FIRST 5
FRESNO COUNTY

Accounting Policies and Procedures Manual

Revised April 2017

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1. GENERAL

A. Introduction

The purpose of the Accounting Policies and Procedures Manual is to provide documented procedures related to fiscal policies, accounting principles, internal controls, operating procedures and reporting requirements for the Children & Families Commission of Fresno County (the Commission) also known as First 5 Fresno County (F5FC).

Use of this manual will assist Commission staff by:

- Describing methods for processing accounting information
- Documenting the accounting process so that execution of procedures is not completely dependent upon one individual
- Providing a training device and reference material for staff
- Providing a source of information to help eliminate uncertainties and confusion
- Ensuring consistent application of accounting policies and procedures
- Describing the principles, procedures and forms to be used to process and generate financial reports prepared in accordance with generally accepted accounting principles and governmental accounting standards

B. Authority

The California Children and Families First Act of 1998 (Proposition 10) created the California Children and Families Commission. Through the creation of the State Commission, 58 County Commissions were established.

Fresno County Ordinance Number 99-009 established the Fresno County Children and Families Commission pursuant to the provisions of the Health and Safety Code, Section 130140. Section 2.38.020, item G, of the Fresno County Ordinance states, "The Commission shall comply with Government Finance Officers Association (GFOA) financial management guidelines and Governmental Accounting Standards Board (GASB) accounting requirement standards."

C. Role of Fresno County Auditor-Controller/Treasurer-Tax Collector

The Fresno County Auditor-Controller/Treasurer-Tax Collector (FCACTT) provides maintenance of the Commission Trust Fund held by the County for the Commission. The FCACTT role to the Commission is that of a trustee nature. The Commission retains final authority over the Commission Trust Funds and access to these funds, upon proper authorization, shall be performed by the FCACTT in a timely and efficient manner.

D. Lighthouse for Children, Inc

Lighthouse for Children, Inc. (LFC) is a California 501(c)(3) non-profit public benefit corporation created by the Commission as a Qualified Active Low Income Community Business (QALICB) to take advantage of a New Market Tax Credit financing structure used to build a facility within a low-income community in Fresno County as the Commission is not eligible to be the QALICB. LFC is considered a component unit of the Commission for financial reporting purposes and, as such, is included in the Commission's annual financial report as a discretely presented component unit.

As a component unit of the Commission, LFC has a financial and operational relationship with the Commission which meets the reporting entity definition criteria of GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statements No. 39 and No. 61, and thus is included in the financial statements of the Commission. Although a legally separate entity, LFC is reported in financial statements using the discrete presentation method because it does not provide services exclusively or almost exclusively to the Commission and to emphasize that it is a legally separate organization.

Lighthouse for Children, Inc. must follow the policies and procedures as outlined in the this manual unless otherwise noted in the sections below.

E. Manual Revisions

The Commission is responsible for updating the manual as needed, at minimum on an annual basis, and ensuring that revised policies are appropriately considered at a public meeting by the Commission.

F. Glossary of Terms

A glossary of terms can be found in Appendix A of this document. Throughout the entirety of the document the Business Director can be used interchangeably with the Senior Business Officer. In the case the Business Director is not present, the Senior Business Officer assumes the responsibilities of that role.

2. ACCOUNTING POLICIES

Accounting policies provide high-level guidance and focus attention on critical executive responsibilities associated with accounting. The following accounting policies assist the Commission in making decisions necessary for the daily operations of the agency:

- Accounting is conducted in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), and in accordance with the guidance in Governmental Accounting, Auditing, and Financial Reporting (GAAFR) published by the Government Finance Office Association (GFOA)
- Accounting transactions are recorded in a manner to facilitate **outcome-based accountability**
- Accounting procedures and records ensure expenditures are made only for the purposes authorized by the California Children and Families Act of 1998 (as amended), and in accordance with the Commission's approved 2013-2020 Strategic Plan.
- Accounting procedures are adopted and followed to safeguard financial resources

A. General Accounting Procedures

The following general accounting procedures are the major elements that define and drive the accounting system:

1. Generally Accepted Accounting Principles
2. Fund Accounting
3. Modified Accrual Basis of Accounting
4. Account Classification
5. Program Accounting
6. Cost Allocation
7. Budgetary Accounting

8. Internal Control

1. Generally Accepted Accounting Principles (GAAP)

   In order to maintain public trust, the Commission's operations, reporting, accounting policies, practices, and systems conform to Generally Accepted Accounting Principles (GAAP).

2. Fund Accounting

   Government accounting systems are organized and operated on a fund basis to provide strong accountability for the use of public funds.

   Fund accounting focuses on the inflow and use of current financial resources, whereas private sector accounting focuses on profit and net worth. Fund accounting includes three broad classifications of funds. Governmental funds typically are used to account for tax-supported activities. Proprietary funds are used to account for a government's business type activities like a water department or an airport. Fiduciary funds are used to account for resources that are held by the government as a trustee or agent for parities outside the government. Fiduciary funds cannot be used to support the government's own programs.

   One type of governmental fund is the general fund. The general fund is the chief operating fund of most governments and is used by the Commission. Another type of governmental fund is a special revenue fund. A special revenue fund accounts for the proceeds of a specific revenue source that is restricted by law or administrative action to be expended only on a specified purpose(s). Special revenue fund accounting is commonly used when revenue sources are exclusively designated for a specific purpose.

3. Accounting Methods

   A. Modified Accrual Basis of Accounting
      There are three bases of accounting: cash accounting, accrual accounting, and modified accrual accounting. Commissions are recommended, by the First 5 Association Fiscal Management Guide, to use the modified accrual method of accounting because it more effectively recognizes increases and decreases in financial resources.

      The modified accrual basis of accounting is a method of accounting in which expenditures are recorded at the time liabilities are incurred and revenues are recorded when received in cash or are considered available for use.

   B. Accrual Basis of Accounting
      LFC utilizes the accrual basis of accounting. The accrual basis of accounting is a method of accounting in which expenditures and revenues are recorded at the time they are incurred, not necessarily when they involve cash.

4. Account Classification (Chart of Accounts)

   The Commission engages in a wide range of financial activities. An account classification system called a chart of accounts is used to record and organize this financial activity. The chart of accounts provides the organizing framework for budgeting and substantially enhances reporting capabilities.

The chart of accounts includes all accounts in the general ledger – assets, liabilities, fund balance, revenues, and expenditures. Asset, liability, and fund balance accounts reflect the financial resources of the Commission and are referred to as balance sheet accounts.

5. Program Accounting

Account classification creates a structure to account for assets, liabilities, fund balance, revenues, and expenditures. In addition, the Commission often needs information on programs. **A program is a set of specific activities taken on by the Commission to accomplish a particular purpose and funding source**. A program may have more than one revenue source, and may require expenses from multiple accounts.

Because of the Commission's legal mandate for **outcome-based accountability** and the program evaluation requirements associated with the grant funds, the Commission has employed program accounting. In order to capture all costs to their appropriate funding, outcomes, and results areas the Commission has developed program accounting in their internal accounting system. Program costs are captured based on funding mechanism and focus areas. The Commission has also employed a data reporting system that provides result area-based expenses.

6. Cost (Expense) Allocation

Most accounting for the Commission's activities is accomplished directly by processing transactions. Transactions are coded and charged to designated fund accounts and programs. However, certain situations require special allocation steps to accurately account and report the cost of Commission activities.

To provide clarity, the Commission has adopted a policy defining administrative costs. Therefore, cost items that comport to the Commission's definition of administrative costs are charged directly to an administrative area in the accounting system. Cost allocation is used when costs need to be estimated and apportioned among different programs or organizational units. Examples of costs that may need to be allocated include office rent, telephone, and personnel costs.

