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# **COLLEGE OF THE MARSHALL ISLANDS**

## **BUDGET GUIDE, PLANNING & POLICY**

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## **MEDIUM TERM BUDGET GUIDE, PLANNING & POLICY**

### **INTRODUCTION**

Achieving an organization's goals requires a number of essential elements such as comprehensive planning, sound decision-making, and sufficient resources. Although such elements may exist within an organization, it is important to manage these and other critical factors in a tactful and appropriate manner. One instrument used by many companies to incorporate the balancing of its various components in relation to its mission, goals, and objectives is a strategic plan. A strategic plan also identifies an organization's strategic priorities and encompasses activities on how to attain the goals and objectives of the company.

Although a strategic plan is an indispensable mechanism used to guide an organization, the success of a company in meeting its goals and objectives is oftentimes dependent on its resources. More often than not, these resources are "usually limited". Fortunately, there is another tool that is available to provide direction on the use of available resources - a "Budget".

A Budget is essentially a financial plan on how to allocate an organization's resources based on its strategic priorities. Accordingly, a Budget is viewed as a mechanism to assist managers in earmarking resources to be used in accomplishing one's goals and objectives. Ideally, Budgets are prepared in accordance with an organization's strategic plan.

The Budget process can be a simple and routine task for some department's head. For others, it can be an administrative nightmare. However, it should be understood by all managers that a Budget is an essential tool in directing the use of the organization's oftentimes-limited resources.

A department head should ensure that each of the following questions could be affirmed when developing and implementing Budget:

- Is it consistent with the goals and objectives of the organization?
- Does it reflect goal setting and facilitate accurate measurement?
- Does it indicate careful planning and follow strategies to achieve objectives?
- Does it delineate operating plans for all-important functions?
- Does it give the various components of the company the resources needed to meet its goals and objectives?
- Is the Budget realistic, accurate, and internally consistent?
- Does it plan for the best achievable results?

At College of the Marshall Islands (CMI), as at any responsible organization, Budgets are prepared on a regular basis. CMI's Budgets and related processes must reflect, and aim to implement, its strategic master plan; in the absence of such, the College aim to integrate its program reviews in the development of its Budget with respect to the *Medium Term Budget Framework*. When formulated and used properly, the Budget is a tool that effectively supports the plan and the stated goals and objectives of the College and all its component parts and personnel.

This policy has been developed based from the recommendation of the Western Association of School & Colleges, the Administrators, faculty, and support staff must have appropriate opportunities to participate in the development of financial plans and Budgets, and for the college to have institutional guidelines and processes for financial planning and Budget development and this guideline is clearly followed. (Standard 9A.1, A.2, A.3, A.4, A.5, B.2) This manual also includes the following information:

- A glossary of Budget terms ([Appendix A](#))
- Budget Process Timetables ([Appendix B](#))
- Uniform Budget format ([Appendix C](#))
- Chart of Accounts ([Appendix D](#))
- Budget Transfer Form ([Appendix E](#))

The College's Chief Financial Officer will notify all responsible parties in the institution of any changes in Budget policies or procedures and will prepare and distribute appropriately amended sections of this Budget manual.

#### **GENERAL INFORMATION:**

**Budget Authority** – The CMI Board of Regents has the final authority in approving the annual Budget. The Board of Regents charges the President with the responsibility of preparing “a Budget that is in line with the needs of the college, and (of) expending funds appropriated to the college by the Nitijela Appropriation Committee, collected from tuition fees, or donated to the college by any other entity. The President as the Chief Executive Officer of the College has delegated the responsibility of Budget compilation to the Chief Financial Officer/Comptroller.

**Budget Advisory Committee** – A Budget Committee (BC) is established within the college to:

- Review Budget submissions to ensure that the funding requested supports proposed program objectives and activities in accordance with CMI's goals as indicated in the periodic plans of the institutions.

