Fund Balance Policy Philosophy

All institutions face the continuous challenge of finding a balance among strategic goals, addressing the expectations of governments and other organizations to whom they are accountable, and juggling or managing various financial resources. While an institution strives to meet its stated purposes, the institution must remain flexible enough to respond to the dynamic environment in which it exists. Adequate planning processes, coupled with strategic thinking and clear mission and vision statements, allow an institution to continue to meet its purposes while supporting the opportunity for change, growth and renewal.

To accomplish this, Butler County Community College administration and its Board of Trustees developed a plan in the early 2000’s to provide for unanticipated expenditures or revenue shortfalls of a non-recurring nature. The major source of capital for the College is its fund balance. It represents the cumulative amount of the difference between revenue and expenses from the date the College came into existence.

Since 2007, the College has been aggressive in addressing fiscal management. It developed a capital reserve line item; designated strategic planning and College goals funding; created a better environment in which the BC3 Education Foundation, Inc. could prosper; expanded into out-of-county locations; and originated a new, full-time tuition rate.

According to Herzlinger and Nitterhouse (1994), some nonprofit organizations mistakenly think their fund balance should be close to zero. If they follow this policy, they lose the ability to finance acquisition of assets from any sources other than liabilities (debt). Therefore, when the Board of Trustees adopted a capital reserve policy in 2008, it designated unrestricted fund balance in excess of 10% of total assets toward a capital reserve. The policy was intended to provide an internal source of funds for starting capital projects and emergency situations. Based on this policy, $3 million was originally designated. When money has been spent from the capital reserves, it is replenished back to $3 million at the start of a new fiscal year. The College has used this fund over the past five years to: acquire an adjacent property, complete renovations to its student café, and complete a campus-wide door project (with a state match).

Currently, the Commonwealth provides up to 50% of the cost of approved capital projects. Completed in March of each year, BC3’s annual capital application process has included the renovation of the Beck Library for the past four years. However, there is good reason to believe the project will be funded in the next two years due to state capital increases as well as retired debt.

If a project is approved by the Commonwealth, a local match must be provided by the College either through reserves or the issuance of debt. If a local match is not available, then those Community Colleges are passed over and funds are awarded to those who can provide the match.
Although the Community College Act of 1963 requires local sponsors to provide 50% of capital matches, it has been either the College or the BC3 Education Foundation, Inc. who has partnered with the County to contribute 25% each toward the project for the College’s last two significant capital projects. These projects are: Science and Technology Building (2001) and the Student Success Center (2008). Therefore, setting aside reserves is a logical and a prudent financial policy to obtain state funding recognizing the financial limitations of Butler County support.

State Contribution

In the early 2000’s, the College benefitted from a funding formula that provided increases to State revenue as enrollment increased along with additional stipends paid for increases in enrollment in certain ‘high-priority’ academic programs. Several years ago, the Commonwealth of Pennsylvania implemented a legislative change to the State funding formula for community colleges (ACT 46). ACT 46 now dictates that the College receives 100% of its funding as a flat amount as opposed to the old model which provided additional funds to the respective college based on credit and non-credit enrollment growth. This State appropriation has been either flat lined or reduced since the change occurred in 2007.

As a result of this legislative change, the College strategically expanded into “underserved areas” (those without a community college) in an effort to increase regional educational opportunities and tap into an additional stream of operational revenue. The College does not receive Butler County funding for students of non-sponsored locations. Therefore, tuition rates are doubled. Approximately 33% of BC3’s credit students are residents of other counties. Growth in non-sponsored tuition was 163% between 2006-07 and 2011-12.

