



# Accounting Policies & Procedures Manual

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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 (State 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."

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.

### 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, referred to as a trust account. 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, in 2012, as a Qualified Active Low Income Community Business

(QALICB) to take advantage of a New Markets Tax Credit financing structure used to build a facility within a low-income community in Fresno County as the Commission was not eligible to be the QALICB. The 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 component unit of the Commission, the 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 F5FCs financial statements using the blended presentation method because it provides services exclusively or almost exclusively to the Commission and a financial benefit relationship exists between the Commission and the component unit.

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

## 2. ACCOUNTING POLICIES

Accounting policies provide high-level guidance and focus attention on critical executive responsibilities associated with accounting. The 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 Strategic Plan in effect for the fiscal year
- 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 | 7. Program Accounting   |
| 2. Fund Accounting                          | 8. Cost Allocation      |
| 3. Modified Accrual Basis of Accounting     | 9. Budgetary Accounting |
| 4. Account Classification                   | 10. 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 parties 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

The 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 cash is paid or received.

### 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. Assets, liability, and fund balance accounts reflect the financial resources of the Commission, and separately LFC, 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 goal.** A program may have more than one revenue source and may require expenses to be allocated to multiple accounts and/or funds.

Because of the Commission's legal mandate for outcome-based accountability and the program evaluation requirements associated with 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, focus areas, and funding source. The Commission has also employed a data reporting system that provides result area-based expenses attached to programmatic reporting.

#### 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 defined administrative costs within this Policy. 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 to properly compute expenses. The time study shows the percentage of each staff position's time that is spent on each Commission program, evaluation, and internal administrative activities.

#### 7. Budgetary Accounting

The Commission's 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 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 is completed within a contract term. 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. Regular 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 by the California State Children and Families Commission on a monthly basis, based on Proposition 10 funds collected by the State of California. The revenue allocated and transferred to the Commission is based on the percentage of Fresno County live births compared 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 releases a Monthly Distribution of Tax Revenues which reflects funds distributed to counties for the month. 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 including but not limited to the State Commission, other state departments, local or federal government agencies, and private foundations. These funds may be restricted in how they are used and require special accounting information to track and report periodically. The acceptance of these revenues must have Commission approval and a formal grant, funding/lease agreement, or written use description including a budget or plan establishing restrictions and parameters of the use of the funds.

## B. Cash

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

### 1. Commission Trust Account

The Commission Trust Account (trust account), occasionally referred to as the Children and Families Trust Fund, is maintained by the Fresno County Auditor-Controller/Treasurer-Tax (FCACTT) 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 Commission's cash 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.

Commission management will make a transfer request to the FCACTT in writing, on the Commission's letterhead, based upon projected future cash flow requirements. 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 or wire transfer only to the Commission's program checking account.

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.

The Commission will transfer sufficient monies to the operating account as needed for agency operations. There is no limit on the number or amounts of operations transfers within a 30-day period.

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' signatures, designated by the Commission, on payments/checks over \$500.00.

Account signers are the Executive Director and a 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.

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

The program checking account will segregate the funds necessary for financing current activity of programs/grants. The account requires two approvals on the account and will be as follows:

Authorized individuals shall be the Executive Director and a designee. Wire transfers must be authorized, in writing, by the Executive Director or designee and two signatures are required for checks over \$500.00.

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 Account on an as-needed basis as outlined in section B-1 of this Policy. A staff designee verifies, within the accounts receivable procedures, funds have been deposited to the appropriate bank account.

4. Petty Cash Fund

The Commission maintains a petty cash fund for minor business expenses that is replenished as needed in an amount not to exceed \$200.00. A custodian is assigned the responsibility of maintaining this fund. Reconciliation by a designee, independent of the custodian function, is performed twice a year, at minimum. 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 designee 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 designee for each expense by applying a debit to the expense account and a credit to the petty cash account.
8. Receipts and vouchers are scanned and attached to the journal entry batch and filed in the bank reconciliation/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 accounts receivable process is as follows:

1. Services and/or goods will be billed by a staff 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/ Funded Partner if payment is not received by the due date listed on the invoice.
5. When the vendor/ Funded Partner remits payment on the invoice, the payment will be recorded in the accounting system by a staff designee and submitted to the Business Director or a separate designee for deposit.
6. Once the deposit is made, the staff designee receives the bank 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 posts the receivable to the General Ledger.

#### 6. Investments

The Commission has developed an Investment Policy that is updated annually, as needed, 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 and investment accounts. The following describes the procedures related to the bank reconciliation process:

- a. The bank statement is received via email directly to the Early Childhood Initiatives Director, who is separate from the payment process, who reviews and forwards to the Business Director or designee.
- b. Staff prepare monthly journal entries based on the bank statement. All journal entries must be accompanied with proper supporting documentation and filed appropriately. The Business Director or Business Manager then prepares the bank reconciliation and, upon completion, forwards it to the Executive Director.
- c. The Executive Director initials the bank reconciliation verifying the review and returns the bank reconciliation to the Business Director.

