be found in the Financial Section.

- Propose an operating budget that meets guidelines established by the board and does not exceed statutory limitations.

  This budget was prepared in accordance with Wisconsin Statutes 38.12 and 38.16 on municipal budgeting and the Wisconsin Technical College System's Financial Accounting Manual requirements related to budgeting. The MATC FY2008-09 budget is well below the statutory limited mill rate. In addition to these minimum requirements, the district also followed guidance and suggestions issued by the National Advisory Council on State and Local Budgeting and the Government Finance Officers Association (GFOA) of the United States and Canada. Further, MATC's 2007-2008 Budget Document was awarded the GFOA Distinguished Budget Presentation Award.

- Maintain budgetary basis fund balance reservations at or above the level established by the board, which is currently set at the total of the following:

  - Reserved for encumbrances, prepaid items and non-current assets equal to the related financial statement items
  - Reserved for compensated absences and retiree health insurance equal to the obligation
  - Designated for state aid fluctuations equal to ten percent of funds budgeted for general state aid
  - Designated for operations near the potential cash flow deficit of the operational funds, generally between 16.6 and 25 percent of the district's operational budget.

At the end of fiscal year 1998-99, MATC was within the board-established goal, and has remained so ever since. Current plans and projections predict the continued compliance with board guidelines. ***Figure 5*** *below shows the current and projected amount of fund balance and the range of the guidelines detailed above.*

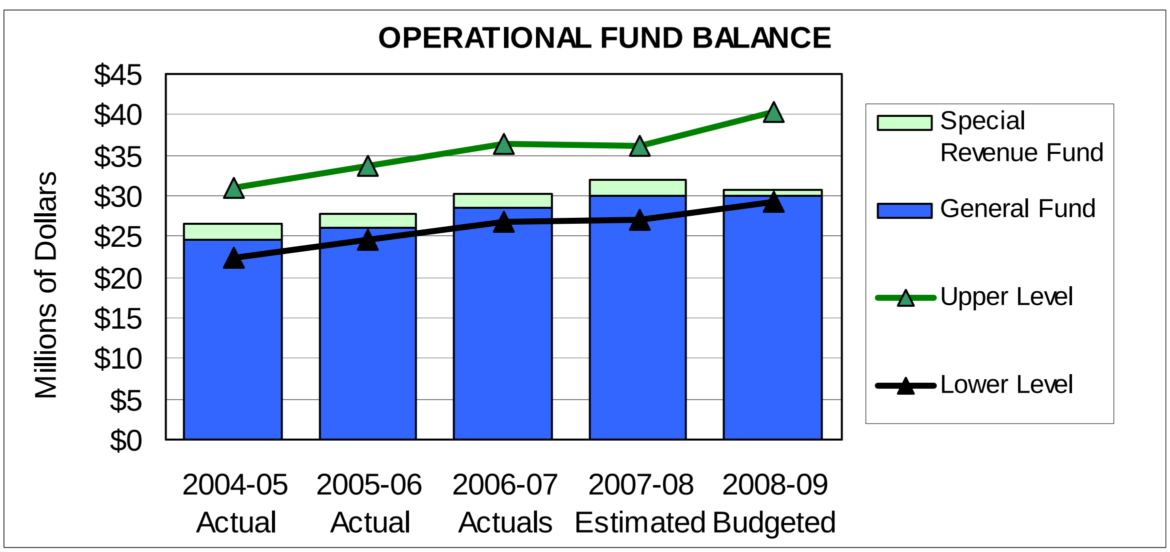

Figure 5

The same Board policy states that the annual district budget shall be developed considering the following objectives:

- to emphasize long-term financial health of the district
- to address college stakeholders' needs
- to maintain financial flexibility

To address the first and third of those requirements, MATC structures its debt borrowing in order to maintain stable annual debt service repayments to avoid major fluctuations between years. As a result of its fiscal policies, its sound financial position and its long-range plans, as well as being under the statutory operational mill rate limit, MATC continues to receive a Moody's bond rating of Aaa, and a Standard & Poor's rating of AAA. Please see the section entitled Planning Process and Budget Development on pages 34-36 for an explanation of how stakeholder needs are incorporated into the budget process.

- The Asset Protection Board Policy requires that the President shall cause assets to be adequately maintained and protected from unnecessary risk.

MATC is committed to the development of good management systems and controls. Significant efforts are made to employ qualified personnel. Similarly, systems are conscientiously developed within which MATC employees can function effectively, and which provide appropriate levels of supervision and segregation of duties.