Once it is determined that costs need to be allocated or apportioned, an allocation formula is created to obtain a reasonable estimate. At least once every two years the Commission conducts a time study of all staff positions in order to properly compute expenses. The time study shows the percentage of each staff position's time that is spent on each Commission program and on internal administrative activities.

7. Budgetary Accounting

The budget is consistent with GAAP and governmental accounting standards. The budget is a commitment for the allocation of available resources for the upcoming budget period. The budget is shaped by the goals and objectives contained in the Commission's approved 2013-2020 Strategic Plan and the financial direction set in the long-term financial plan.

An annual budget authorizes and provides the following:

a. Basis for control of the financial operations of the Commission
b. Estimates revenues made on a modified accrual basis, as anticipated to be earned for that budget year

c. Estimates carryover fund balance made on a modified accrual basis, as anticipated to be on hand at the close of the fiscal year
d. Estimates appropriation requirements made on a modified accrual basis
e. These aforementioned estimates reflect expenditures and encumbrances for all obligations to be incurred during the budget year

The Commission will adopt the proposed budget at least one month prior to the beginning of the next budget period. In the adopted budget, the operating expenditures must not exceed the operating resources (forecasted revenues and reserves). That is, the total of all appropriations for the budget year may not exceed the total of estimated revenues for the budget year, plus the estimated unencumbered carryover fund balance from the current year.

8. Internal Control

Commission staff administers and monitors the adopted budget during the year to establish budgetary control. Specific steps are taken to establish that control.

Initially, the budget is aligned with the modified accrual accounting system. The budget includes estimated allocations to the various program components that support the Commission's goals for early childhood development. The program accounting structure is aligned with the programs in the budget. Revenue and expenditure line items in the budget are aligned with the chart of accounts to effectively compare "actual" revenues and expenditures with "budgeted" revenues and expenditures.

Secondly, a component of budgetary accounting is encumbrance accounting. An encumbrance system is needed to control the expenditure side of the budget. Encumbrances represent the estimated amount of future expenditures that will result when unperformed work within a contract terms. Essentially the encumbrance reserves a portion of a budget. When the work outlined in a contract is performed, expenditures will be recorded in the accounting system (and the encumbrance will be reversed). Until the expenditure is recorded, encumbrances are used so the Commission does not over commit funds.

Thirdly, staff uses the budget document as a guide for expenditures throughout the budget period so that actual expenditures do not exceed the total adopted budget. Monthly reporting is used to identify budgeted and actual amounts and fund balance, ensure resources are used for the appropriate purposes, and ensure resources are not expended too quickly.

Lastly, during the year amendments are made to the original budget as circumstances change. The Commission must approve any appropriation transfers when it is necessary to move appropriations between expenditure objects. Objects are defined as Salaries and Benefits, Services and Supplies, and Program Contracts. The Executive Director or designee of the Commission may approve appropriation transfers between line item accounts within an expenditure object. The Commission may increase appropriations during the fiscal year on a 2/3-majority vote by Commissioners present at a regularly scheduled meeting of the Commission. The appropriation amounts must be matched by realized revenue or carryover, or additional anticipated revenue, in excess of amounts anticipated in the budget. Mid-year budget increases are made by resolution of the Commission. Records of the original budget and all amendments are maintained. At year-end both the "original" budget and "final amended" budget amounts are reported in the annual audit.

3. ACCOUNTING PROCEDURES AND PROCESSES

The accounting system consists of records and procedures which recognize, record, classify, summarize, and report information on the Commission's financial position and results of operations. The major elements used in presenting financial information in governmental accounting are assets, liabilities, fund balance and/or equity, revenues, and expenditures.

The accounting procedures and processes below describe the methods used in accounting for the Commission's financial transactions. The goal of the accounting process is to produce financial reports that accurately summarize the financial position of the organization at a certain point in time and its revenues and expenditures for the fiscal period.

A. Revenue

A. Proposition 10 Revenue

Revenue received for the operation of the Commission is initiated and submitted from the California State Children and Families Commission on a monthly basis, based on Proposition 10 funds collected by the California State Board of Equalization. The revenue allocated and transferred to the Commission is based on the percentage of Fresno County live births to California State live births. The funds are remitted directly to the Fresno County Treasury where they are placed in the Children and Families Trust Fund.

The State submits a Disbursement to Counties by Month Report which reflects funds collected for the month and distributed to counties based on their percentage of live births to the total State live births. The revenue remitted by the State is reviewed and documented by Commission staff each month to determine the reasonableness of the revenue.

B. Other Revenue

The Commission may receive other revenue not otherwise related to its Proposition 10 funding allocation from such sources as the State Commission, other state departments, the federal government, and private foundations. These funds may be restricted in how they are used and require special accounting information to track and report periodically. The use of these revenues must have Commission approval and a formal grant or funding agreement including a budget or plan establishing restrictions and parameters of the funding agreement in place, which shall include a budget or plan establishing restrictions and parameters on the use of the funds.

B. Cash

The Commission is responsible for several cash accounts. These accounts include the following:

1. <u>Commission Trust Account</u>

   The Commission Trust Account (trust account) is maintained by the County Auditor-Controller/Treasurer-Tax Collector for the Commission. Monies are transferred to the cash accounts described below for the operations of the Commission.

   Since the County has established that funds in the trust account are not operational funds, there is a need to have some excess funds in the Operations/Program Accounts. The County only allows two non-operational transfers per 30-day period, and the transfers must be 10 days apart between withdrawals. Commission management and the Commission's Secretary/Treasurer will establish the amount of funds to be held by a bank.

The Commission will transfer sufficient monies to the Operations/Program Accounts as needed for operations. There is no limit on the number or amounts of operations transfers within a 30-day period. Fresno County will be notified of the need to transfer funds by Commission management based upon projecting future cash flow requirements.

A transfer of funds requires the Executive Director to approve the transfer request. The transfer request must be in writing to the Fresno County Treasurer's Office in order for the transfer to take place. The authorized signer for transfers is the Commission's Executive Director. Transfer amounts for non-operational funds cannot exceed the amount allowed by Fresno County.

Transfers may be made by check sent directly to the authorized bank or wire transfer only to the Operations/Program Accounts.

Each month, the County submits a Monthly General Ledger Trial Balance Report and a Monthly Transaction Register to the Commission, which documents the activity for the month and the cash balance in the trust account.

2. Operating Checking Account

The operating checking account is maintained to process transactions for the general operations of the Commission.

The account requires two authorized individuals designated by the Commission on payments over $500.00.

Account signers are the Executive Director and designee. Wire transfers must be authorized in writing by the Executive Director or designee.

The Executive Director has been delegated the authority to authorize payments for all recurring budgeted costs [no dollar limit] and up to $3,000.00 for non-recurring operating costs. All checks over $500.00 require a second staff approval.

Splitting payments to avoid the approval limit is contrary to Commission policy and is not allowed. Payments authorized by anyone other than the primary designee will be presented to the primary designee for review and the primary designee will initial their subsequent review and approval of the expenditure. The primary designees are designated as the Executive Director and the management staff (or designee).

3. Program Checking Account

This account will segregate the funds necessary for financing current activity of programs/grants.

The account will require two approvals on the account and will be as follows:

Authorized individuals shall be the Executive Director and designee. Wire transfers must be authorized in writing by the Executive Director or designee.

Splitting payments to avoid the approval limit is contrary to Commission policy and is not allowed. Payments authorized by anyone other than the primary designee will be presented to the primary designee for review and the primary designee will initial their subsequent review and approval of the expenditure. The primary designees are designated as the Executive Director and the management staff (or designee).

Program funds are requested from the trust fund on an as-needed basis. A formal letter on the Commission's letterhead is submitted to the County Auditor-Controller/Treasurer-Tax Collector from the Commission when funds are needed and is authorized by the Commission's Executive Director. A Business Department designee verifies funds have been transferred to the appropriate bank accounts.

