

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT

MEMORANDUM OF UNDERSTANDING

This document represents an updated Memorandum of Understanding (MOU) between the Maricopa County Community College District (the District or MCCCCD), on behalf of each college and center currently established (see Appendix A) or that may be established in the future and the Higher Learning Commission (HLC), a commission of the North Central Association of Colleges and Schools (NCA). The original MOU was developed in response to the Commission's need for: an (institution) external financial audit by a certified public accountant or a public agency at least every two years and that an institution's financial practices, records, and reports demonstrate fiscal viability to meet General Institutional Requirements (GIR's) that were in effect at the time (GIR's 19 and 21, respectively).

The Board of Trustees of HLC adopted new Criteria for Accreditation and therefore this MOU has been updated. As a multi-college district (institution), the Governmental Accounting Standards Board's (GASB) current Generally Accepted Accounting Principles do not permit the State of Arizona's Auditor General's Office to issue individual audit reports for the Maricopa Colleges. Therefore, this MOU outlines an appropriate pattern of evidence to be made available by MCCCCD for purposes of addressing Criterion One, Core Component-1E and Criterion Two, Core Component – 2B and Operational Indicators for Financial Strength required by the annual report, all of which are necessary and required for meeting the Criteria for Accreditation. This document focuses on criteria related to financial resources/uses and assurances that MCCCCD colleges and centers have accurately reported their financial position and provided records that demonstrate efficient management of individual expenditure budgets consistent with maintaining the fiscal viability of the District.

HISTORY

The Maricopa County Community College District was established in 1962 under the provisions of legislation enacted by the Arizona State Legislature in 1960. This legislation created the Arizona State Junior College System and provided for the formation of junior college districts on a county basis throughout the State. At that time, there was one college in the system, Phoenix (Junior) College, founded in 1920. Today, the District consists of ten colleges that are accredited by the HLC or its predecessor, NCA, two skill centers, several education centers, and a support services center. MCCCCD comprises the largest single provider of higher education in Arizona, and is among the nation's largest community college districts.

FINANCIAL REPORTING ENTITY

The highest authoritative source for financial accounting and reporting standards applicable to the District is pronouncements of the Governmental Accounting Standards Board (GASB).

GASB Statement 14, "The Financial Reporting Entity," applies to all state and local governments and special-purpose governments.

Maricopa County Community College District meets the definition of a special-purpose government because it:

- is a legal entity separate from other entities,
- was established under the statutory authority of the State of Arizona as a political subdivision of the state,
- has a separately elected governing board, and
- is fiscally independent of other state and local government entities. An entity is fiscally independent if it has the authority to:
 - determine its own budget without another government having the authority to approve or modify that budget,
 - levy taxes or set rates or charges without approval by another government, and
 - issue bonded debt without approval by another government.

NOTE: Arizona's community college districts were subject to general oversight by the Arizona Community College Board until Fiscal Year 2002-2003. This oversight was ministerial or procedural as opposed to substantive and did not diminish the fiscal independence of the District. The college board and funding for the board have been eliminated by the State legislature and Governor and governance authority for community colleges now rests with locally elected governing boards for each district.

GASB 14 also establishes criteria for determining what financial activities or organizations should be included in a governmental financial reporting entity that consists of the primary government and its component units. Under the definitions and criteria of GASB 14, Maricopa Colleges is a primary government and is NOT a component unit of any other government. Also, the colleges and centers within Maricopa Colleges are NOT component units of the District but are "part of" the District.

Therefore, the financial reporting entity having financial accountability is the District and its Governing Board, not the separate colleges or centers. The colleges and centers have no separate legal standing and have no separate financial accountability for property tax revenues, state appropriation revenues, cash and investments, or liabilities including bonded debt. Legal authority, responsibility, and financial accountability for such revenues, assets, and liabilities rest with the District on behalf of and for the benefit of all colleges and centers. The colleges and centers are allocated portions of the District's expenditure budget for operational purposes. All accounting of actual financial activity is performed at the district wide level by the District Support Services Center.