- Recommend funding allocations based on the priorities of the institution and on program performance and evaluation, which includes expenditure history and a review of current as well as projected needs; and
- Refine and balance the Budget based on the college priorities in times of inflation or if the resources are not sufficient enough to cover all departments request.

The following members compose the BC (Budget Committee):

- Chief Financial Officer
- Vice President of Administration
- Vice President of Academic & Student Affairs
- Dean of Academic Affairs
- Dean of Student Services
- Dean of Land Grant Program
- Academic Department Chairs:
  - o Liberal Arts Department
  - o Education Department
  - o Developmental Education Department
  - o Nursing Department
  - o Business Studies Department
  - o STEM Department
  - o Carpentry Program
- Human Resources Director
- Physical Plant Director
- Information & Technology Director
- Institutional Research Director
- SBA President

In consultation with the President, the Chief Financial Officer/Comptroller chairs and schedules the meetings of the Budget Committee (BC).

**Revenue Categories** – The source and nature of revenue determines the manner in which a Budget is prepared at the college. FOR BUDGET PREPARATION PURPOSES ONLY, revenues are classified into five (5) categories: 1) RMI Government Appropriations; 2) Tuition & Fees and Indirect Cost; 3) Auxiliary Enterprise; 4) Grants and Contracts; and 5) Capital Fund. The Budget guidelines and procedures for each revenue category differ slightly from one another due to the nature and source of the revenue.

1. RMI Government Appropriations (Unrestricted) – The RMI Government appropriate funds to support the College in General Expenses. These expenses include salaries of full time and part-time employees, regular employee benefits such as housing, supplemental and life insurance, and all other operating cost.
2. Tuition Fees and Indirect Cost (Unrestricted) – CMI generates this revenue from student admissions, registrations, tuitions, other fees and indirect cost revenue

- collected from sponsored projects, grants, and sub-recipient agreements and from training contracts. This revenue also covers the general expenses of the college such as salaries of full time and part-time employees, regular employee benefits such as housing, supplemental and life insurance, and all other operating cost.
3. Auxiliary Enterprise (Unrestricted) – CMI generates this revenue from Dormitories and Bookstore Sales. This revenue is not restricted in use but currently, revenue is allocated for Bookstore Purchases, supplies and minor renovation of Dormitories.
  4. Grants and Contracts (Restricted) – The College receives funding from sources that are generally used for personnel and/or operating cost of specific programs or projects. Accordingly, the grantor or donor generally restricts the use of these funds. The nature and sources of these revenues are 1) Federal Programs – CMI applies for and receives financial assistance from the U.S. Government in the form of grants or cooperative agreements. The conditions for the use of the funds are established by the program and defined in the grant award. The duration of the grants or agreements range from one to five years. Federal funds are considered to be supplemental and should not supplant local funds, 2) Contracts and Local grants – The College receives funds for specific projects through various contracts with private and public entities. These contracts are usually for training activities.

CMI also receives grants from organizations and from agencies of the RMI Government for carrying out special projects. The use of these funds is usually restricted by contract or grant conditions.

5. Capital Fund (Restricted) – CMI applies for and receives funding from the Capital Improvement Fund of the RMI Government. The use of these funds is restricted for capital improvements, construction of facilities, and equipment purchases.

### **Budget Structure and Establishments:**

The budgeted amount for tuition and fees and indirect costs for the current year is based on the level of revenue collected in the previous academic year while appropriation of the funds to the College by the RMI Government is based on the annual allocation approved by the Nitijela.