4. Petty Cash Fund

The Commission maintains a petty cash fund for minor business expenses and replenished as needed in an amount not to exceed $200.00. A custodian is assigned the responsibility of maintaining this fund. Reconciliation by the Business Assistant independent of the custodian function is performed on a quarterly basis. The petty cash fund is not used for change funds. The process for petty cash is as follows:

1. Petty cash funds are secured in a locked petty cash box with the custodian.
2. Petty cash for a minor business expense is requested from the custodian.
3. The custodian completes a petty cash voucher with the date, amount disbursed, details of expense, account to debit the expense and name of the person to whom the petty cash was paid.
4. The voucher is stapled to the receipt and stored in the locked petty cash box.
5. The expense is recorded in a spreadsheet that updates the running cash balance.
6. At the end of every quarter, the locked box is given to the Business Assistant to perform a reconciliation between the balance in the spreadsheet and cash balance in the petty cash box.
7. Journal entries are then recorded by the Business Assistant for each expense by applying a debit to the expense account and a credit to the petty cash account.
8. Receipts and vouchers are attached to the journal entry batch and filed in the journal entry file.

5. Accounts Receivable

An accounts receivable process is maintained to identify and bill all amounts due on a timely basis. The process will identify overdue receivables and provide timely collection notices. The process is as follows:

1. Services and/or goods will be billed by a Business Department designee.
2. The invoice generated will be recorded - a debit to accounts receivable in the amount of the invoice and a credit to the revenue - in the accounts receivable module of the Commission's accounting software.
3. After the bill is issued, the timing of the outstanding bill will be tracked so that the receivable can be aged.
4. Follow-up correspondence will be sent to the vendor/Service Provider if payment is not received by the due date listed on the invoice.
5. When the vendor/Service Provider remits payment on the invoice, the payment will be recorded in the accounting system by the original Business Department designee and submitted to a separate Business Department designee to make to deposit.

6. Once the deposit is made, a third Business Department designee received the deposit slip and records it in the accounts receivable module, by debiting cash and crediting accounts receivable.
7. The Business Director checks that the deposit is accurately recorded and the Business Staff Designee posts the receivable to the General Ledger.

6. <u>Investments</u>

The Commission has developed an Investment Policy that is updated annually by Commission staff and appropriately considered at a public meeting by the Commission.

C. Bank Reconciliation

Bank reconciliation is performed on a monthly basis for all cash accounts. The following describes the procedures related to the bank reconciliation process:

1. The bank statement is received in the mail and forwarded, unopened to the Business Director or Deputy Director who reviews and forwards to the Senior Business Officer
2. The Senior Business Officer then prepares the bank reconciliation and upon completion forwards to the Executive Director.
3. The Executive Director initials the bank reconciliation verifying the review and returns the bank reconciliation to the Senior Business Officer.
4. Business Department staff prepares the monthly journal entries based on the bank reconciliation. All journal entries must be accompanied with proper supporting documentation and filed appropriately.

D. Payment Approval Authorizations

The Executive Director is authorized to approve payments of $10,000 or less as outlined in the Commission's Procurement Policies and Procedures Manual. Payments for amounts over $10,000.00 require Commission approval.

As stated above, manual checks valued at more than $500.00 require two signatures. Authorized designees are detailed by account.

The Executive Director, Deputy Director, Program & Evaluation Director and the Commission's Vice-Chair are the payment authorizers. In the absence of the Executive Director, the Commission's Vice-Chair acts in lieu of the Executive Director as a payment authorizer. The Commission requires payment authorizers to be updated upon the end of a Commissioner's term, and updated to reflect incoming Commission members.

E. Fidelity Bond Insurance

The Commission is required to maintain fidelity bond insurance. The Commission has authorized the fidelity bond to cover all sums of the Commission's Trust Fund that are removed from the County Treasury. Currently the insurance amount maintained by the Commission is $5,000,000.

F. Policy of Cash Funds

The funds may be invested by management in investments allowed by State Law and approved by the Commission. Funds held by the banks must be collateralized with acceptable securities with a value of 110% or more for funds in excess of FDIC limits. Please refer to the Commissions' Investment Policy for further details.

G. Capital Assets

Capital assets include such items as land, structures and improvements, and furniture and equipment owned by the Commission. Under the modified accrual basis of accounting, the Commission charges capital asset purchases as expenditures. The following are safeguards to control capital assets:

- All capital assets having a value of more than a specified dollar amount and a useful life of one year or more are monitored through inventory controls
- Commission approval of all capital asset purchases, depending on dollar amounts is required
- Pertinent data on capital assets (including description, cost, source of funds, and data acquired) is recorded as soon as capital assets are acquired and data is available
- All items are tagged with a pre-numbered identification sticker
- Performance of annual physical inventories
- Maintenance of a listing of expendable equipment (assets that do not meet the specified dollar amount to be classified as a capital asset, but require control) that could easily be misappropriated, as well as periodic inventory of this equipment
- Recording of donated capital assets at fair market value as of date of donation
- Insurance requirements for fixed assets are reviewed on an annual basis to ensure coverage is adequate

The Commission has developed a Capital and Depreciation Policy that provides further detail. The policy is reviewed for updates annually by Commission staff.

H. Purchasing/Receiving

The Fresno County Ordinance 99-009, Section 2.38.020; Item (E) states: "The Commission shall develop purchasing and contracting policies and procedures consistent with applicable federal and state laws and regulations."

The Commission has developed a Procurement Policy and Procedures Manual that are updated annually by Commission staff and considered at a public meeting by the Commission. The competitive bidding process is used in acquiring goods and services based on certain dollar thresholds.

I. Public Relations Purchases

Expenditures submitted to the Commission for Public/Community Relations expenses must be made in accordance with the funding source requirements, consistent with good business practice, and adhere to the Commission's Procurement Policies and Procedures, Accounting Policies and Procedures, and Conflict of Interest Policy as appropriate.

Where funds are received for research, grants or special projects, additional documentation must be maintained as required by the entity providing the funds. In the administration of restricted funds, the Commission must maintain adequate documentation to be able to demonstrate that the expenditures are made in a manner consistent with the restrictive conditions.

In accordance with this section, allowable Commission expenditures may include, but are not limited to:

1. Membership and participation in the activities of community groups, including but not limited to service clubs and community-wide organizations of leading citizens in early learning, child development, education, business and/or government which serve the needs of young children and their families and promote the engagement of the Commission within the community.

2. Commission programs/activities that promote and support optimal early childhood development, strengthening of the Commission's public relations; and/or donor cultivation and stewardship. Such activities may include, but are not limited to community receptions, cost of meetings, speaker fees, public ceremonies, commission and committee meetings.

3. Hospitality expenses including the provision for meals, catered events, promotional materials and other related expenses that are necessary to conduct official Commission business with external partners. Eligible costs associated with travel for guests of the Commission will adhere to the Commission's Travel Policies and Procedures.

4. Promotional materials distributed to promote the name and brand of the Commission.

5. Flower/Plant purchases, with non-restricted funds, for official Commission functions such as community receptions, ceremonies, seminars, and other Commission events.

No reimbursement shall be allowed for the following expenses:

- Employee birthday, baby shower, wedding, wedding anniversary, etc.
- Clothing rental
- Political contributions
- Tobacco and alcohol purchases
- Daily reimbursement of lunches
- Amounts that are unreasonable given the circumstances in which the expenses were incurred and/or the benefit they provided to the Commission
- Membership or participation in organizations that discriminate based on race, color, religion, national origin, ancestry, age, gender, sexual orientation, marital status, veteran status, or disability

For the allowable expenditures described above, a Payment Authorization Form indicating the Public Relations Purchase must be approved by the Executive Director or designee. The Executive Director or designee approving the authorization is responsible to ascertain the necessity and reasonableness of the authorization and that adequate documentation is attached to support the authorization. The Executive Director or designee may not approve authorizations payable to their supervisor; Commission Chair approval is required.

