

St. Mary's College of Maryland

Policy Statement for the Development, Authorization, and Revision Of the Operating and Capital Budget

Objective: To define the process for developing, securing authorization, and maintaining the College's operating and capital budgets.

Draft Date: November 2, 2007

Issue Date: December 1, 2007

Revised: November 2, 2007
October 2, 1993
June 6, 1998
January 26, 2000

Revised: November 2, 2007 to be effective December 1, 2007

Policy: The Board of Trustees authorizes the College's Vice President for Business and Finance to coordinate the development and management of operating and capital budgets, consistent with the strategic and financial plan for the college. The Board authorizes the College to disburse monies received in the Loan Fund, Endowment Fund, and Agency Fund (refer to Appendix B for definitions) in accordance with the purposes of those funds. Although an annual budget document relating to those funds is not required, results will be reflected in the annual audited financial statement. The Board's Finance, Investment, and Audit Committee shall review the College's administration of this policy to ensure compliance.

1. DEFINITIONS
2. BUDGET PLANNING
3. BUDGET COMPOSITION AND DEVELOPMENT BASED ON THE STRATEGIC AND FINANCIAL PLAN
4. PRESENTATION AND ADOPTION
5. BUDGET REVISION AND CONTROL

APPENDIX A

APPENDIX B

-
1. DEFINITIONS: In addition to the following definitions specific to this policy, Appendix B briefly explains accounting methods and terms used in maintaining the College's financial records.
 - a. Operating budget: is the College's financial plan of current operations based on the Strategic and Financial Plan created for that year which includes estimated revenues and expenditures, both unrestricted and restricted, for one fiscal year.
 - b. Capital budget: is the College's financial plan for the acquisition of capital assets, new construction, and major repairs or renovations to College-owned facilities. The capital budget will include estimated revenues and expenditures, both restricted and unrestricted. The capital budget is made up of a series of projects that are not necessarily tied to a particular fiscal year.

 2. BUDGET PLANNING: The Board of Trustees authorizes the College Vice President for Business and Finance to establish a budget planning process that translates intentions of the strategic plan of the College into an itemized, authorized, and systematic plan of operation, expressed in dollars.

The members of the President's Cabinet serve as the Executive Committee on the Strategic and Planning Committee (SPC). The Provost serves as chair of the Committee of the Strategic Planning Committee (SPC). Additional voting members of the committee include the *President, Vice President for Business and Finance, Vice President for Development, Dean of Students, Associate Vice President for Planning and Facilities, Faculty Senate President, Faculty Senate Vice President, Faculty Finance Delegate, Junior Faculty Senator or Junior Faculty member, SGA President, and Student Trustee*. Presence of a majority of the voting members constitutes a quorum for the purposes of decision making. The SPC is charged with the following responsibilities:

- i. Overseeing the development and quantification of funding assumptions included within the Strategic Plan.
- ii. Preparing the College's Strategic Plan.
- iii. Identifying Strategic Plan issues for detailed study annually; updating other items annually or as needed.
- iv. Establishing and analyzing data indicators to assess success of the Strategic Plan.
- v. On an annual basis, preparing a comprehensive update of the Strategic Plan.

IV.B.

3. BUDGET COMPOSITION AND DEVELOPMENT BASED ON THE STRATEGIC PLAN: The Vice President for Business and Finance prepares the annual operating budget based on the funding assumptions included within the Strategic Plan. Development and presentation of the College's financial plans for both current fund operations (operating budget) and plant fund operations (capital budget) shall include estimated revenues, expenditures, and transfers necessary to support proposed activities. Proposed transfers from quasi endowment funds, if any, must be specifically identified in the budget and approved by the Board of Trustees.

a. Current Fund (Operating Budget): The operating budget shall be composed of the following components. (Refer to Appendix B – definition of current funds group.)

Revenues. Revenues supporting the operating budget shall be presented by major source. Unexpended funds from previous fiscal years supporting operating budget expenditures shall be identified separately. Restricted revenues shall be reported separately from unrestricted revenues.

ii. Expenditures. Operating budget expenditures shall be authorized and reported by major programs. Expenditures supported by restricted revenues shall be reported separately from unrestricted expenditures.

- Single expenditures for goods or services equal to or greater than **\$200,000** shall be individually identified.
- On an annual basis, estimated unrestricted expenditures shall include a contingency fund of not less than **\$300,000** to address potential deficiencies in base funding levels, emergency expenditures, and funding enhancements. Award of these dollars shall fall under the purview of the **Provost** or the appropriate Vice President. The President's Cabinet makes allocations decisions and seeks approval by the President.

iii. Transfers. Transfers in or out of the current funds shall be identified. Annually, the operating budget includes non-mandatory transfers to quasi-endowment and to the plant fund in amounts determined to be appropriate to the long-term financial and physical development of the College. Mandatory transfers shall be separately identified from non-mandatory transfers. (See Appendix B.)

b. Plant Fund (Capital Budget): The capital budget shall be made up of the following components. (Refer to Appendix B for a definition of plant fund.)