The chief financial officer/comptroller compiles the budget and provides copy to each member of the Budget Committee (BC). The CFO calls for internal consultation with Department Heads and the BC to discuss their budget submissions. The CFO then compiles the budget of all departments and any short in the budget will be discussed to the Budget Committee (BC). The Budget Committee should scrutinize every department's budget in case of deficit and should inform the affected Departments or Divisions for any decrease in their budget. In case of disagreement in the changes, the affected department should do it in writing to the President, the President on his own capacity should decide on the matter or he or she can refer it to the Board of Regents. Any surplus in budget will be added directly to the reserve fund. The Board of Regents

has the final authority whether to invest the money in special savings or retain it in the general fund. The final Budget is presented to the Board of Regents for final approval. After approval of the Board of Regents, the approved Budget is forwarded to the Business Office and inputted into the Accounting System under individual department and object code. The intent of this structure is to provide maximum flexibility for adjustments to the budgeted amounts. It also facilitates certification of expenditures while providing detailed records of expenditures required for fiscal analysis and for the compilation of the financial statements.

**Expenditure Authority** – The President has the authority to expend funds for the designated purposes of the institution. The President, however, has delegated this authority to the Department Heads, Deans, and Directors. This decentralized arrangement empowers Department Heads, Deans, and Directors to use funds prudently and to manage their programs responsibly.

**Budget Monitoring** – The CFO/Comptroller is responsible for monitoring all funds and expenditures of the College. However, Administrators and Directors within the College that have a Budget for their department and/or unit are responsible for monitoring and tracking expenditures in the areas for which they have oversight.

The Business Office provides monthly expenditure reports to the President, Department Heads, Deans, and Directors for use in monitoring their expenditures in relation to their budget.

Expenditures must comply with the budgetary limits established by the RMI Government appropriation committee and the budget for tuition & fees as approved by the Board of Regents. However, in the event that the expenditures are forecast to exceed the budgetary limits, the Comptroller will inform the President of the expected budget shortfall. The President then informs the Budget Committee of the expected shortfall and will propose an action plan to the Budget Committee to develop to address the Budget shortfall.

**Budget Reprogramming** – Although Budgets may have been established and approved by all relevant parties, adjustments or re-allocations to budgets maybe necessary for various reasons such as revenue fluctuations, higher than expected expenditures within budget categories, and projected lapses of funds that could be reallocated to other areas. Adjustments or reallocation to the Budgets is commonly referred to as “reprogramming”. Reprogramming entails that transfer of certain amount of available funding out of one or more expenditure categories and into one or more other expenditure categories. Once approved and signed, the Budget Transfer Form should forward to the Comptroller for entry into the accounting system. The signed and approved original is retained by the Comptroller and attached to the original Budget, and a copy is given to the Department Head, Dean, or Director with expenditure authority indicating that the reprogramming request is in effect.

The Department Head can reprogram up to maximum amount equivalent to 10% of the total Departments Budget without approval of the Board of Regents. If the request is more than 10%, the Department Head should submit the proposal to the Executive Council through the Comptroller; the Executive Council may deny or approve the motion of submission of Request to the Board of Regents. If the request is denied either in Executive Council or the Board of Regents the request will not be granted.

## GLOSSARY OF BUDGET TERMS

**ACCOUNT** - A separate financial reporting unit for budgeting, management, or accounting purposes. All budgetary transactions, whether revenue or expenditure, are recorded in accounts.

**ACCOUNTING STANDARDS** – The Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB), which guides the recording and reporting of financial information by state and local governments. The standards establish such guidelines as when transactions are recognized, the types and purpose of funds, and the content and organization of the annual financial report.

**ACCRUAL BASIS OF ACCOUNTING** – A method of accounting in which revenues are recorded when measurable and earned, and expenses are recognized when obligations are incurred.

**ACTIVITY** – A departmental effort that contributes to the accomplishment of specific, identified program objectives.

**ADMINISTRATIVE CHARGES** – Charges to user departments for services provided internally by the General Fund (e.g., payroll, utility billings, accounts payable).

**APPROPRIATION** – Annual authorization granted by the RMI Cabinet to the College to cover expenditures such as salaries and wages and other general expenses. The appropriations shall be limited to a single fiscal year.

