FUND BALANCE POLICY

I. Purpose

Prudent financial management suggests that all governmental entities should establish fund balance policies to provide the required resources when responding to unforeseen events and meeting operating needs. The purpose of this Fund Balance Policy is to establish reasonable guidelines tailored to the needs of the San Mateo County Library Joint Powers Authority (Library) which ensure that adequate funds are available to:

- Mitigate significant economic downturns or revenue shortfalls
- Cover future innovative opportunities related to system improvements
- Provide for future projects

Fund Balance is generally defined as the difference between fund assets and fund liabilities remaining at year-end. For budgetary purposes, this represents the sum of over-realized or unanticipated revenues and unspent appropriations or reserves at the end of each fiscal year.

The Policy aligns with the reporting standards outlined in GASB 54 (the Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions). GASB Statement 54 established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

II. Fund Balance Goals

The following individual items shall constitute the Library Fund Balance.

<u>Committed Fund Balance:</u>
Committed Fund Balance consists of amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, in this case, the Governing Board. Commitments may be changed or lifted only by the Governing Board taking the same formal action that imposed the constraint originally. The Library has established two primary categories of Committed Fund Balance as follows:

- Stabilization Commitments, referred to in this policy as Operating Reserves, and
- Capital Project Commitments, referred to in this policy as Capital Reserves

<u>Operating Reserves:</u>
Governments often establish "rainy day funds" to provide a financial cushion against unanticipated adverse financial or economic circumstances. The Library is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted one-time expenditures. Operating Reserves may be used to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities to stabilize current operations.

The Library shall maintain amounts equal to no less than fifteen percent (15%) of adopted general fund operating appropriations in the category identified as Operating Reserves (net appropriations exclusive of one-time activities).

There is no nationally uniform standard regarding the appropriate level of unrestricted fund balance (i.e. the amounts reported as committed) local governments should maintain. However, the Government Finance Officers Association (GFOA) recommends that…"general purpose governments maintain ***at a minimum*** *an unrestricted fund balance of no less than two (2) months or 16.7% of regular general fund operating revenues or regular general fund operating expenditures. The adequacy of unreserved fund balance in the general fund should be assessed based upon a government's own circumstances. Furthermore, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unreserved fund balance in the general fund at any one time."*

Capital Reserves:
Capital Reserves may be used to address innovative opportunities related to operational improvements and asset replacement needs as approved by the Governing Board. Activities such as major equipment purchases, facility renovations, and system-wide projects are not specified in this policy statement, but are identified by the Library, as part of the annual budget development process.

The Library shall maintain amounts equal to no less than two million five hundred thousand ($2,500,000) in the category identified as Capital Reserves.

III. Minimum Fund Balance Requirements

In the event funds are not available to maintain minimum required balances as detailed under Section II Fund Balance Goals; Committed Fund Balance, the Governing Board must approve and adopt a plan to restore this balance to the target level by adding an amount to the budget to cover the deficiency over a period not to exceed five (5) fiscal years. If restoration of the commitment cannot be accomplished within such period without severe hardship to the Library, then the Governing Board will establish a different time period or change the committed amount requirement.

IV. Utilization of Fund Balance

Appropriation of the Committed Fund Balance shall require the approval of the Governing Board and shall be only for one-time uses and not for ongoing expenditures unless a viable revenue plan designated to sustain the expenditures is adopted.

V. Annual Review

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.