INTERNAL CONTROL SYSTEM

In developing and modifying the district's accounting system, consideration is given to the adequacy of internal controls. Internal accounting controls within the district are designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and provide the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits likely to be derived, and the evaluation of cost and benefits requires estimates and judgment by management. All internal control evaluations occur within the above framework. We believe the district's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

ACCOUNTING SYSTEM

The accounting policies of the district conform to generally accepted accounting principles. Financial statements are organized on the basis of individual funds, each of which is considered a separate accounting entity. MATC also follows the additional accounting requirements promulgated by the Wisconsin Technical College System in the Financial Accounting Manual.

CASH AND INVESTMENT POLICY

The District Board of MATC adopted an overall investment policy in April 2002 which delegates investment responsibility to the Director of Finance. The policy permits investments in the following types of instruments:

- *State of Wisconsin Local Government Investment Pool*
- *Wisconsin Investment Series Cooperative*
- *Direct obligations of the U.S. government*
- *Obligations guaranteed by the U.S. government as to principal and interest*
- *Obligations of various specific government-related institutions*
- *Time deposits in financial institutions authorized to transact business in Wisconsin*
- *Commercial paper and other debt securities of highly rated U.S. corporations*
- *Certain qualified Bankers' acceptances*
- *Obligations of the state and its various local governments, insured as specified*
- *Securities of management investment companies or investment trusts as described in Wis. Stats. 66.0603 (1m) 5*

The policy further specifies that the primary objectives, in priority order, of investment activities will be safety, liquidity and return. Investments must be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio and to mitigate both credit and interest rate risk. The portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations as they become due. Finally, the portfolio must be designed with the annual objective of exceeding the benchmark by an average of 25 basis points (0.25%). The benchmark is comprised of the following components:

- *10% Wisconsin Investment Series Cooperative – Cash Management Series*
- *45% Wisconsin Investment Series Cooperative – Investment Series*
- *45% State of Wisconsin Local Government Investment Pool rate*

RISK MANAGEMENT

The district has a comprehensive insurance program designed to cover MATC's needs. Effective July 1, 2004, the 16 technical college districts created Districts' Mutual Insurance Company to finance most of the risk associated with the operations of the individual colleges. In addition, the district also maintains a self-insurance fund which is used to cover the deductible on liability coverage; on small claims for lost or stolen equipment; and for any claim that may exceed the coverage limit.

INDEPENDENT AUDIT

MATC board policy and state law requires an annual audit of MATC's financial statements by an independent certified public accountant. MATC has utilized the services of Virchow Krause and Co. LLP. For the year ended June 30, 2007, the district received an audit opinion without qualification.

EXTERNAL REQUIREMENTS

WISCONSIN STATE STATUTES

- Borrowing Limits. Sect. 38.15 Borrowing for new construction is limited to $1,000,000 per location every two years, unless voter approval is secured through a referendum. Borrowing for each project related to the modification (repair and remodeling) of existing building structures is limited to $1,000,000. Borrowing for the acquisition of equipment having a cost of at least $500 and a useful life of two years or more is not limited in amount.

  As detailed in the Financial Section on pages 52-56, the District's capital projects and borrowing plan adhere to these limitations.

- Mill Rate Limits. Sect. 38.16 The district board may levy a tax not to exceed a rate of $1.50 per $1,000 of the full, equalized value of taxable property within the area served by the district for the purposes of operating and maintaining the institution. The mill rate limitation is not applicable to taxes levied for the purposes of paying principal and interest on general obligation debt issued by the district.

  The District's budgeted operational mill rate for Fiscal Year 2008-2009 is 1.08498. More information on the budgeted mill rates can be found on pages 37, 43 and 140.

- Budget Hearing. Sect.65.90(4). The district must hold an annual public hearing on the proposed budget.

  The hearing was held on May 14, 2008.

- Public Notice. Sect. 65.90(3)(a) The district's proposed budget must be published in the official newspaper of the district as a Class I legal notice at least 15 days prior to the public hearing.

  The public notice on pages 37 and 38 was published in the Wisconsin State Journal on April 25, 2008.

- Budget Amendments. Sect. 65.90(5)(a) Changes to the adopted budget may only be made by a two-thirds vote of the governing body. Such changes must be communicated via the publication of a Class I notice within 10 days after the change is made.

  There were no budget amendments in Fiscal Year 2006-2007. Fiscal Year 2007-08 is not yet complete at the time of publication of this document.