**APPROVED BUDGET** – The budget recommended by the Budget Action Committee for adoption by the Board of Regents.

**AUDIT** – The annual review and appraisal of the College's accounts conducted by an independent accountant.

**BASIS OF ACCOUNTING** – The cash basis, the modified accrual basis, or the accrual basis.

**BEGINNING FUND BALANCE** – The unexpended amount in a fund at fiscal year end that is carried over in the next fiscal year.

**BOARD OF REGENTS** – The governing body, consisting of 11 individuals appointed by the cabinet, which sets policies and procedures for the functioning of the College of the Marshall Islands.

**BOND** – A written promise to pay a specific sum of money, called the face value or principal amount, at a specific date or dates in the future, called the maturity date(s),



together with periodic interest at a specified rate. The difference between a note and a bond is that the bond runs for a longer period of time and requires greater legal formality.

**BOND REFINANCING** – The payoff and re-issuance of bonds to obtain better interest rates and/or bond conditions.

**BUDGET** – A plan of financial operation embodying an estimate of expenditures for a given purpose and/or period (typically a fiscal year) and the proposed means of financing the estimated expenditures and revenues. The budget is the financial plan for the College's allocation of resources to provide services, and accomplish the College's goals and objectives.

**BUDGET CALENDAR** – The schedule of key dates, or events, which the College follows in the preparation and adoption of the budget.

**BUDGET ACTION COMMITTEE** - A committee of the College that create and balance the budget before submission to the Board of Regents and the RMI Appropriation Committee for approval.

**BUDGET MANUAL** – A set of documents published in preparation for the budget year outlining the College's budget policies, procedures, forms and calendar.

**BUDGET OFFICER** – The person designated by the President to be responsible for the consolidation of the budget and meeting deadlines. The Comptroller is the designated Budget Officer for the Colleges of the Marshall Islands.

**BUDGET REVISIONS** – The reallocation or transfer of funds between funds, accounts, functions and programs during fiscal year due to under or over estimation of actual expenditures, realignment of priorities, or expected funding emergencies. (For details on submitting budget revisions, see "Budget Reprogramming Form").

**BUDGETARY CONTROL** – The control or management of a College unit in accordance with an approved budget for the purpose of keeping expenditures within the limitations of available appropriations and available revenues.

**CIP** – (Capital Improvement Projects) – A plan that ranks and prioritizes proposed capital improvement projects. The plan includes estimated costs and the year of anticipated construction, revenue sources, and project description.

**CAPITAL ASSETS** – Non-consumable assets of significant value (\$500 or more) and having a useful life of more than one year. Capital assets are also called fixed assets.

**CAPITAL IMPROVEMENTS PROGRAM** – A plan for capital expenditures which provides long-lasting physical improvements to be incurred over a fixed period of several future years.

**CAPITAL OUTLAYS** – Expenditures for the acquisition of capital assets, such as equipment and furniture costing over \$500 and having a life expectancy of over one year which is applicable to the services provided by a specific department or program.

**CAPITAL PROJECTS** – Projects which purchase or construct capital assets. Typically, a capital project encompasses a purchase of land and/or the construction of a building or facility.

**CASH BASIS OF ACCOUNTING** – The system of accounting under which revenues are accounted for only when received, and expenditures are accounted for only when paid.

**CASH MANAGEMENT** – The management of cash necessary to pay for the Colleges services, while investing temporary cash excesses in order to earn interest revenue. Cash management refers to the activities of forecasting the inflows and outflows of cash, mobilizing cash to improve its availability for investment, establishing and maintaining banking relationships.

**CLASSIFICATION** – Assignment of position title and an associated pay range based on the job skills required for a particular position.

**CONTINGENCY** – A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted for.

**DEBT SERVICE** – The Colleges obligations to pay principal and interest in money or other debts instruments owed according to a pre-determined payment schedule.

**DEBT SERVICE FUND** – A fund established to finance and account for the payment of interest and principal on all general obligation debt, serial and term, other than that payable exclusively from special assessments and revenue debt issued for and serviced by the College.