County Contribution

Support from our local sponsor, Butler County, has essentially remained flat lined since 2001 despite a 100% increase in operating costs at the College. Furthermore, in 2009, the Butler County Board of Commissioners requested to defer $1,000,000 of its budgeted amount for the College to complete other Butler County projects. For 2013, Butler County cut the College $283,000. The Butler County appropriation to the College for 2013 is approximately $4.643 million. The College has long recognized the limitation of Butler County to raise funds to provide additional operational funding that would keep pace with the growth of the College. Knowing this, the College has built a business model that uses a combination of tuition and state funding along with fundraising from our Foundation to pay for this growth, program expansion and future uncertainties.

Student Contribution

Currently, BC3 students contribute approximately 55 percent of the College’s total revenues. There is concern this number will stay above 50 percent even without significant tuition increases. The expected number of high school graduates in the College’s service area is expected to remain flat or decrease over the next few years. Furthermore, changes to federal loans and federal grant eligibility; success in non-credit Marcellus training as opposed to academic degree seekers; and changes in dependent health care
coverage have hurt enrollments at BC3 and other colleges across the country. As a result of the aforementioned factors, the College’s enrollment decreased 7% in the fall; spring of 2013 enrollment as of today’s date shows a decline of 9.1%.

In Closing

The College’s fund balance has increased over the last 10 years as a result of enrollment that exceeded budget in some years, tuition increases, fiscal control and cost cutting, and growth in out-of-county tuition. The fund balance could have been spent on capital projects but the College has decided to defer certain capital projects until State and private funding can be secured. The College’s business model has found the balance of meeting its strategic goals and the expectations of our students, governments and other external stakeholders to whom the College is accountable. The fund balance will be used for education and training purposes that will benefit the citizens of Butler County. Many other public community colleges are subject to increasing financial pressures from limited governmental support and slowed enrollment growth. That being said, according to the Middle States Commission for Higher Education 2011 Periodic Review Report, “Butler County Community College is positioned to weather upcoming financial challenges at least as well as many peer institutions.”

Reference

**Butler County Community College Financial Snapshot**

Fund Balance as of 6/30/2012 audit from Maher Duessel

Total Fund Balance $12,830,178

Includes the following:

- Capital Reserve $3,005,317
- Bookstore $2,407,284
- Academic Enhancement $1,076,588
- Unrestricted $6,340,989

*A 2012 cash flow analysis indicates cash dipping as low as $496,000 in November—a period in which the College is in between State, County and tuition payments. Administration has always operated the College with an understanding that it needs a minimum of $5 million to adequately meet operating and cash flow obligations. With this benchmark in mind, the College has $1,340,989 in additional funds.

As of June 30, 2012, the College expected a cut of $350,000 in State funds. The 2012-13 operating budget adopted by the Board called for approximately $525,000 to be used from unrestricted funds. With enrollment declines higher than expected, approximately $800,000 of unrestricted fund balance is expected to be used. The County will also cut contributions by $283,000. The State funding appropriation for 2013-14 is unknown at this time.

As stated earlier, our Board of Trustees approved $3 million in long-term investments to be used for capital projects. An updated facilities master plan, as completed by the College’s architect, shows numerous capital and deferred maintenance projects are needed to update aging facilities and to keep current with program demands.

A summary of the short-to-intermediate range projects along with estimated costs are as follows:

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library Renovation</td>
<td>$4,700,000</td>
</tr>
<tr>
<td>Children’s Creative Learning Center</td>
<td>$700,000</td>
</tr>
<tr>
<td>Allied Health/Con Ed Building</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Maintenance/Operations Building</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Field House Expansion</td>
<td>$5,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,900,000</strong></td>
</tr>
</tbody>
</table>

**Does not include a possible Cranberry Expansion Project estimated at $16 million.

The College committed to a master plan that will use all of the $3,005,317 in capital reserves along with contributions from the BC3 Bookstore and even an Academic Enhancement fund. Resources will be expended for these projects and immediately transferred to fixed assets, thus decreasing the College’s overall fund balance by the amount transferred. The College remains optimistic that its Foundation will also be successful in raising private funds as well as working with the County to obtain State matches.