The District has an annual audit performed by the Arizona Auditor General's Office and issues a Comprehensive Annual Financial Report (CAFR) using the reporting model promulgated by GASB 34/35 for colleges and universities. The Financial Section of the CAFR includes the audit opinion, the financial statements of the District, and notes to the financial statements. The Introductory Section and Statistical Section of the CAFR contain additional valuable information that is beyond the scope of the audit. The CAFR also contains a Statement of Revenues,

Expenses, and Changes in Net Assets by College/Center, subject to auditing procedures applied in the audit of the basic financial statements. This schedule is not a required part of the financial statements but such data and other evidence is required by HLC in order to determine that criteria related to finances have been met by the individual institution under accreditation review.

Accordingly, the District makes the assurances stated herein in a good faith effort to provide all required financial evidence to HLC.

ASSURANCES

1. The District will provide evidence that it upholds and protects its integrity. One example of evidence is that the District has exercised its responsibility to the public to ensure that the organization operates legally, responsibly and with fiscal honesty (Criterion One: Core Component 1E).

According to GASB Concepts Statement No. 1, Objectives of Financial Reporting – “financial reporting plays a major role in fulfilling government’s duty to be publicly accountable in a democratic society.” Therefore, evidence will be in the form of the most recently issued CAFR, audited by a certified public accountant or a public audit agency (Attachment A). The CAFR will include an audit opinion, financial statements of the District as a whole, and notes to the financial statements, prepared in accordance with generally accepted accounting principles. Additionally, the CAFR will have a supplemental schedule of revenues and expenses by college.

2. The District will provide evidence that its resource base supports the educational programs of its institutions and its plans for maintaining and strengthening their quality in the future (Criterion Two – Core Component 2B).

Evidence will include, at a minimum:

- (a) The District continues to budget using the American Institute of Certified Public Accountants (AICPA) model although the financial statements are prepared using the new GASB 34/35 reporting model. The Adopted Budget book for the current and prior year includes district wide budgeted revenues and expenditures by fund. Also included are expenditure budget allocations by college and supplemental expenditure allocations available for growth and contingencies as needed. (Attachment B)
- (b) A budget-to-actual Expenditure Analysis by college comparing the current and prior years (Attachment C, example for Paradise Valley Community College).
- (c) The District's most recently issued Multi-Year Financial Plan including projected revenues and expenditures by fund and underlying assumptions. While detail by college is not specified, expenditure allocations would be consistent with those in the Adopted Budget given the effect of stated assumptions Attachment D.

- (d) Any additional narrative necessary to explain programs or fiscal priorities unique to the individual institution and in relation to the District as a whole.
3. The District will provide the operational indicators for financial strength that are required by HLC on a district wide basis (Attachment E).

Each college within the District is responsible for sound fiscal management of programs and operations within allocated expenditure budgets that are driven by available resources. The colleges are dependent on the District as a whole for major revenues (property taxes and state aid) that are determined and received on a district-wide basis for the benefit of each college and center.

Traditionally, reporting has been limited to revenues, expenses and changes in net assets. There has been a change with the operational indicators for the annual report. The operational indicators now require information from both the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Net Assets. With the addition of the Statement of Net Assets information (assets, liabilities and net assets), the calculation became impossible for each individual college in the District. While the preparation of a schedule by college using revenues and expenses (transactional-type detail) is achievable, calculations requiring assets, liabilities and net assets (Statement of Net Assets) are not possible.

As stated previously, the financial reporting entity having financial accountability is the District. The Statement of Net Assets is designed to display the financial position at a point in time for the financial reporting entity. Assets, such as Cash and Investments, are held in the name of the District and managed as a centralized function for the benefit of all colleges. Debt is also issued on a District level and not by individual college. Thus, the most meaningful and reliable demonstration of fiscal viability is provided by evidence from a district wide perspective.

Evidence will be in the form of:

- (a) Calculations of the District's financial strength operational indicators for the most recently completed fiscal year (as required by HLC, Attachment E). These indicators provide several measures of an institution's financial viability.
- (b) Current listings of bond ratings for debt issues of the District (Financial Strength (Attachment F))

Debt is issued in the name of the District and is administered as a centralized function for the benefit of all colleges. Individual colleges are responsible for debt service of capital lease obligations for some equipment. This represents less than 1% of all District debt. All other debt service is managed and budgeted on a district wide basis from district wide resources. The strength of the District's

credit worthiness stems from its financial stability and provides a foundation of fiscal viability to each college and center.