The following justification information is required to be documented upon request for payment authorization of public relations purchases:

- **Purpose** - Be specific regarding the purpose for the expenditure. Generic statements such as "promotes positive relations", "community relations" or "employee relations" are not acceptable.
- **Relationship** - Names of the persons including their employer and occupation or title demonstrating the business relationship to the Commission.
- Receipts - Original receipts are required that include the amount, date, place and description of the expenditure. In cases where receipts cannot be obtained or have been lost, a statement to that effect should be made and attached to the authorization.

- **Highest Position Responsible for Payment** - The highest-ranking Commission staff in attendance at a business related activity is deemed to be responsible for making the payment to the vendor and he/she will subsequently seek approval to be reimbursed if needed with approval from their immediate supervisor.

J. Electronic Funds Transfer (EFT) – Automated Clearing House (ACH) Payments

The Commission utilizes Electronic Funds Transfer (EFT) – Automated Clearing House (ACH) payments in lieu of issuing checks and mailing remittance. A check will be issued if no method of EFT exists, upon Executive Director's approval

EFT is a system of transferring money from one bank account directly to another without paper money changing hands.

ACH payment is the method of electronic remittance to individuals or entities that are made electronically within the banking system. ACH payments have many benefits. They eliminate the need to print and mail checks, ensure payees receive payments by a specific date, provide an efficient, cost effective, and payee-friendly means of making payments, are environmentally friendly due to the reduced use of paper, postage, office supplies, processing time, and storage space, and provide payees with an option to receive payment quickly.

The Commission will make all vendor payments through ACH. Vendors must submit an EFT Authorization Form to the Commission. The form is located on the Commission's website.

It is the responsibility of the vendor to ensure the ACH information submitted to the Commission is accurate and complete. Failure to maintain accurate and complete information may result in delayed payments.

K. Credit Cards

At times the use of payment via credit card may be deemed necessary for reoccurring payments when ACH payment is not available. Credit cards are not intended for purchases that can otherwise be paid by issuing an EFT/ACH or check payment. Instead they are intended to be used for vendors that do not accept these forms of payments, small purchases, travel and emergency purchases.

A credit card will only be provided to the Commission's Executive Director, Deputy Director and Business Director to provide a level of purchasing flexibility to conduct Commission business. Executive, Deputy and Business Directors utilizing agency credit cards will be solely responsible for the safeguarding of the credit card and account number, as well as complying with this manual and the Commission's Procurement Policies and Procedures Manual regarding purchasing, maintaining documentation, providing receipts and reconciling the bill on a monthly basis. The Executive, Deputy and Business Directors will work with the Business Department to assure procedures are properly followed. Once the monthly credit card statement is reconciled, the statement and all purchases must be reviewed and signed by the Commission Chair or designee.

If either the Executive, Deputy and Business Directors terminates employment with the Commission, the credit card must be surrendered to Business Department staff immediately for cancellation.

L. Accounts Payable/Cash Disbursements

Invoices received for goods and services are properly approved by the Executive Director or designee and forwarded to the Business Department designee for payment processing.

The following table outlines the procedures for processing accounts payable and the associated four methods of cash disbursement:

1.	The invoice is received by the Business Department staff. The Business Department staff forwards the invoice to the appropriate staff person responsible for initiating the expense.			
2.	F5FC staff reviews the invoices and approves that the goods and services have been performed. The invoice is signed, dated, and the appropriate expense line is documented. Then the invoice is forwarded to the Business Specialist or Business Assistant.			
3.	The Business Specialist or Business Assistant reviews the invoice for accuracy and matches the invoice to the check request form and any receiving documentation. The Business Specialist or Business Assistant enters the invoice into the accounting system and prepares the Cash Requirement Report for payment and forwards the invoice to the Senior Business Officer.			
4.	The Senior Business Officer reviews all invoices for completeness and accuracy. The reviewed invoices are submitted to the Executive Director and/or designee with all invoices and supporting documentation for approval.			
5.	The Executive Director or designee reviews the Cash Requirement Report and approves payments in the Commission's accounting system. The Executive Director or designee prepares an Approval Invoice Report for the second signature from designee. The Executive Director initials all invoices for approval. The Approved Invoice Report is then forwarded to the Business Director. The Business Director releases all payments and prints confirmation reports.			
	EFT/ACH and Wire Transfers	Online (Bank Draft)	Credit Card	Check
6.	The Senior Business Officer creates and exports ACH files from the accounting database system. The file must be in the proper ACH format. The ACH file is imported and transmitted directly to the bank.	The Business Director or designated staff processes payment online	The Business Director or designated staff processes payment over the phone or online	The Business Director prints out check and forwards to Executive Director and/or designee for signatures.
7.	Transaction is confirmed with the bank and ACH Batch Summary Report is printed and filed in the ACH bidder.	Receipt is printed and filed in the vendor file	Receipt is printed and filed in the vendor payment file	The Executive Director forwards the signed checks to the Business Assistant to prepare each check for mailing.

8. The Senior Business Officer e-mails payment notification to vendor of payment transaction. Paid Invoices are filed by the Business Assistant.	Paid invoices are filed by the Business Assistant.	Paid invoices are filed by the Business Assistant.	Paid invoices and check stubs are filed by the Business Assistant.

M. Payroll

The Commission utilizes a contracted payroll service to process payroll. Payroll is processed every two weeks. Physical control over personnel records is limited.

Following are procedures related to the payroll function:

1. All employees are required to document their time through timesheets. This will ensure regular, vacation, sick, or any other type of pay is appropriately documented.
2. Payroll increases are required to be approved by the Commission, then documented in memo format and submitted to the Executive Director for approval. Changes to the Executive Director's payroll is authorized by the Commission.
3. The Administrative Officer, who maintains personnel files, will place the original payroll increase memo in the personnel file.
4. Supervisors and Executive Director or designee approves each timesheet prior to authorization for the payroll.
5. Timesheets are verified and entered in to the payroll system and processed by the Administrative Officer and submitted to the Business Specialist to reconcile personal time off (PTO) accrual.
6. Payroll is processed and released by the Senior Business Officer.
7. Payroll is delivered by the payroll service and payroll direct deposit is issued every other Friday. The Business Specialist, who is independent of the preparation and authorization of the payroll, distributes payroll remittances.
8. Payroll reports prepared by the payroll service are reviewed by the Business Director for any unusual items.
9. The Business Director prepares and posts journal entries for all payroll liabilities to be reflected in the accounting system.

N. Compensated Absences

Compensated absences are absences for which employees will be paid such as paid time off (PTO). A liability for compensated absences for services already rendered and that are not contingent on a specific event shall be accrued as employees earn the rights to the benefits. The compensated absence liability shall be calculated based on the pay or salary rates in effect at the balance sheet date.

O. Accounting for Leases

Leases entered into by the Commission are classified as capital leases or operating leases. Leases, which represent substantially all the benefits and risks incident to ownership of the property such as a capital lease, are accounted for as the acquisition of an asset and the incurrence of an obligation. Other types of leases shall be classified as operating leases. The following are guidelines to determine if a lease is considered a capital lease or an operating lease:

1. <u>Capital Leases</u>

A lease which meets any one of the following criteria shall be accounted for as a capital lease:

a. The lease transfers ownership of the property to the lessee by the end of the lease term
b. The lease contains an option to purchase the leased property at a bargain price
c. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property
d. The present value of rental and other minimum lease payment equals or exceeds 90% of the fair value of the leased property

The amount recorded as an asset and an obligation under a capital lease is the lower of the present value of the rental and other minimum lease payments or the fair value of the leased property. Periodic lease expenditures are considered payments of the lease obligation and as interest expense (principal and interest).