**DEFICIT** – Insufficient budget or revenues to cover expenditures during a given accounting period (i.e. monthly, annually, etc.). Deficits can occur by account, within a budget category or object code of an account, or within a position.

**DEPARTMENT** – An organizational unit responsible for carrying out a major College's function.

**DEPRECIATION** – The decrease in value or service life of fixed assets through wear and tear, deterioration, obsolescence, etc.

**DISBURSEMENT** – Payment for goods or services that have been delivered and invoiced by check.

**EARMARK** – To designate funds for a specific use.

**ENCUMBRANCE** – The commitment of appropriated funds to purchase an item or service. To encumber funds is to set aside, or commit funds for future expenditures.

**ENDOWMENT FUND** – A trust fund which may receive gifts or bequest for the benefit of the College.

**ESTIMATED REVENUE** – The amount of projected revenue to be collected during the fiscal year.

**EQUIPMENT REPLACEMENT RESERVE** – Reserve designated for the purchase of new vehicles or operating equipment as existing equipment becomes obsolete or unusable.

**EQUIPMENT REPLACEMENT SCHEDULE** – A schedule of annual purchases to replace major equipment and vehicles that have met or exceeded their useful life to the College.

**EXPENDITURE** – The outflow of funds for assets that are incurred or goods and services obtained regardless of when the expense is actually paid. This term applies to all funds.

**EXPENSES** – Charges incurred (whether paid immediately or un paid) for operations, maintenance, interests and other charges.

**FEDERAL SOURCES** – Monies received or made available for the college by the federal government wherein the federal government has stipulated their use for construction or support of specific programs.

**FINANCIAL AID EXPENSE** – A function category that includes expenditures for loans or outright grants and trainee stipends to enrolled students.

**FISCAL YEAR (FY)** – The time period designating the beginning and ending period for recording financial transactions. The Colleges fiscal year begins October 1 and ends September 30.

**FIXED ASSETS** (also see Capital Assets) – Non-consumable assets of a tangible nature, (such as buildings, furniture, and equipment) that have a useful life greater than one year and cost more than \$500.

**FTE** (Full-Time Equivalent position) – A part-time position converted to the decimal equivalent of a full-time position based on 2,080 hours per year.

**FUNCTION** – A group of related programs crossing organizational (departmental) boundaries and aimed at accomplishing a broad goal, or a major service.

**FULL-TIME POSITION** – A position which will work a 40-hour work week for the entire fiscal year.

**FUND** – A division in a budget establishing independent fiscal and accounting requirements.

**FUND BALANCE** – The excess of the assets of a fund over its liabilities.

**FUND BALANCE APPROPRIATED** – A budgetary amount representing the fund's equity to be used to offset expenditures. Fund balance appropriated cannot exceed the sum of cash and investments less the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year preceding the budget year.

**FUND TRANSFER** – A movement of resources as an expense of one fund to revenue in another fund. Transfers result in artificial inflation of the total budget, but provide a clearer picture of the true origins of revenue and expense.

**FUND** – A set of accounts containing a designated sum of money identified for a specific purpose.

**GASB** – The acronym used for General Accounting Standards Board.

**GENERAL ACCEPTED ACCOUNTING PRINCIPLE (GAAP)** – Uniform minimum standards of and guidelines for financial accounting and reporting. GAAP encompasses the conventions; rules and procedures necessary to define accepted accounting practices.

**GENERAL FUND** – The College major operating fund that includes all services authorized by the Board of Regents. Major sources of revenue for this fund are tuition fees and RMI Government annual appropriation to the College.

**GOVERNMENTAL FUNDS** – These funds subscribe to the modified accrual basis of accounting and include the following types of funds:

*General Fund* – see definition above.

*Restricted Funds* – Resources received that are limited to a specifically defined use, e.g. Federal Funds.

*Debt Service Funds* – Funds used for paying principal and interest of debt.

