
	Title: Utilization of Current Net Assets Policy	POL-703
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Approved By:	College President's Signature 	Date Approved: 08/10/2016
Effective Date: 08/10/2016	Board of Trustees President's Signature 	Date Approved: 08/10/2016

### 703.1 POLICY STATEMENT

It is the policy of the Board of Trustees for the College to utilize Current Net Assets for specific purposes, including: 1) to balance the annual institutional budget, 2) to replenish the Contingency Fund, 3) to contribute to the Reserve Account, 4) for investment, and 5) to acquire or replace Capital Assets. The Board stipulates that Current Net Assets should not be used to support recurring expenses; however, a certain amount of Current Net Assets may be required to fund the day- to-day operational expenses of the College (Working Capital).

When an annual budget surplus exists and actual revenues exceed actual expenses, the excess revenues will be, in effect, added to the existing Current Net Assets of the College. A "Draw from Net Assets" could be budgeted as a revenue source in the subsequent Fiscal Year utilizing a portion of the addition to Current Net Assets to achieve a balanced budget. Unless a dire emergency exists, Current Net Assets should not decrease below the value of Working Capital, as it could create obstacles for the timely payment of College operating expenses.

### 703.2 PURPOSE

The purpose of the Utilization of Current Net Assets Policy is to provide structure and guidance for the utilization of Current Net Assets. The policy outlines the appropriate use of these funds. The policy also specifies the approval process for the utilization of Current Net Assets. These processes should ensure the retention of sufficient Current Net Assets to meet present and future needs.

### 703.3 SCOPE

This policy applies to Current Net Assets. It also applies to expected additions to Current Net Assets due to an institutional operating budget surplus.

### 703.4 BACKGROUND

During Fiscal Year 2013, the College experienced an institutional operating budget surplus (excess revenue over expenses) of approximately \$1.6 million. The institutional budget for Fiscal Year 2014 included a revenue item labeled "Carry Forward". This revenue was intended to "carry forward" some of the budget surplus from Fiscal Year 2013 to be used in the Fiscal Year 2014 budget. "Carry Forward" revenue was also included in the Fiscal Year 2015 budget.

During the Fiscal Year 2016 budget process, a discussion was initiated about the definition of the term “carry forward” and its use in the annual budgeting process. The term “carry forward” is sometimes used to describe restricted grant revenues that have been approved to carry forward to another grant period or as part of a grant extension. However, under Generally Accepted Accounting Principles (GAAP), unrestricted institutional revenues do not carry forward from one fiscal year to the next. It was determined that a more appropriate term for the use of these funds in the budgeting process was a “Draw from Net Assets”. It was recommended that a policy be created to guide the management and utilization of Current Net Assets.

#### 703.5 RESPONSIBILITY

The President, in collaboration with the Executive Team with the Chief Financial Officer, will review and approve the use of draws from Current Net Assets in the annual budgeting process and for other purposes. Should the proposed draw from Current Net Assets exceed 25% of the institutional operating budget surplus, then the Board of Trustees must also approve the draw. The use of a draw from Current Net Assets in any amount as part of the annual institutional budget also requires approval of the Board of Trustees. The Accounting Department will estimate the amount of Current Net Assets on a semi-annual basis. Updates will be provided to the Executive Team and Board of Trustees upon request.

#### 703.6 DEFINITIONS

- Current Assets – Assets that can be converted easily into cash in less than one year. Examples of Current Assets include: Cash and Cash Equivalents, Accounts Receivable, certain Investments, and Inventory. Restricted assets are not included.
- Current Liabilities – Liabilities that must be paid in less than one year. Examples of Current Liabilities include: Accounts Payable, Accrued Expenses, and Unearned Revenue.
- Current Net Assets – The amount of Current Assets in excess of the amount of Current Liabilities. Restricted assets are not included.
- Institutional Operating Expenses – Budgeted expenses funded by the unrestricted general fund. Grant funding and associated expenses are not included in this expense category.
- Working Capital - Defined as the value of one month’s budgeted Institutional Operating Expenses.

#### 703.7 RELATED INFORMATION

- Financial Management Plan

#### 703.8 REVIEW DATE

This policy will be reviewed every three years.