

6.4.2 Annual Financial Statements

Annual financial statements shall be prepared for the system in compliance with GAAP and other applicable requirements, with supplementary detail for each college and the System Office, reflecting the operations and financial condition of the Connecticut Community Colleges. Other financial reporting requirements of the Federal or State government, or State oversight agencies shall, wherever possible, conform to GAAP accounting or shall provide supplementary information where necessary to provide an accurate understanding of financial condition.

(Adopted December 17, 2001)

6.4.3 Net Assets

As part of the annual budgeting and financial statement preparation cycles, the Colleges and System Office will identify net asset balances in accordance with generally accepted accounting principles and industry practice.

1. Invested in Capital Assets, Net of Related Debt Capital assets, including restricted capital assets, net of accumulated depreciation and related debt, if applicable.
2. Restricted – Nonexpendable. Net assets subject to externally imposed stipulations that are required to be retained in perpetuity, such as permanent endowments.
3. Restricted – Expendable. Net assets subject to externally imposed constraints imposed by grantors, contributor or laws or regulations of other governments of imposed by law through constitutional provisions or enabling legislation.
4. Unrestricted. Net assets that do not meet the above definitions of "invested in capital assets" or "restricted", but which may be designated internally by Board or management decision.

(Adopted March 21, 1994; amended December 17, 2001, February 14, 2005)

6.4.4 Unrestricted Net Asset Balances, Reserves and Current Ratio

1. College and system budgets shall be programmed to ensure that unrestricted net asset balances are maintained at zero except as necessary
 - a. to ensure that sufficient unrestricted net assets are available to cover outstanding encumbrances,
 - b. to maintain the required current asset:liability ratio, and
 - c. except as otherwise permitted in this policy.

Whenever unrestricted net assets fall below the required level, college and/or system budgets shall be programmed to reach the required level within the

succeeding three years. Colleges at or below the required level must obtain chancellor approval to draw down the unrestricted net asset balance.

2. College and system budgets shall be managed to ensure that the balance sheet ratio of unrestricted current assets to unrestricted current liabilities at each college and for the system as a whole is maintained at a level to be determined by the chancellor, sufficient to cover all short term obligations and to provide short term financial flexibility to cover additional temporary obligations resulting from fluctuation in operations or in available budgetary resources. Current assets so utilized to provide short term financial flexibility are not intended to support continuing obligations beyond one year; continuing resource needs which extend beyond one year should be met through new recurring revenues or existing expense reallocation or reduction.
3. Unrestricted net asset balances above the amount required to cover outstanding encumbrances or to maintain the current asset:liability ratio may be accumulated and designated for specific one-time needs only, as approved by the chancellor, including
 - a. An optional reserve for new facility furnishings, equipment and telecommunications, not to exceed the difference between 20% of the construction budget and the amount actually funded within the capital budget or elsewhere, provided that the chancellor may authorize reserves above 20% where deemed necessary.
 - b. College or system-wide projects and initiatives not funded (or fully funded) elsewhere, or which will require more funds than would be available in a single year's budget, such as for new program initiatives, technology and telecommunications upgrades and operating costs, and for campus physical plant operations.
4. Unrestricted net asset balances above the amount required to cover unliquidated encumbrances or other designated reserves, or to maintain the current asset:liability ratio, which are more than 2-3% of college operating expense, may be reallocated and budgeted for expenditure at the chancellor's discretion, following consultation with the college president(s) impacted.
5. The chancellor shall also maintain a system contingency reserve equal to 1.2% of the total system operating expense, or a minimum of \$2.5 million, whichever is greater, and optionally the chancellor may maintain additional system reserves to offset shortfalls in individual college unrestricted net assets.

(Adopted November 15, 1971; amended December 17, 2001, February 14, 2005)

6.4.5 Financial Statement and Other Audits

Effective with fiscal year 2002, the community college financial statements shall be audited annually by an appropriate independent auditing firm, which shall express its opinion as to whether the financial statements present, in all material respects, the