- Debt Limits. Sect. 67.03(1) and (9) The aggregate indebtedness of the district may not exceed five percent (5%) of the equalized value of the taxable property located in the district, and the bonded indebtedness may not exceed two percent (2%) of such value.

The maximum aggregate indebtedness of the District through FY 2006-07 is $21,544,259. The five (5) percent limit, based on the estimated October 2007 state equalized valuation (including TID's) of $67,472,548,889 is $3,352,083,185.

The District has no bonded indebtedness budgeted for FY 2008-09.

***Figure 6** shows the calculations in chart form. Also see page 150 in the Informational Section for the calculation methodology.*

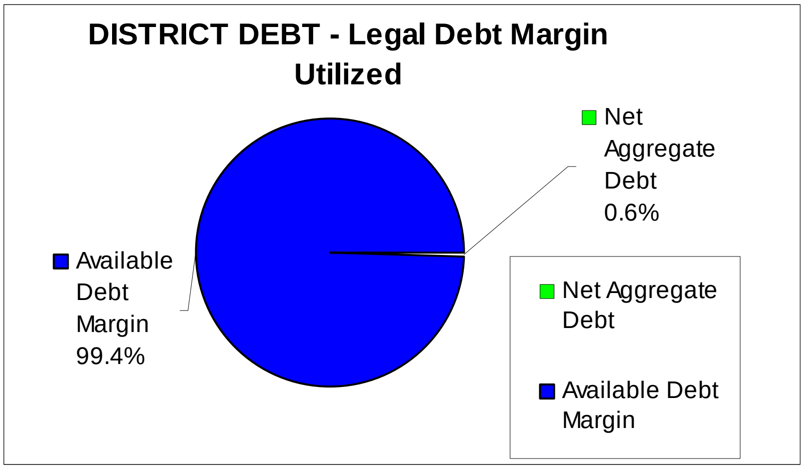

Figure 6

OTHER EXTERNAL SOURCES

- The Governmental Accounting Standards Board (GASB) Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," provides that proprietary funds may apply all GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

  MATC has elected to apply only FASB, APB and ARB materials issued on or before November 30, 1989.

- Governmental Accounting Standards Board (GASB) Statement No. 34 Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

  For financial statement reporting purposes, MATC has adopted the standards in GASB34. The most significant difference between financial reporting and budgetary reporting is the elimination of funds in the former and the reporting of all activity in one combined set of numbers in the latter. For financial reporting purposes, full accrual is used. To verify budgetary compliance the District will report fund type results compared to budget as other supplementary information in the Comprehensive Annual Financial Report (CAFR).

From Wisconsin Technical College System Board – Accounting Guidelines, Financial Accounting Manual

- The capitalization threshold for equipment is $5,000 and $15,000 for remodeling. However, the accounting threshold shall remain at $500.

The District currently calculates and charges depreciation based on the $5,000 threshold. For financial purposes, assets in excess of $500 are purchased through the Capital Projects Fund.

PLANNING PROCESS AND BUDGET DEVELOPMENT

MULTI-YEAR PLANNING

The MATC planning structure includes three major players or processes that have a role in strategic planning and budget development. These players are the District Board, the College Council and the various units of the college, both alone and as larger areas as represented in the unit planning process.

The role of the Board of Trustees, which are appointed by the County Board Chairs in the MATC district, is to set the mission, values, and vision for the college. This also involves identifying major themes and areas for the college to focus on in order to accomplish that vision. The themes and measures will serve as input to the strategic planning process lead by the College Council.

The College Council, an executive leadership group of the college that represents all the major divisions in the college plus union leadership, takes the Board's vision and themes and determines the most important outcomes to achieve the vision and to track progress. The College Council then articulates the desired outcomes as the College Council Goals as detailed in MATC's Three-Year Strategic Plan.

Individual units and divisions in the college, which make up all employee work groups at the college, participate in the strategic planning process through the unit planning process. Unit plans are intended to create a vision for the future, identify how individual units can support the college direction, and help support and achieve MATC's goals as defined by College Council. The current College Council Goals are:

1. All students will succeed.
2. Opportunities and options for learning reflect the needs of students and clients.
3. All who interact with MATC have positive experiences.
4. Community, education and business partnerships result in enhanced educational opportunities.
5. MATC staff are innovative and seek continuous improvement.

See pages 19-23 for the detailed College Council Goals, and pages 77-127 in the Operational Section for information on individual unit goals that relate to achieving the College Council Goals.

