



FUND BALANCE POLICY		
Policy #		Effective Date
2002		10.4.21

1. PURPOSE

The Government Finance Officers Association’s Best Practices state that it is essential that publicly funded agencies:

Maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures)...Fund balance levels are crucial, too, in long-term financial planning.

In addition, the Government Accounting Standards Board (GASB) Statement No. 54 mandates a new structure and a new set of definitions for reporting those funds in financial statements for periods beginning after June 15, 2010.

2. POLICY

The Sonoma County Library will maintain a fund balance adequate to assure the Library’s financial stability as well as to maintain the Library’s operations, services, and assets.

The Fund Balance shall be maintained at a minimum of 15.0% of the Library’s budgeted expenditures annually with the goal of having 20% of the budgeted expenditures in the fund balance.

The additional funds over 15.0% may be used to replace or repair the Library’s capital assets or for capital projects. Other purposes for the use of the fund balance may be established as necessary if funds are available.

Except for the purposes outlined for the Stabilization Fund, the fund balance is not intended to be used to pay for ongoing operating expenditures or increases nor is it to be used because expenditure growth exceeds normal revenue growth.

3. DEFINITIONS

3.1. *Fund Balance*: The difference between assets and liabilities in the Library’s general fund. Sometimes referred to as the “reserves.”

The new standards for reporting fund balances have been issued by The Governmental Accounting Standards Board (GASB) in its Statement No. 54, *Fund Balance Reporting*

and Governmental Fund Type Definitions. The new statement defines the way that the fund balance is classified and reported by emphasizing “The extent to which the government is bound to honor constraint on the specific purposes for which amounts in the fund can be spent.” The five components are:

3.1.1. *Nonspendable fund balance:* this category includes the value of resources that are inherently nonspendable (i.e., inventories, non-financial assets held for resale) or resources that cannot be spent because of legal or contractual provisions that require that they remain intact (e.g., the principal of an endowment).

3.1.2. *Restricted fund balance:* funds that are subject to externally enforceable legal restrictions (e.g., limits set by grantors or constitutional, statutory or regulatory limits set by another government).

3.1.3. *Committed fund balance:* the portion of the assets whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making and that remain binding unless removed in the same manner. In the Library’s case, expenditure of funds in this category require approval by the Library Commission.

3.1.4. *Assigned fund balance:* funds that reflect the Library Commission’s intended use of money.

3.1.5. *Unassigned fund balance:* remaining available funds that are not in any of the previous categories.

4. REGULATIONS

4.1. Committed Fund Balance may only be used with the approval of Library Commission.

4.1.1. The Stabilization Fund (sometimes called the “rainy day fund”) is equal to a minimum of 15.0% of the Library’s total annual operating expenditures (property tax and sales tax) in the current fiscal year’s budget. The fund is maintained for two purposes:

- A. To insulate the Library programs and service levels from large unanticipated one-time expenditures due to some unforeseen circumstance.
- B. To temporarily insulate the Library’s programs and current service levels from slower revenue growth that typically occurs during an economic recession.

4.1.1.1. Here is a summary of its allowable uses:

A. *Stabilization Fund: Emergency Reserves*: Half of the stabilization fund, or 7.5% of the Library's approved operating expenditures for the current fiscal year, will be used in the case of unforeseen emergencies, including natural and man-made disasters, unanticipated major repairs or replacement of capital assets, or other cases which the Library is faced with funding a large, unanticipated expenditure.

B. *Stabilization Funds: Counter Cyclical Reserves*: The balance of the Stabilization Fund, or 7.5% of the Library's approved operating expenditures for the current fiscal year, may be used if the property tax projections fall below the level of the previous year. The reserves may only be used to maintain current expenditure levels and provide "bridge financing" during the first 18 months of an economic downturn.

4.1.1.2. *Stabilization Fund: Emergency Reserves* must begin to be restored during the next budget year, and the Library Director shall present a plan for the restoration within 3 months of its use.

4.1.1.3. *Stabilization Fund: Counter Cyclical Reserves* must begin to be restored within 24 months of their first use, and the Library Director shall present a plan to the Library Commission for the restoration after 18 months of its use.

4.1.2. The Capital Asset Maintenance Fund is to pay for replacement of existing equipment, vehicles, information technology resources and major repairs or rehabilitation to the Library's facilities. The amount assigned to this fund will be based on the projected useful life of an asset with the assumption that interest earnings on the fund will offset the impact of inflation.

4.1.2.1. As part of the annual budget process and the review of the fund balance, the Library Commission will review and approve the current report on the anticipated life of capital assets, the remaining years before each must be replaced, and the estimated replacement cost. The cost estimates should reflect a projected inflation factor as well as projected earnings on accumulated savings.

4.1.3. The Capital Improvement Fund is to pay for priority projects to expand or improve the Library's services through the creation of new buildings/facilities, the addition of major new technology, or renovation of existing capital assets. The funds in this category are determined during the Library's budget process and are based on its capital improvement plan.

4.2. Assigned Fund Balance is created by the Library Commission and may only be spent with the approval of the Library Commission.

4.2.1. The Budgeted Use of Fund Balance is created by the Library Commission when it is necessary to balance the budget in which expenditures exceed revenues.

4.2.2. Additional categories of the assigned fund balance may be created by the Library Commission if funds are available.

4.3. Additional funds may be created by the Library Commission in any of the categories.

4.4. The fund balance and its allocation among the funds outlined above is reviewed and approved each time the Library Commission approves the budget.

5. REVISION

Policy #	Effective Date	Significant Changes	Approved By	Previous Policy # and Date
	7/9/18			
	6/7/10			
2002, Res. 700	12/4/02		Commission	