2. <u>Operating Leases</u>

If a lease is not considered a capital lease based on the criteria stated above, then it is classified as an operating lease. Payments for operating leases are recognized as expenditures when payment is made.

P. Travel/Expense Reimbursements

Commissioners and staff are authorized to receive reimbursement for travel and business expenses incurred while attending official functions, as long as the expenses are reasonable, prudent, and appropriate for the business of the Commission. Travel expense reimbursements by Commission staff and Commission members shall be properly authorized. Authorization for travel is approved by the Executive Director for all employees. The Commission approves travel for Commissioners through the budget process. When possible, the Executive Director shall notify the Commission prior to incurring out of County travel-related expenses. In the event such notice is not possible, the Deputy Director shall sign off on the travel and then report to the Commission at the next regularly scheduled meeting. Further travel-related expense details can be found in the Commission's Travel Policy and Procedures Manual that is maintained and updated annually as needed by Commission staff.

Q. Debt

The General Long-Term Debt Account Group is used to record liabilities of governmental funds. These liabilities may be long-term debt such as bonds and notes or long-term liabilities such as capital leases, claims and judgments, personal and major medical leave, and pension costs.

General fixed assets acquired via capital lease agreements shall be capitalized in the General Fixed Asset Account Group as discussed above. Additionally, a liability in the same amount shall be recorded simultaneously in the General Long-Term Debt Account Group.

R. Journal Entries

Journal entries may be performed in order to bring an account to the correct balance and to record monthly activity. An Adjusting Journal Entry is prepared for these types of changes. A Monthly Journal Entry is prepared to record the monthly activity.

Business Department staff prepares the Adjusting Journal Entry and the Monthly Journal Entry and enters the journal entry into the accounting system on an as needed basis. Journal entries are filed upon entry into the accounting system.

4. CONTRACT ADMINISTRATION

The purpose of this section is to set forth recommended contracting and contract administration guidelines for the Commission. The guidelines are based on best practices in public procurement. Best practice in governmental contracting requires a selection process that is based on the open and fair identification and selection of vendors qualified to render a particular service, taking into consideration both technical qualifications and price.

A. Procedures

1. Provider Selection

The Commission has developed a Procurement Purchasing Policy and Procedures Manual that is reviewed and updated annually if needed by the Executive Director and/or the Commission. The policies are based on best practices in public procurement which clearly identifies and describes the different methods of the procurement and contracting process. Details can be found in the Commission's Procurement Policies and Procedures Manual.

B. Contractor Payments

1. Advance Payments

Any provider seeking the release of funds prior to the commencement of work under the contract may make such a request in writing on company letterhead, specifying the reason(s) advance funds are needed.

Advance funds are contingent upon the Commission's availability of cash flow. Approval is based on the nature of each project and contingent on the Service Provider's performance in meeting contractual requirements.

A cash advance may not exceed 50 percent of the maximum amount allowed in the fiscal year. Additional funds will not be released until 75 percent of the previously released funds has been expended and reported. The final quarter advance will only be two-thirds of the advance amount. The last month of each fiscal year is on a reimbursement basis only.

If at the end of the contract period (i.e. fiscal year) the Service Provider has not utilized any portion of the funds advanced, the Service Provider shall return that amount to the Commission. If the amount is not returned, the Commission will withhold funds from the subsequent year's contract (if applicable). The Commission will make every attempt to negotiate a solution before pursuing litigation.

2. Progress Payments

Providers formally request reimbursement for services by submitting an invoice via the Commission's online database (Persimmony). Services Providers are required to upload with the invoice an expenditure report comparing actual expenditures to the project budget.

Payments of invoices are contingent upon compliance with all contractual requirements, including the achievement of performance standards and the timely submission of program and fiscal reports. Contract Managers verify satisfactory progress has been made toward project objectives, as determined by the Commission's performance monitoring and reporting system and verify all reported expenditures are allowable under the terms of the contract.

The release of funds is approved by both the Contract Manager and Business Department designee. The Business Department designee verifies that all reported expenditures are allowable under the terms of the contract.

Contractor reimbursement process as follows:

a. A program progress report (Persimmony data), as defined in contract (which could be monthly, quarterly, or semi-annually), is required to be submitted by each Service Provider by certain dates specified in the contract.
b. The request for reimbursement (financial report) documents the service provider's outlays for the period, by budget line item, and also includes any disbursement amounts received and any reimbursements due (documentation is required by each Service Provider to support the expenditures referenced on the financial status report).
c. The Contract Manager reviews the Service Provider's request for reimbursement (financial report) to verify the accuracy of the report with support from the Finance Officer as necessary.
d. The Contract Manager;
    1. Verifies that satisfactory progress has been made toward project objectives.
    2. Approves the request for reimbursement.
    3. Prints the approved financial report and forwards to the Business Officer to review the reimbursement summary.
    4. The Business Officer forwards the approved financial report through the process outlined in the Accounts Payable/Cash Disbursements section of this manual.
e. The Senior Business Officer prepares a Cash Requirement Report from the accounting system and forwards along with supporting documentation to the Executive Director and designee.
f. Executive Director or designee reviews Cash Requirement Report and approves payments in the Commission's accounting system. Executive Director or designee prepares an Approval Invoice Report for the second signature from designee. The Executive Director initials all invoices for approval. The Approval Invoice Report is then forwarded to the Business Director for release of payment.
g. Business Director creates and exports ACH files from the accounting database system. The file must be in the proper ACH format. The ACH file is imported and transmitted directly to the bank.
h. Transaction is confirmed with the bank and ACH Batch Summary Report is printed and filed in the ACH binder.
i. The Senior Business Officer or designee e-mails notification to Service Provider of payment transaction and files the original document (financial report) and payment documentation in the accounting files.

C. Budget Modifications

Budget modifications are required prior to any line items (Personnel, Operating Expenses, Professional Services, Evaluation, Capital, Equipment, and Indirect) exceeding $5,000 for contracts that are over $250,000 and 10% of any line item for contracts under $250,000. Changes within sub-line items (Salaries, Benefits, Payroll Taxes, Operational Expenses, Travel/Training, Misc. Charges, and Program Expenses) do not require a budget revision.

Budget modification requests are considered as follows:

- Submission of a Contract Amendment Request (CAR) form through the Persimmony fiscal database prior to the submittal deadline (Deadlines are updated annually on the Commission's website)
- Reasonable and necessary movement of funds throughout the budget excluding the increase/decrease of the Personnel category that would require additional rationale
- Submission of a revised Scope of Work (if necessary)
- Requests are submitted prior to expenses incurred allowing the Commission to determine its appropriateness and minimizing any disallowed costs to the Service Provider

Budget modifications are reviewed by the Contract Manager with support from the Business Officer and approved by the Executive Director or designee, based on appropriate justification.

D. Authority

The Executive Director has been delegated the authority by the Commission to execute program contracts and amendments to those contracts as long as there are no material changes in the scope of work or dollar amounts does not exceed $5,000. The Executive Director has been delegated the authority by the Commission to execute operating contracts that are administrative in nature and affect the day to day operations of the Commission (no dollar limit).

5. FINANCIAL REPORTING

The goal of the accounting process is to produce financial reports, which accurately summarize the financial position of the organization at a particular point in time and provide information related to the revenues and expenditures for the reporting period.

A. Legal Requirements

California law requires that the State and local county Commissions adhere to specific reporting requirements (California Code Health and Safety Code Sections 130100-130155). The following are statutory requirements for financial reporting:

- Counties are to have a process to track and monitor administrative costs with periodic reports to the Commission (quarterly in many counties) (Section 130140(d)(5)) and 130151(b)(2).
- Policies are needed to assess and communicate the financial condition of the Commission (Section 130151(b)(6))
- Commissions are to track evaluation expenditures and document results of expenditures (Section 130151(b)(7))
- County Commission Reporting. On or before October 15 of each year, the State Commission and each county Commission shall conduct an audit of, and issue a written report on, the implementation and performance of their respective functions during the preceding fiscal year. At a minimum, this report shall include which funds were expended, the progress toward and the achievement of program goals and objectives,

and the measurement of specific outcomes through appropriate indicators (Section 130150).

