

Houston County Public Library System

Financial Policies

Fund Balance

Approved by HOUPL Board of Trustees 2015 Jun 11

The Library recognizes that the maintenance of a fund balance (aka reserve funds and contingency) is essential to the preservation of the financial health of the Library. This policy provides guidance concerning the desired level of fund balance maintained by the Library to manage financial risk that can occur from unforeseen cash flow shortages, unanticipated expenditures, and similar circumstances.

The Library will classify fund balance as follows based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- 1) **Nonspendable fund balance** – amounts that are legally or contractually required to be maintained intact (e.g., permanent fund principal of CDs).
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., SPLOST, grants or donations).
- 3) **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Board of Trustees. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the board's commitment in connection with future construction projects).
- 4) **Assigned fund balance** – amounts intended to be used by the library for specific purposes. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. Spending of these funds is inherently assigned to the Director by the Board.
- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the

Library will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

As previously stated in the Budget policy (approved 2015 Jan 08), The Library shall attempt to establish an unrestricted fund balance in the General Fund. The purpose is to pay expenditures caused by unforeseen emergencies, handle shortfalls caused by revenue declines, and to eliminate any short-term borrowing for cash flow purposes. This reserve shall accumulate and attempt to be retained at an amount which represents two months of operating expenditures.

Should the contingency fund be fully funded, remaining revenue above the operating budget will be allocated into a capital project fund. The Board defines a capital project as any asset or project in excess of \$5000.00 with an estimated useful life of at least two years.