IV.B.

- i. Sources of Funds. Funds supporting the capital budget shall be presented by major source. Unexpended/undesignated plant funds from previous fiscal years being used to support capital budget activity shall be identified separately.
 - ii. Projects and Other Fund Deductions. Capital budget appropriations shall be authorized and displayed on a project basis.
 - Capital projects exceeding **\$200,000** per project shall be requested, authorized, and reported individually.
 - Individual capital projects with a total estimated cost of *less than \$200,000*, per project may be requested and authorized *by the President*, and reported in the aggregate.
 - iii. Transfers. Transfers supporting plant fund activity shall be separately identified. Mandatory transfers shall be separately identified from non-mandatory transfers.
4. PRESENTATION AND ADOPTION: On an annual basis, the Vice President for Business and Finance is responsible for presenting a recommended operating and capital budget to the President of the College. In turn, the President shall make a final recommendation for adoption to the Board of Trustees via the Finance, Investment, and Audit Committee.
5. BUDGET REVISION AND CONTROL: The Board of Trustees authorizes the College's Vice President for Business and Finance to develop guidelines and controls for the management and revision of approved budgets.
- a. In general, revisions to the Board-approved operating and capital budget resulting in an increase in total expenditures and transfers by fund must be recommended by the Provost or the appropriate Vice President, approved by the President, and authorized by the Board of Trustees via the Finance, Investment, and Audit Committee.

However, increases in *current fund* expenditures or disbursements that are offset by increases in revenues or inflows, *or capital projects less than \$200,000* are governed by the following. The President is delegated the authority by the board of trustees to amend both the revenue and the expense budget for such activities. Revisions enacted under this clause shall be reported back to the Finance, Investment, and audit Committee at its next regularly scheduled meeting.

IV.B.

- b. On a quarterly basis, the College's Vice president for Business and Finance shall provide the Board of Trustees via the Finance, Investment, and Audit Committee with a status report on the attainment of current funds projected revenues by major source, expenditures by program, and transfers in comparison to the approved budgets. Also quarterly, the College's Vice President for Business and Finance shall provide the Board with a status report on the financial progress of plant fund expenditures.

- c. On an annual basis, the College's Vice President for Business and Finance will forward to the Board of Trustees a financial statement (fiscal year) audited by a nationally reputable accounting firm.

Appendix A

St. Mary's College of Maryland
Sample Time Line of Budget Activities

Period Activity

<u>Period</u>	<u>Activity</u>
Fall semester	SPC updates multi-year Strategic Plan as appropriate.
November	SPC reviews/updates major funding assumptions included in the Strategic Plan for the upcoming budget year
January	Revenue projections are updated for the upcoming budget year.
February 28	Budget managers submit their specific requests for the upcoming budget year to the Provost or the appropriate Vice President.
March	President's Cabinet makes allocations decisions and seeks approval by the President.
March	Vice President of Business and Finance prepares recommended operating and capital budget based on the strategic plan and allocation decisions and presents budget to President for approval.
April	President forwards recommended operating and capital budget to the Board's Finance, Investment, and Audit Committee for its review.
May	Board of Trustees approve the budget.
July	Budget year begins.

Appendix B

St. Mary's College of Maryland
Accounting Methods and Terms

Generally Accepted Accounting Principles (GAAP): *The College's financial records are maintained in accordance with GAAP for public higher education institutions. A document issued by the American Institute of Certified Public Accountants, the Audits of Colleges and Universities ("Audit Guide") codifies current GAAP. The Audit Guide requires that the College's books be maintained using the Fund Accounting method.*

**All of the following information is excerpted from the Audit Guide:*

Fund Accounting: *the procedure by which resources for various purposes are classified for accounting and reporting purposes in accordance with activities or objectives as specified by donors, in accordance with regulations, restrictions or limitations imposed by sources outside the institution, or in accordance with directions issued by the governing board. A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, a fund balance, and changes in the fund balance. Separate accounts are maintained for each fund to insure observance of limitations and restrictions placed on the use of resources.*

Accrual Accounting: *the accounts should be maintained and reports prepared on the accrual basis of accounting. Revenues should be reported when earned and expenditures when materials or services are received. Expenses incurred at the balance sheet date should be accrued and expenses applicable to future periods should be deferred. However, certain deferrals and accruals are often omitted. Basis for their omission should be that the omission does not have a material effect on the financial statements.*