- The County Commission shall conduct at least one public hearing prior to adopting any annual audit and report (Section 130140 (G))
- Each County Commission shall make copies of its annual audits and reports available to members of the general public on request and at no cost (Section 130150 (d))
- The audits and reports of each county Commission shall be transmitted to the State Commission and the State Controller's Office by November 1 (Section 130150 (a))
- County Commission Reporting of State Commission Information. The State Commission shall make copies of each of its annual audits and reports available to members of the general public on request and at no cost. The State Commission shall furnish each county Commission with copies of those documents in a number sufficient for local distribution by the county Commission to members of the general public on request and at no cost (Section 130150 (c)).
- The County Commission shall conduct at least one public hearing on each annual report by the State Commission prepared pursuant to subdivision (b) of Section 130150 (Section 130140 (H))

B. Procedures

Annual financial statements are prepared in accordance with GAAP. Likewise, annual financial statements are independently audited in accordance with generally accepted government auditing standards (GAGAS).

To supply appropriate individuals with the right information, at the proper time and in the correct format, the Commission reports their financial information on a monthly and annual basis. Specifically, management will take step to achieve the following goals for external and internal reports:

- *Content* – financial reports balance competing demands for completeness and conciseness
- *Timeliness* – information is received soon enough to take effective action
- *Currency* – the information communicated is current
- *Accuracy* – the information is reliable
- *Access* – the information is accessible to those who need it

1. External Reporting

External reporting refers to the annual public distribution of "general-purpose" financial statements designed to meet the basic financial information needs of a variety of potential users, including taxpayers and citizens, oversight and legislative bodies, and investors and creditors. The goal of external reporting is to provide the information needed by interested parties to gain a fair understanding of the government's financial position and results of operations. External reports are developed in conformity with GAAP. GAAP requirements are designed to provide all primary users of general-purpose external financial reports with the reliable information needed to assess an entity's finances.

a. Audit - *Audit Requirements*

All Commissions are required to conduct an independent audit of the basic financial statements. The audit requirements refer to an external review required by an independent audit firm to determine that the financial statements fairly present the financial position of the agency being audited in accordance with GAAP. Auditors make this determination based on a review and testing of financial data maintained by the Commission.

Particular audit requirements include: internal controls, management letter, single audit, and acceptance of annual financial audit by the Commission.

b. Expanded Audit

In addition to the standard financial audit, the Commission is also required to go through an expanded audit per state code section 130151 (1 through 8).

The Commission contracts with that same auditor to complete the financial and expanded audits, and both are presented and submitted as one package. The Commission views the expanded and financial audit as one audit with two components: 1) the financial audit, which is monitored by First 5 California, and 2) the compliance audit, which is monitored by the State Controller's Office (SCO).

The expanded audit covers the following items:

- Contracting and procurement policies: a policy consistent with state law and adopted in a public meeting and a legal representation letter shall be in place. A new legal representation letter is required annually even if the policy did not change.
- Administrative costs: administration costs shall be defined and a cap shall be established at a public meeting. Costs shall be monitored.
- County ordinance creating county Commission: policies and procedures ensure compliance with the county ordinance. The auditor reviews the Commission's strategic plan.
- Long-range financial plans: the plans have been formally adopted by the commission in a public hearing.
- Financial condition of the Commission: policies and practices for reporting financial condition are in place.
- Amount spent on program evaluation and related results: a policy regarding evaluation is available to the auditor. The auditor verifies that the amount spent on evaluation complies with the policy and that evaluation data was collected.
- Salaries and benefits: policies and procedures for establishing employee salaries and benefits are in place.
- When audit findings have been reported in prior years, the current audit report must include a schedule of prior audit findings.

Per expanded audit requirements, the Commission has adopted a conflict of interest policy for commission members that is consistent with applicable state law. The policy ensures the Commission complies with all applicable state and local conflict of interest statutes and regulations. The Conflict of Interest Policy is reviewed and updated every two years by Commission staff. The policy is in compliance as followed:

- The conflict of interest policy was adopted in a public meeting (minutes of the meeting are available for auditors)

- Obtain a letter from legal representative that states that Commission's policy is consistent with applicable state and local laws and regulations on an annual basis
- Conflict-of-interest policy is available to auditors
- Minutes documenting appropriate abstentions for contract award actions are available
- Review Form 700 (economic interest) filings

2. Internal Reporting

This section does not represent reporting in accordance with GAAP, but rather reporting in accordance with budgeting processes. As was noted earlier, external financial reports that follow GAAP generally have a different look and focus than the internal reports. Internal reporting is designed to accomplish two goals:

a. Allow management to monitor compliance with legal and contractual provisions applicable to the management of public funds
b. Provides management and the Commission with the information on current performance data that it needs to make future financial plans

To fulfill this goal the Finance Officer prepares a monthly financial report and submits the report to the Executive Director for review. Upon the Executive Director's approval, a final financial report is prepared for submission and approval at the Commission meeting.

C. Administrative Costs

Under the First 5 Fresno County (F5FC) 2013-2020 Strategic Plan, the role of the Commission staff is broader than just that of contract development and oversight, and includes support of programmatic services on many levels and running internal programs. The definition of administrative costs simplifies program administration in the way program services will be delivered under the strategic plan.

1. Defining Administrative, Program, And Evaluation Costs

As a result, the Commission has adopted a written policy that defines administrative costs and sets a 10% limit for administrative costs. Below are definitions for the three cost categories that the Commission allocates costs to.

a. Administrative Costs- Costs incurred for administrative functions defined (below) by the local Commission in support of funded programs and its operations. Administrative costs are general in nature. This principle distinguishes between those costs that specifically and directly benefit a business unit, program, or evaluation activity from those that do not. Administrative costs support the Commission's basic mission rather than specific program goals. This principle distinguishes between the nature of costs that provide direct value to achieving specific program goals and objectives from those that do not.

   Administrative functions performed are the following: general accounting/financial reporting; local annual reporting activities; financial planning; Commission/Association meetings and travel; human resources services; legal services and consulting; audit; strategic planning; financial and cash management; procurement and purchasing; property management; payroll and personnel management; developing and operating systems and procedures, including information systems, required for administrative functions; and oversight and monitoring of administrative functions. Only these administrative functions are to be charged as administrative costs.

b. Program Costs- Costs incurred by the Commission readily assignable to a program or service provider (other than for evaluation activities) and/or in the execution of direct service provision. Even though they are often associated with general organizational management, two types of costs that are typically classified as administrative costs, preparing program-level budgets program scopes of work, and negotiating MOU's and other program-level agreements, are classified as program cost. Costs of such activities as information systems development and operation, travel, and evaluation are charged to program costs or administration costs, according to whether the underlying functions which they support are classified as programmatic or administrative. Program functions include direct services, program outreach and education, program and community agency technical assistance and support, and program database management.

c. Evaluation Costs- Costs incurred by the Commission in the required evaluation of funded programs based upon their accountability framework and data collection and evaluation for required reporting to state and local stakeholders. Evaluation functions include evaluation technical assistance, evaluation database, and travel and training related to evaluation.

2. <u>Organizing Procedures and Accountability Mechanisms</u>

To ensure accountability, Commission staff abides by the following guidelines:

a. Establish cost elements for each of three categories: administrative, program, and evaluation.
b. Conduct analysis to determine and document an upper percentage limit for administrative costs.
c. Establish within the accounting and reporting system a methodology for tracking and reporting on program, administrative, and evaluation costs.
d. Maintain auditable records to ensure compliance with the administrative cost policy.
e. Provide annual reports on administrative and evaluation costs that go to the public (budgets and annual financial reports).