ANNUAL BUDGET PROCESS

The MATC budget is established annually. This process involves the review and revision of the current year base budget and establishment of revenue and expense parameters that will be used as inputs to the budget development process. In addition to planning a budget for the next year, budget projections are prepared for two additional years. Years two and three of the planning cycle are dealt with in progressively less detail, since the activities in those years are less certain, and accurate forecasting is necessarily more difficult.

In the process to review and revise the current year base budget, MATC uses a modified zero-based budgeting approach. A zero based budgeting approach means that the budget is based on actual need versus incremental budgeting which would mean that the prior year budget is always the starting point of the next year's budget. MATC uses a modified zero-based budgeting approach because aspects of the budget are reset to amount of actual need. The following aspects of the MATC budget are zero-based budgeted: salaries for all full time positions (52% of the general fund budget), fringe benefit package costs based on actual benefit eligibility and elections (24% of the general fund budget), district utilities (2% of the general fund budget), and all district insurance costs (1% of the general fund budget). The aspects of the general fund budget that are zero-based budgeted equal 79% of the general fund budget. The following fund budgets are also budgeted completely using a zero based budgeting methodology: Capital Equipment and Projects Fund and the Debt Service Fund. The impact of using zero-based budgeting on these aspects of the budget means that MATC only budgets what is needed. An example would include updating the budget to reflect the retirement of a long-term employee which would mean reducing the budget for this position to a lower entry salary rate.

After reviewing and revising the base budget, the following inputs and assumptions are used to refine the revenue and expenditures budgets:

- Enrollment trends and goals
- Tuition and Fee rate changes
- Debt proceed assumptions
- Investment Earnings assumptions
- State Aid prediction
- Tax Levy calculation
- Salary and Fringe inputs
- Impact of upcoming retirements
- Impact of annual turnover
- Other Collective Bargaining negotiated changes
- Non-Salary Expenditure assumptions
- Utility assumptions
- Capital Planning expenditures
- New Initiatives
- Equalized Valuation assumptions
- Mill Rate Target
- Tax Levy Projection
- Projected Impact on a Single Family Homeowner

In addition to the analysis and work that goes into the budget assumptions and inputs, the annual budget process responds and is linked to the strategic process by requiring that all funding changes and new funding requests come out of the unit planning process. This means that any request for new or additional funds must be part of the unit planning process which is linked to the College Strategic Planning Process.

After completing the base budget revisions, applying inputs and assumptions to the revenue and expenditure budgets, a three year budget projection is produced. These three year budget projections are then reviewed by college leadership. The college leadership then determines if the initial budget projections are in accordance with the college's intended strategic direction as well as falling within targeted mill rates. At this point, MATC decides how to fund proposed new initiatives which were proposed through the unit planning process.

The leadership of the college, including the College Council and all Vice President areas (Instruction, Infrastructure Services and Strategic Advancement), identify the high priority proposed new initiatives that best support the strategic plan. After new initiatives have been prioritized, it is then determined the amount of resources that are needed to implement these priorities, with the most detailed efforts devoted to the next (budget) fiscal year. It is during this prioritization process that all potential funding sources be identified, to include: reallocation of existing funds, possibility of partnerships, and analysis of the net impact of new initiatives (impact on expense and revenue budgets as well as capital budgets and other impacts such as potential efficiencies or impacts on space utilization).

After the new initiatives are approved, these budgetary inputs are also added to the planned budget. At this point, the college then begins the process of budgetary review and approval to include MATC District Board review, a public hearing on the budget (see legal requirements on page 32) and a final District Board resolution to adopt the budget. The Board resolution to adopt the budget must occur before the beginning of the fiscal year as, in accordance with state statutes, the budget adoption also authorizes the appropriations for all funds, by function. See page 32 for the legal requirements for changes to the adopted budget.

ANNUAL BUDGET CALENDAR

Fall	College unit planning process initiated
	Unit plans finalized
December	Funding requests (capital and operating) submitted
	Budget inputs and assumptions to District Board
Winter	New funding requests reviewed for alignment with College Council Goals
	Prioritization of all funding requests
Spring	Multi-Year Budget Projections presented to the District Board
	Draft Public Hearing Notice presented to District Board
	Public Hearing Notice published 15 days prior to scheduled public hearing
	Public Hearing Notice held
June	District Board Adopts budget prior to July 1
	Budget submitted to the state prior to July 1
October	District Board approves the tax levy and mill rates
	Tax bills mailed to municipalities