

## **College of Marin's Financial Analysis May 9, 2001**

### **Summary**

In today's economic environment in both the public and private sectors, accurate and useful financial information is critical in order for boards of directors/trustees and management to make sound decisions regarding the appropriate allocation of resources and to be responsive to their owners and/or constituents.

At the urging of the current and previous grand juries, the management of the Marin Community College District (the District) presented its initial (but in the opinion of this Grand Jury superficial) attempt to provide separate financial operating results for the year ended June 30, 2000, for the Kentfield and Indian Valley (IVC) campuses to the Board of Trustees (Trustees) at its January 16, 2001, meeting. This report indicated that the Kentfield campus achieved net income of \$79,400 while the IVC campus had a net loss of \$118,600.

An alternative report based upon the potential closure of the IVC campus indicated that the Kentfield campus, on a stand-alone basis, would have achieved net income of \$47,900. The assumptions utilized in preparing each of these analyses were developed based upon the knowledge and subjective judgment of District financial personnel. While the assumptions were not subjected to a detailed review, they do constitute a reasonable initial effort.

The information provided by the District will give the Trustees additional tools to give direction to management regarding resource allocation issues and to base long-range planning on historical financial information.

Companies in the private sector with multiple locations and or products and services provide such information to their boards of directors on a routine basis, and the District should continue to produce these reports for the Trustees on a quarterly basis. The business office should continue to refine the assumptions used in the preparation of the initial analyses with a goal of modifying the District's accounting systems to automatically produce this information as a normal part of its reporting package. Such modifications should be sufficiently flexible so that changes in certain assumptions, where warranted, could be made.

It should be noted that the Grand Jury did not undertake to investigate or study the specific issue of an IVC closure or the attendant land use alternatives. The Grand Jury is aware of the significant efforts of various citizen groups studying this matter. We believe that the aforementioned financial analyses should be provided to these study groups in the future so that the information can be utilized in developing recommendations regarding both campuses.

### **Background**

The 1998-1999 Grand Jury published a report entitled "The College of Marin," which contained a number of findings and recommendations regarding the financial health of the Marin Community College District and criticized its financial reporting because the financial statements failed to provide information on the separate operating results and other data for the Kentfield and Indian Valley campuses. The report went on to recommend that the District expand the planning process to develop a strategy and action plan with respect to IVC and encourage the District to obtain public dialogue on the future of IVC.

The District's response to this report noted that its financial health has significantly improved and that the current year's operating budget forecasts positive results. However, the District continued to resist producing separate financial statements for the Kentfield and IVC campuses, stating that such reports "would produce some misleading results" because the allocation of expenses would, in some cases, be arbitrary.

The 1999-2000 Grand Jury evaluated the District's response to the 1998-1999 report. The evaluation noted the improving financial health of the District but again criticized the District for not providing financial statements for each campus.

The District responded to the 1999-2000 evaluation by providing what the current Grand Jury believes was a superficial analysis of the operating results of the separate campuses obtained by allocating all of the District's expenses based upon the respective amount of revenues of each campus.

## **Methodology**

The 2000-2001 Grand Jury initiated its own investigation of the District's financial reporting procedures. The Grand Jury then met on several occasions with the president, the chief financial officer and members of the staff of the District to discuss providing a more substantive analysis consistent with the request of the prior two grand juries. As a result of these discussions, the District agreed to proceed with developing the requested information. Members of the Grand Jury reviewed, on a very general basis, the approach to be taken in producing the report but did not perform an in-depth review of the assumptions utilized in the reports.

## **Discussion**

The District has never prepared separate financial statements for the Kentfield and IVC campuses and, consequently, has not developed an accounting system that is designed for such reporting. All items of revenue and expense are charged to accounts without regard to which campus generated the revenue or incurred the expense. The issue is further complicated by several other factors (e.g., students who may attend classes at both campuses or faculty who provide instruction at both campuses) making it difficult to properly allocate the revenues received from federal, state and local sources, or to determine the allocation of academic salaries and related benefits in such situations.

A well-conceived accounting system and related chart of accounts is commercially available or could be developed internally. This would overcome the problems described to the Grand Jury. Such systems are widely used in virtually every environment in both the public and private sectors that has multiple departments, locations and a variety of products and services. Such systems are sufficiently flexible to modify allocations when circumstances dictate.

As the reports on each campus become more refined and sophisticated, the District's management and Trustees can begin to utilize the information to formulate decisions; interested citizen groups can then make suggestions and recommendations based in part on the reports.

## **Findings**

1. Separate financial statements for each campus have not been prepared prior to the initial attempt in January 2001 in spite of repeated requests by prior grand juries and other citizen groups. Such information is of critical importance in managing and governing the District.
2. The initial analysis prepared in January 2001 was based upon a variety of assumptions that, according to staff members, need to be refined and validated. That report was prepared manually on a spreadsheet because the District's accounting system is not presently capable of producing separate financial information.

## **Recommendations**

1. The District should continue to prepare such an analysis on each campus on a regular basis (quarterly or more frequently) for use by the Trustees and by the District administration on a routine basis.
2. The assumptions and rationale for all of the allocations made in the analyses should be continually challenged and refined by the District to provide the most accurate financial information possible.
3. The District should either modify its existing accounting system or purchase a new system with sufficient flexibility to automatically produce the separate financial information.

## **Request for Responses**

Pursuant to California Penal Code Section 933.05, the Grand Jury requests responses from the Trustees of the District to the above Findings and Recommendations.