D. Fund Balance

The Fund Balance includes funds committed for multi-year initiatives and programs. Proper reporting of fund balance provides an opportunity for the Commission to report how it has committed funds over a period of years.

The total fund balance represents the value of the funds available to the Commission. Fund balance is broken down into five components, nonspendable, restricted, committed, assigned, and unassigned. Each component is defined below.

1. <u>Nonspendable Fund Balance</u>

The nonspendable fund balance is defined as only an approximate measure of liquidity. One reason is that some of the assets reported in governmental funds may be inherently nonspendable from the vantage point of the current period:

a. Assets that will never convert to cash (e.g. prepaid items and inventories of supplies)
b. Assets that will not convert to cash soon enough to affect the current period (e.g., the long-term portion of loans receivable and non-financial assets held for resale, such as foreclosure properties)
c. Resources that must be maintained intact pursuant to legal or contractual requirements (e.g. principal of an endowment or the capital of a revolving loan fund)

The key defining concept of nonspendable funds is that it is the legal obligation for the Commission, based on an executed contractual agreement. Examples of nonspendable funds include, but are not limited to:

a. Future payments due to providers of services to children and families
b. Future payments due on professional services contracts
c. Future payments due under lease arrangements

In all cases, amounts can only be classified as nonspendable if (a) there is a fully executed written contract or purchase order detailing obligations, (b) the payment obligation is not due in the current period, and (c) it is probable or expected that future expenditures will be made in accordance with the contract terms. The latter provision means that if it is likely that a contract will be amended or terminated before all scheduled payments are made, the encumbrance must be limited to the total amount of payments that are expected to actually be incurred (if less than the full contract value).

2. Restricted Fund Balance

The restricted fund balance is defined as amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation. The restricted fund balance describes the portion of the fund balance that reflects resources that are subject to externally enforceable legal restrictions. Funds that have been received by the Commission from sources other than the county pro rate share of Proposition 10 revenues and that contain restrictions imposed by the funding source regarding how the money can be used, by definition, are committed to the purpose designated by the funding source. Examples that fall into this category include but are not limited to:

a. Money received from the State Commission for specific programs or initiatives, such as school readiness, or quality child care funds, that must be used exclusively for the purpose designated by the State Commission
b. Grants received from private foundations that contain restrictions in the grant agreement regarding how the funds may be used

3. Committed Fund Balance

The committed fund balance is described as the portion of the fund balance that represents resources constrained by limitations that the government imposes upon itself at its highest level of decision making (the Commission) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period.

This category covers situations in which the Commission has explicitly authorized and directed staff to enter into an agreement with a specified agency, but the contract has not actually been executed. In order to be categorized as committed, funds must meet the following requirements:

a. Formal action to approve the grant(s) and contract(s) must have been taken by the Commission and reflected in the public meeting minutes.
b. The grant(s) and contract(s) must not have been executed yet, thereby avoiding any double-counting. These funds have to be executed within a one-year period. After the one year period funds will be designated to the unassigned fund.
c. Funding that has been set aside for previously executed legally enforceable contracts but not yet spent, including multi-year contracts, if such contracts have been approved by the Commission and if cancellation of such contracts would require Commission approval.

4. <u>Assigned Fund Balance</u>

The assigned fund balance is the portion of the fund balance that reflects the Commission's intended use of resources. Such intent would have to be established by either the Commission or by a body thereof (e.g., finance committee).

There are two essential differences between committed fund balance and assigned fund balance. First, committed fund balance requires action by the Commission, whereas assigned fund balance allows the authority to be delegated to some other body. Second, formal action is necessary to impose, remove, or modify a constraint reflected in committed fund balance, whereas less formality is necessary in the case of assigned fund balance. Funds are appropriately included in this component if they fall under one of four types:

a. Funds to operate a specific program or project in the current or future fiscal years that have not yet been committed or authorized for definite contracts, where all the following criteria are met:

- A written plan has been developed describing the program or project and the time period covered by the plan
- The plan contains a detailed budget or expenditure plan showing the amount of funds expected to be expended and the nature of the expenditures for each fiscal year covered by the plan
- The Commission has formally approved the plan and budget in a public meeting, as documented in the meeting minutes
- The Commission certifies that it intends, to the best of its ability, to expend the funds in accordance with the plan and budget

b. Funds that have been set aside for long-term program sustainability, where all of the following criteria are met:

- A long-range financial plan has been prepared that shows the specific dollar amounts that must be reserved for program sustainability in each of the early years of the plan, the timing for when sustainability funds will start to be drawn down, and the nature of the expenditures that are envisioned in each year covered by the plan

- The Commission has formally approved the long-range financial plan in a public meeting, as documented in the meeting minutes
- The Commission certifies that it intends, to the best of its ability, to manage the sustainability fund in accordance with the provisions of the long-range financial plan
- The Commission has adopted its annual budget consistent with the assumptions and plans

c. Funds that are established to handle unexpected debts that are outside the range of the Commission's operating budget. The funds are to protect the Commission against any possible losses in the event of an emergency situation. Details of the fund are outlined in the Contingency Fund Policy section within this policy.

d. Funds designated specifically to fill any gaps of existing and future capital projects. The account is established to accumulate resources on an annual basis from year end de-obligations. Use of funds must be approved by the Commission.

5. <u>Unassigned Fund Balance</u>

The unassigned fund balance represents funds that can be spent at the discretion of the Commission. This category includes the remainder of the fund balance: funds that either have not yet been allocated for a specific purpose or have been identified in only a general manner where the Commission has significant flexibility in changing the amount or nature of the designation.

E. Contingency Fund Policy

1. <u>Definition and Purpose of Contingency Fund</u>

In an effort to be proactive, the Commission sets aside a fund to handle unexpected debts that are outside of the Commission's operating budget. The funds are to protect the Commission against any possible losses in the event of an emergency situation. To ensure the Contingency Fund reflects the Commission's administrative costs as well as facility management costs associated with the Lighthouse for Children (LFC) facility, of which the Commission is the Master Lease Tenant, funds are set aside to allow for a quicker and more effective recovery from an operational setback. The probability of a significant business disruption is small; however, having a Contingency Fund may save the Commission from potential failure to recover in the event that a risk materializes.

2. <u>Contingency Fund Target Level</u>

The Contingency Fund shall remain at $1,000,000 (one million dollars) as approved by the Commission. The balance of the fund represents approximately four (4) to six (6) months of both the Commission's operational budget and the operation costs of the LFC facility. If a change to the fund amount is warranted, for example due to a significant change in these budgets, Commission staff would be required to seek approval from the Commission during the formal budget modification process.

3. <u>Conditions for Use of Contingency Fund</u>

Use of funds will be determined by circumstance and level of severity with the following criteria. Please note this list is non-exhaustive.

Table 1 – Contingency Fund: Conditions for Use	
Moderate	Severe
• State and local legislation affecting revenue or requiring compliance • Lawsuits against F5FC or LFC • Unexpected default or a decline in State and local revenues	• Unanticipated major repairs or replacement of an asset used in the daily operations of the building or service to the staff • Acts of terrorism against the building or other infrastructure causing a financial hardship • Natural disasters • Expenditures arising from a claim or judgment that is otherwise not covered by insurance

The Contingency Fund shall be reported in the Committed Fund Balance in the agency's budget at the beginning of each fiscal year. The fund may not be used to address anticipated Proposition 10 revenue shortfalls. Imbalances of this nature are generally addressed through a formal budget modification process. Appropriations for program service expenses are independent of the fund as they are budgeted during the preceding fiscal year.

