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Sonoma County Library Fund Balance Policy Approved 07/09/2018

4 **1. Purpose**

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

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

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

16 The Sonoma County Library will maintain a fund balance adequate to assure
17 the Library's financial stability as well as to maintain the Library's operations,
18 services, and assets.
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20 The Fund Balance shall be maintained at a minimum of 15.0% of the Library's
21 budgeted expenditures annually with the goal of having 20% of the budgeted
22 expenditures in the fund balance.
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24 The additional funds over 15.0% may be used to replace or repair the Library's
25 capital assets or for capital projects. Other purposes for the use of the fund
26 balance may be established as necessary if funds are available.
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28 Except for the purposes outlined for the Stabilization Fund, the fund balance
29 is not intended to be used to pay for ongoing operating expenditures or
30 increases nor is it to be used because expenditure growth exceeds normal
31 revenue growth.
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33 **3. Definitions**

34 3.1. *Fund Balance*: The difference between assets and liabilities in the
35 Library's general fund. Sometimes referred to as the "reserves."
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37 The new standards for reporting fund balances have been issued by The
38 Governmental Accounting Standards Board (GASB) in its Statement No.
39 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
40 The new statement defines the way that the fund balance is classified and
41 reported by emphasizing "The extent to which the government is bound to
42 honor constraint on the specific purposes for which amounts in the fund
43 can be spent." The five components are:
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1 3.1.1. *Nonspendable fund balance*: this category includes the value of
2 resources that are inherently nonspendable (i.e., inventories, non-
3 financial assets held for resale) or resources that cannot be spent
4 because of legal or contractual provisions that require that they
5 remain intact (e.g., the principal of an endowment).
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7 3.1.2. *Restricted fund balance*: funds that are subject to externally
8 enforceable legal restrictions (e.g., limits set by grantors or
9 constitutional, statutory or regulatory limits set by another
10 government).
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12 3.1.3. *Committed fund balance*: the portion of the assets whose use is
13 constrained by limitations that the government imposes upon itself at
14 its highest level of decision making and that remain binding unless
15 removed in the same manner. In the Library's case, expenditure of
16 funds in this category require approval by the Library Commission.
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19 3.1.4. *Assigned fund balance*: funds that reflect the Library Commission's
20 intended use of money.
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22 3.1.5. *Unassigned fund balance*: remaining available funds that are not in
23 any of the previous categories.
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25 26 **4. Regulations**

27 4.1. Committed Fund Balance may only be used with the approval of Library
28 Commission.
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30 4.1.1. The Stabilization Fund (sometimes called the "rainy day fund") is
31 equal to 15.0% of the Library's annual operating expenditures in the
32 current fiscal year's budget. The fund is maintained for two
33 purposes:

34 A. To insulate the Library programs and service levels from large
35 unanticipated one-time expenditures due to some
36 unforeseen circumstance.

37 B. To temporarily insulate the Library's programs and current
38 service levels from slower revenue growth that typically
39 occurs during an economic recession.
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41 4.1.1.1. Here is a summary of its allowable uses:
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43 A. *Stabilization Fund: Emergency Reserves*: Half of the
44 stabilization fund, or 7.5% of the Library's approved
45 operating expenditures for the current fiscal year, will be
46 used in the case of unforeseen emergencies, including

1 natural and man-made disasters, unanticipated major
2 repairs or replacement of capital assets, or other cases in
3 which the Library is faced with funding a large, unanticipated
4 expenditure.

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

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13 4.1.1.2. *Stabilization Fund: Emergency Reserves* must begin to be
14 restored during the next budget year, and the Library Director
15 shall present a plan for the restoration within 3 months of its use.

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17 4.1.1.3. *Stabilization Fund: Counter Cyclical Reserves* must begin to
18 be restored within 24 months of their first use, and the Library
19 Director shall present a plan to the Library Commission for the
20 restoration after 18 months of its use.

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22 4.1.2. The Capital Asset Maintenance Fund is to pay for replacement of
23 existing equipment, vehicles, information technology resources and
24 major repairs or rehabilitation to the Library's facilities. The amount
25 assigned to this fund will be based on the projected useful life of an
26 asset with the assumption that interest earnings on the fund will offset
27 the impact of inflation.

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29 4.1.2.1. As part of the annual budget process and the review of the
30 fund balance, the Library Commission will review and approve
31 the current report on the anticipated life of capital assets, the
32 remaining years before each must be replaced, and the
33 estimated replacement cost. The cost estimates should reflect a
34 projected inflation factor as well as projected earnings on
35 accumulated savings.

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37 4.1.3. The Capital Improvement Fund is to pay for priority projects to
38 expand or improve the Library's services through the creation of new
39 buildings/facilities, the addition of major new technology, or
40 renovation of existing capital assets. The funds in this category are
41 determined during the Library's budget process and are based on its
42 capital improvement plan.

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44 4.2. Assigned Fund Balance is created by the Library Commission and may
45 only be spent with the approval of the Library Commission.
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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.