

FINANCIAL MANAGEMENT

Code **DFAC** Issued **9/13**

This policy establishes guidelines to be used during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. The policy is based on a long-term perspective with a commitment to keeping the center in a strong fiscal position that will allow it to better weather negative economic trends.

Background

Statement No. 54 of the Governmental Accounting Standards Board (GASB 54) establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances and clarifies definitions for governmental fund types.

GASB 54 establishes five fund balance categories: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted fund balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed fund balance consists of funds that are set aside for a specific purpose by the center's highest level of decision making authority. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned fund balance consists of funds that are set aside with the intent to be used for a specific purpose by the center's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned fund balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

Actions leading to restricted, committed and assigned fund balances

The board has the authority to set aside funds for a specific purpose. Commitments are authorized by the board based on fund placement in the original adopted and later revised budget, as well as by the board resolution. The passage of a resolution must take place prior to June 30 of the applicable fiscal year. If the actual amount of the commitment is not available by June 30, the resolution must state the process of formula necessary to calculate the actual amount as soon as information is available.

Upon adoption of a budget where fund balance is used as a source to balance the budget, the business manager will record the amount as assigned fund balance.

The board delegates the authority to assign amounts for specific purposes to the director or business manager.

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Order of spending

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second and unassigned funds last.

Minimum unrestricted fund balance

The board recognizes that the maintenance of a fund balance is essential to provide for unforeseen expenses or emergencies and to provide working capital in the first several months of the fiscal year, until sufficient revenues are available for fund operations. By maintaining an appropriate fund balance, the center can avoid excessive short term borrowing and the concomitant interest expense, accumulate sufficient assets to make designated purchases or cover unforeseen expenditure needs, and demonstrate financial stability necessary to preserve or enhance its bond rating, thereby lowering debt issuance costs.

The undesignated fund balance in the operating funds will be maintained at a level sufficient to provide the resources required to meet operating cost needs, to allow for unforeseen needs of an emergency nature and to permit orderly adjustment to changes resulting from fluctuations of revenue sources. The center will strive to maintain a minimum undesignated balance in its operating funds equal to a range of 12 to 20% of its prior year operating expenditures.

As part of the annual budget process, the director or business manager will estimate the surplus or deficit for the current year and prepare a projection of the year-end undesignated fund balance. Such projection will include an analysis of trends in fund balance levels on an historical and future projection basis. Any anticipated balance in excess of the minimum undesignated general fund balance may be budgeted at the discretion of the board.

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