Current Funds group: *the current funds group includes those economic resources of the institution which are expendable for any purpose in performing the primary objectives of the institution, i.e., instruction, research, and public service, and which have not been designated by the governing board for other purposes. Resources restricted by donors or other outside agencies for specific current operating purposes are accounted for as restricted current funds. The term "current" means that the resources will be expended in the near term and that they will be used for operating purposes.*

Restricted Current Funds group: *consists of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they are to be expended. Such externally imposed restrictions are to be contrasted with internally created designations imposed by the governing board on unrestricted funds. Internal designations do not*

IV.B.

create restricted funds, inasmuch as the removal of the designation remains at the discretion of the governing board.

Classification of...current funds revenues includes the following. Student Tuition and Fees, Governmental Appropriations, Governmental Grants and Contracts, Gifts and Private Grants, Endowment Income, Sales and Services of Educational Activities, Sales and Services of Auxiliary Enterprises, Other Sources.

Current Funds expenditures: represent the cost incurred for goods and services used in the conduct of the institution's operations. They include the acquisition cost of capital assets, such as equipment and library books, to the extent current funds are budgeted for and used by operating departments for such purposes.

Capital Asset: defined as any physical resource that benefits a program for more than one year. Capital expenditures therefore include funds expended for land, improvements to land, buildings, improvements and additions to buildings, equipment, and library books. Most institutional accounting systems provide for recording at least a portion of capital expenditures in the current fund expenditures accounts of the various operating units. Whether an expenditure is to be considered a capital expenditure is generally a matter for institutional determination. For expenditure reporting purposes, any item costing more than a specified amount, as determined by the institution or appropriate governmental unit, and having an expected useful life of more than one year generally should be classified as a capital expenditure.

Published financial reports usually classify expenditures and transfers in terms of function, organizational unit, and object in that order. The object classification of expenditures identifies that which is received in return for the expenditures. Personal services, staff benefits, printing and stationary, travel, communication, food, fuel, etc. Object classification has importance as a tool for internal management, but should be considered complementary to the classification of expenditures by function and organizational unit and should not replace these classifications in the various schedules of current funds expenditures. Object classifications may be omitted from published financial reports.

Expenditures should be presented in the financial statements for the institution as a whole under the functional classifications. Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Operation and Maintenance of Plant, Scholarships, Auxiliary Enterprises.

Expenditures differ from transfers. Expenditures are the recognition of the expending of resources of the Current Funds group toward the objectives of each of the resources of the Current Funds group toward the objectives of each of the respective funds of that group.

Transfers are amounts moved between fund groups to be used for the objectives of the recipient fund group. There are two types of transfers, mandatory and non-mandatory.

IV.B.

Mandatory Transfers: *should be separately identified from expenditures. They include the following. Provision for Debt Service on Plant, Loan Fund Matching Grants.*

Non-mandatory Transfers: *are allocations of unrestricted resources between fund groups which are not required either by the terms of loan or by other agreements with outside persons or agencies. Such transfers include (1) non-mandatory additions to loan funds; (2) additions to quasi-endowment funds; and (3) non-mandatory transfers to plant funds. Since non-mandatory transfers include transfers of any unrestricted funds, they also cover the retransfer of unrestricted resources back to unrestricted current funds.*

Loan Funds: *the loan funds group consists of loans to students, faculty, or staff, and of resources available for such purposes. The terms of gift agreements usually specify that the funds operate on a revolving basis, i.e., repayments of principal and interest are loaned to other individuals.*

Endowment and similar funds: *includes endowment funds, term endowment funds, and quasi-endowment funds. Endowment funds are funds with respect to which donors or other outside agencies have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to principal. Quasi-endowment funds (funds functioning as endowment) are funds which the governing board of an institution, rather than a donor other outside agency, has determined are to be retained and invested. Since these funds are internally designated rather than externally restricted, the governing board has the right to decide at any time to expend the principal. The only significant difference endowment fund principal is required by the donors to be retained quasi-endowment funds retained and invested voluntarily, for the same or similar purposes.*

Plant funds: *consists of (1) funds to be used for the acquisition of physical properties for institutional purposes but unexpended at the date of reporting; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of indebtedness on institutional properties; and (4) funds expended for and thus invested in institutional properties.*

Agency Funds: *consists of funds held by an institution as custodian or fiscal agent for others such as student organization, individual students, or faculty members. Agency funds should be accounted for as a separate fund group although, if immaterial in amount, they may be reported as assets and liabilities of current funds. Transactions of agency funds represent charges or credits to the individual asset and liability accounts and are not transactions of unrestricted or restricted current funds.*