(c) A Current Unrestricted General Operations Budget Analysis/Financial Stability Report for the most recent fiscal year and current period in the current fiscal year (Attachment G). The District's Governing Board has developed a Fiscal Management Policy for Financial Stability that is the cornerstone upon which each fiscal year budget is developed and adopted. Goals for financial stability enable the District to manage revenue shortfalls and cash flows to ensure continued operations, and to provide for unforeseen contingencies without impairing the level of quality service needed to respond to our customers. To this end, the financial stability policy guides the District's budgeting process and requires the following:

- Assurance that current general operating budget balances remain at least eight percent (8%) of Current Unrestricted General Operations Budget revenues. This ratio is monitored by the Governing Board each month but final compliance is measured by the actual June 30 Current Unrestricted General Fund Balance, as a percentage of Current Unrestricted General Operations budget Revenues. The financial stability of MCCCCD will be maintained in perpetuity.
- Only the Governing Board and the Chancellor may authorize a different first priority for budget development and adoption.

d) Other relevant policies to ensure financial integrity include requirements for:

- Sufficient information to enable an understanding of planning assumptions, accurate projection of revenues and expenses and separation of both capital and operational revenues and expenses. The Adopted Budget includes such information and will be provided.
- Avoidance of expenses in any fiscal year of more resources than is conservatively projected to be received or carried forward in that period. The Adopted Budget and Current Unrestricted General Operations budget analysis/financial stability report provides such documentation and will be provided.
- A proposed budget that reflects stated Board priority goals within the parameters of conservatively projected available revenues and a balanced budget. The Adopted Budget includes such information and will be provided.
- The CAFR contains a Statement of Cash Flows that provides additional detail on the use of cash balances throughout the year as well as beginning and ending balances.

SUMMARY

This document is intended to provide assurances to HLC that necessary and relevant evidence related to financial criteria will be made available on a consistent basis for any institution of the District under accreditation review. Such assurances and consistency facilitate the accreditation process by enhancing the view of the District as a whole and the understanding of the roles of the colleges and centers as part of a system.

DATED THIS _____ DAY OF _____, 2004.

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT

Rufus Glasper, PhD, CPA
Chancellor

Debra Thompson, MPA
Acting Vice Chancellor for Business
Services

DATED THIS _____ DAY OF _____, 2004.

Dr. Steven Crow
Higher Learning Commission, a Commission of the North Central Association of
Colleges and Schools

APPENDIX A
Colleges and Centers* of the Maricopa Community Colleges

- Phoenix College (main campus; center listed below)
 - City Colleges Center
- Glendale Community College (main campus; centers listed below)
 - Glendale Community College North
 - University College Center at ASU West
- GateWay Community College (main campus; skill center listed below)
 - Maricopa Skill Center
- Mesa Community College (campuses and centers listed below)
 - Mesa Community College
 - Mesa Community College at Red Mountain
 - Mesa Community College at the Williams Campus
 - MCC Downtown Centennial Way
 - MCC Downtown Country Club and Brown
 - ASU Research Park
 - Business and Industry Institute
- Scottsdale Community College
- Rio Salado College (main campus at Tempe; centers listed below)
 - Rio East Valley
 - Rio Paradise Valley Mall
 - Rio 7th Ave. Adult Learning Center
 - Rio Salado School of Dental Hygiene
 - Rio Luke
 - Rio Sun Cities LifeLong Learning Center
- South Mountain Community College (main campus; centers listed below)
 - Ahwatukee Foothills Center
 - Guadalupe Center
- Paradise Valley Community College
- Chandler Gilbert Community College (main campus and centers listed below)
 - Chandler Gilbert Pecos Campus
 - Chandler Gilbert Williams Campus
 - Sun Lakes Education Center
- Estrella Mountain Community College (main campus; skill center listed below)
 - Southwest Skill Center

* as of May 2004; centers vary in course and program offerings and colleges may offer courses at other locations such as high schools