If a need arises for the potential drawing of funds allocated to the Contingency Fund outside of the above-mentioned guidelines, Commission staff shall present the request to the Commission for consideration and approval at a regularly scheduled meeting.

4. <u>Authority of Contingency Fund Use</u>

For unanticipated circumstances considered moderate, as described in Table 1, staff must seek approval from the Commission prior to use of the Contingency Fund.

For unanticipated circumstances considered severe, as described in Table 1, and that require immediate redress, the Executive Director or designee shall exercise full discretion of its appropriation in order to mitigate substantial loss of productivity. The Executive Director must report to the Commission, at the next regular meeting following the use of funds, with full explanation on how the portion of the Contingency Fund was used or is being used.

For any method employed, the process of appropriating the Contingency Fund will adhere to the guidelines within this manual to minimize risk while striving to safeguard the Commission's assets.

5. <u>Contingency Fund Replenishment</u>

In the event the Contingency Fund or a portion thereof is used, Commission staff will aim to restore the fund to the recommended amount, mentioned above, by the closure of the fiscal year, only if there are enough cost savings available for replenishment without impacting other budgetary commitments. If restoration cannot be accomplished within such time without severe hardship to the Commission, staff will prepare a financial plan to restore the Contingency Fund in the subsequent fiscal years until the target level is met.

F. Record Retention

Financial records are required to be retained a minimum of five years after the annual audit and are subject to inspection, monitoring, copying and audit by the Bureau of State Audits.

APPENDIX A

Glossary of Terms

Accounting Procedures
The day-to-day operation of a particular system so that accounting information will be reflected in the accounting records in a consistent, proper and orderly manner.

Accounting System
All the records, formal and informal, together with the procedures related to the assembling, classifying, recording and reporting of information concerning the financial operations and conditions of a fiscal entity.

Accrual Basis of Accounting
Transactions are recorded when they occur regardless of when cash is paid or received. The Commission uses a modified form of accrual accounting (see Modified Accrual Basis) for Governmental funds. However, the accrual basis of accounting is used for the preparation of annual government-wide financial statements where governmental reported (governmental activities are defined later).

Administrative Costs
Costs incurred for a common or joint purpose that benefits more than one cost objective, supports the general management and administration of the Commission, and/or those costs not readily assignable to a specifically benefited cost objective.

Advance Payment
Any payment made to a contractor before work has been performed or goods have been delivered.

Appropriation
A statutory authorization granted by the legislative body to an agency allowing it to incur obligations and make expenditures for specific purposes within a specified period of time and generally for a maximum dollar amount.

Assigned
Amounts that are intended by the Commission to be used for specific purposes, but are neither restricted nor limited, shall be reported as assigned fund balance. Intent may be expressed by the Commission itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the Commission. This would include ANY activity reported in a fund other than the general fund that is not otherwise restricted more narrowly by the above definitions.

Automated Clearing House (ACH)
ACH payment is the method of electronic remittance to individuals or entities that are made electronically within the banking system.

Balance Sheet
The financial statement disclosing the assets, liabilities and equity of the governmental funds (which includes general funds and special revenue funds). Governments are also required to disclose assets, liabilities and equity on a "government-wide entity" basis, using accrual accounting. This is known as the Statement of Net Assets.

Budget
A plan of proposed expenditures and the means of financing them with respect to a specific period of time.

Cash
Currency, checks, postal and express money orders, and banker's drafts on deposit.

Capital Assets

Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets historically were also referred to as fixed assets, but that terminology is no longer used in practice.

Cash Basis of Accounting

Basis of accounting that recognizes transactions or events when related cash amounts are received or disbursed.

Chart of Accounts

A numeral listing of all assets, liability, fund balance/equity, revenue and expenditure accounts used to record accounting transactions.

Committed

Includes amounts that are committed for specific purposes by formal action of the Commission. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the Commission removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.

Compensated Absences

A liability for future personal, major medical and other leave benefits accrued by an employee and for which the employee may be paid upon termination of employment.

Contingency

A provision to cover an unexpected expense, future event or circumstance that is possible but cannot be predicted with complete certainty.

Contract

A legally binding agreement between two parties for the provision of goods or services.

Electronic Funds Transfer (EFT)

EFT is a system of transferring money from one bank account directly to another without paper money changing hands.

Encumbrances

Contractual obligations to make future payments. Encumbrances represent the estimated amount of future expenditures that will result when, for example, purchase orders are placed and contracts are signed. Since the amount of an appropriation cannot be legally exceeded, the placing of purchase orders and the signing of contracts are critical events in controlling the Commissions' funds. The financial resources of a fund are said to be encumbered when a transaction is executed that requires performance on the part of another party before the Commission becomes liable to perform its part of the transaction (make payment to the entity).

Evaluation Costs

Costs incurred by the Commission in the evaluation of funded programs, in accordance with their accountability framework, and data collection and evaluation for required reporting to state and local stakeholders.

Expenditures

Take place when a vendor or contractor performs on a contract or a purchase order, as well as when goods or services are received. An expenditure and a corresponding liability or cash disbursement will be recorded at the time goods or services are received or at the time funds are granted to an authorized recipient.

Fiduciary Funds

Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the Commission's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Fixed Assets

Assets of a long-term nature which are intended to be held or used. These include land, buildings, improvements, machinery, furniture and other equipment.

Fund Balance

The value of the funds available to the Commission. Fund balance is the difference between fund assets and fund liabilities of governmental funds.

GAAP

Abbreviation for "Generally Accepted Accounting Principles," which are conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The Governmental Accounting Standards Board (GASB) is responsible for setting GAAP for state and local governments.

Governmental Accounting Standards Board (GASB)

Ultimate authoritative accounting and financial reporting stand-setting body for state and local governments. The GASB was established in June 1984.

Governmental Accounting

The activity of analyzing, recording, summarizing, reporting and interpreting the financial transactions of governmental units and agencies.

Governmental Funds

Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

Internal Control

The methods and measures adopted within a fund or agency to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Long-term Financial Plan

A plan that assesses the long-term financial implications of current and proposed policies, programs, and assumptions and develops appropriate strategies to achieve its goals. A financial plan illustrates the likely financial outcomes of particular courses of actions or factors affecting the environment in which the government operates. A financial plan is not a forecast of what is certain to happen but rather a device to highlight significant issues or problems that must be addressed if goals are to be achieved.

Modified Accrual Basis of Accounting

The basis of accounting adapted to government fund accounting where revenues are recognized when received in cash or when resources are considered available (except for material or available revenues which shall be accrued to reflect properly the taxes levied and the revenues earned – not applicable to county Commissions). Expenditures are recognized when the related fund liability is incurred.

Non-Spendable

Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

Program Costs
Costs incurred by the Commission readily assignable to a program, grantee, or service provider (other than post-contract program evaluation activities) and/or in the execution of direct service provision.

Progress Payments
Partial payments related to steps or phases toward the completion of the required services under a contract.

Progress Reports
A report on contract performance or fiscal compliance made at specific interval during the term of a contract.

Proprietary Funds
Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

Purchase Order
A document that authorizes the delivery of specified merchandise or the rendering of certain services.

Reserve Fund Balance
The portion of a government funds' balance that is not available for appropriation (i.e., not available for the following period's budget). Legal restrictions or even third-party entities may impose a limitation on the use of funds or resources that may not be available for spending.

Restricted
Reflects the same definition as restricted net assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds, debt service funds, and cafeteria and center program funds funded with federal program dollars.

Statement of Activities
A government-wide presentation of its activities by function or program using the accrual basis of accounting. The statement presents revenues, expenditures, and a reconciliation of net assets.

Statement of Net Assets
The government-wide presentation of assets, liabilities and equity of governmental activities which includes all funds. It is the government-wide balance sheet. The Statement of Net Assets is presented on an accrual basis.

Statute
A law enacted by the legislature.

Unassigned
Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated" unless formally committed or assigned.