*Capital Project Funds* – Resource are used for purchase or construction of long-term fixed assets.

**GRANT** – A donation or contribution of assets (usually cash) by an organization or federal agency to the College. Grants are generally made for specific purposes.

**INDIRECT COST** – Overhead expenses charged against grant agencies for services such as administrative costs, custodial services, utilities, building and equipment use, etc.

**INTERFUND TRANSFERS** – Appropriations that are transferred from one fund to another.

**INVENTORY** – A detailed listing of property currently held by the College.

**LEASED-PURCHASE AGREEMENT** – An agreement that conveys the right to property or equipment for a stated period of time. It allows the College to spread the cost of the acquisition over several years.

**LINE ITEM BUDGET** – A budget that lists each expenditure category (salaries, benefits, travel, material, communication, etc.) separately, along with the dollar amount budgeted for each specified category.

**LONG-TERM DEBT** – Debt with a maturity of more than one year after the date of issuance.

**MATURITIES** – The dates on which principal or stated values of investments or debt obligations become due and/or may be reclaimed.

**MERCHANDISE FOR RESALE** – A classification for purchases that are resold rather than used in the operation of the department.

**MODIFIED ACCRUAL BASIS OF ACCOUNTING** – The accrual basis of accounting adapted to the college fund types under which revenues and other financial sources are recognized when they become susceptible to accrual, that is when they become both “measurable” and “available” to finance expenditures of the current period.

**NETWORKING CAPITAL** – The sum of the cash balance and other current assets less current liabilities.

**OPERATING EXPENSES** – Costs for personnel, materials and equipment required for a department to function.

**OPERATING REVENUE** – Funds that the College receives as income to pay for ongoing operations including such items as tuition fees, government appropriations, earnings from services, and grant revenues. Operating revenues are used to pay for day-to-day services.

**PART-TIME POSITION** – A position that has no full-time position authority or budgeted for less than 40 hours per week work. The position is not eligible for the benefits similar to the normal amount paid to full-time College employees.

**PERSONNEL** – General category that includes salaries and wages, life and health insurance, and other fringe benefits.

**PROGRAM** – Any combination of services (functions or activities) performed by a department in which the College feels needs to be identified separately for accounting purposes.

**PROPOSED BUDGET** – A draft of the budget document to be submitted to and reviewed by the Budget Action Committee. This begins the formal phase of budget deliberations by the Budget Action Committee.

**RECLASSIFICATION** – Change in position title and/or the associated pay range based on changes in the job skills required for a given position.

**RESERVE FUND** – A fund established to accumulate revenues to use for a specific purpose in the future (Endowment Fund).

**RESOURCES** – Assets that can be used to fund expenditures. These can be such thing as fund balance or working capital.

**RESTRICTED FUND** – A fund properly authorized and used to finance particular activities from the receipts of specific taxes or other revenues.

**SERVICES** – Activities performed and defined by a department for the benefit of the students and community.

**SOURCE OF REVENUE** – Revenues that are classified according to their source or point of origin.

**SUPPLEMENTAL BUDGET** - A budget process used to increase appropriations authority made in the Adopted Budget. All supplemental budget request must be submitted to the RMI Cabinet for approval.

**TEMPORARY POSITIONS** – Full-time or part-time positions that will be employed for less than the entire fiscal year.

**TRANSFER (IN/OUT)** – Amounts distributed from one fund to finance activities in another fund. Shown as an expenditure in the originating fund and a revenue in the receiving fund.

**TUITION FEES** – Monies assessed by the college to students to support the General Fund activities of the college.

**UNENCUMBERED BALANCE** – The amount of an appropriation that is neither expended nor encumbered. It is essentially the amount of money still available for expenditures.

**UNRESTRICTED FUND** – Monetary resources that are not subject to specific external guidelines or regulations and are expendable for any activities that promote the instruction, research, and public service mission of the college.