### **D. Payment Approval Authorizations**

The Executive Director is authorized to approve payments of \$10,000.00 or less as outlined in the Commission's Procurement Policies and Procedures Manual. Payments for non-recurring 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 and the Early Childhood Initiatives Director, who do not have access to the Commission's bank accounts, and the Commission's Vice-Chair and/or the Commission's Secretary/Treasurer are the payment authorizers. In the absence of the Executive Director, the Commission's Vice-Chair acts 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.

The Executive Director or designee may not approve authorizations payable to their supervisor; Commission Chair approval is required.

### **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**

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 (Federal Deposit Insurance Corporation) 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 individual capital assets, having a value of \$5,000.00 or more and a useful life of one year or more, are monitored through inventory controls
- Commission approval of all capital asset purchases, regardless of dollar amount, 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 are made
- 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 regularly reviewed for updates by Commission staff.

## H. Purchasing/Receiving

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

The Commission has developed the Procurement Policy and Procedures Manual which is 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, Conflict of Interest Policy, and this 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, forums, 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 Manual.
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

Refer to the Commission's adopted Community Event Sponsorship Guidelines for parameters on the activity/event-related support to community partners.

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 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 "promote 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 shall 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**

Electronic Funds Transfer (EFT) is a system of transferring money from one bank account directly to another without paper money changing hands.

Automated Clearing House (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 utilizes EFT – ACH payments in lieu of issuing checks and mailing remittance. A check will be issued if no method of EFT exists, upon the Executive Director’s approval.

The Commission will make every effort to 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 recurring 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 and Business Director to provide a level of purchasing flexibility to conduct Commission business. Executive 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, internal procedures, 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 and Business Directors will work with staff to ensure procedures are properly followed. Once the monthly credit card statement is reconciled, the statement and all purchases must be reviewed and approved for payment by the designee.

Use of the business card for personal reasons is not permissible at any time, even with the intention of seeking reimbursement.

If the Executive or Business Directors terminates employment with the Commission, the credit card must be surrendered to the Commission immediately for cancellation.

**L. Accounts Payable/Cash Disbursements**

Invoices received for goods and services are approved by the Executive Director or designee and forwarded 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 and F5FC staff reviews the invoices and approves that the goods have been received or/and services have been performed. Then the invoice is forwarded for processing.
2. The Business or Operations Manager reviews the invoice for accuracy and matches the invoice to the supporting documentation and authorization to pay information. The Business or Operations Manager enters the invoice into the accounting system and prepares the Open Invoice Report and forwards the report to the Business Manager/Director.
3. The Business Manager/Director 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.
4. The Executive Director or designee reviews the Report and approves payments in the Commission’s accounting system. A secondary approval is completed by the Early Childhood Initiatives Director or designee. The Executive Director and the secondary approval designee email the Business Manager/Director documenting approval of invoices in the accounting system. The reviews do not need to occur in a particular order, so long as both reviews and approvals are documented as stated above.
5. Upon receiving approval from the Executive Director and designee, the Business Manager/Director releases all payments and saves payment receipts/confirmation reports.

	<b>EFT/ACH and Wire Transfers</b>	<b>Online (Bank Draft)</b>	<b>Credit Card</b>	<b>Check</b>
6.	The Business Director/ Manager creates and exports ACH files from the accounting database system in the proper ACH format. The ACH file is imported and transmitted directly to the bank.	The Business Director/ Manager processes payment online.	The Business Director/ Manager processes payment over the phone or online.	The Business Director/ Manager prints checks and forwards to Executive Director and designee for signatures, tracking the handling of checks via the check tracking stamp.
7.	Transaction is confirmed with the bank and the ACH Batch Summary Report is saved in the payments folder.	Receipt is retained.	Receipt is retained.	The Business Director/Manager prepares each check for mailing utilizing the check tracking stamp.
8.	Payment notifications are emailed to vendors.	Paid invoices are filed.	Paid invoices are filed.	Paid invoices, check stubs, and check tracking documentation are filed.



## 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. Time is entered into the payroll system and payroll is prepared for review by the Business Director or designee.
2. The Executive Director or designee reviews, approves, and signs the draft payroll register/ journal.
3. The Business Director or designee processes and submits payroll.
4. Paid time off (PTO) accrual is then reconciled for accuracy by the Operations or Business Manager. Pay stubs are delivered by the payroll service or electronically and payroll direct deposit is issued every other Friday. If check stubs are delivered physically, a staff member, who is independent of the preparation and authorization of the payroll submission, distributes payroll remittances.
5. Payroll reports prepared by the payroll service are reviewed by the Business Manager, not responsible for entering/submitting payroll, for any unusual items. If any unusual items occur, they should be remedied with the staff submitter or otherwise reported to the Executive Director.
6. The Business Manager prepares and posts journal entries for all payroll liabilities and expenses to be reflected in the accounting system.

Payroll increases follow the established Compensation Policy and are 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. The staff member who maintains personnel files will place the original payroll increase memos in personnel files.

## N. Salaries and Benefits Policy

The Commission has developed, and appropriately considered at a public meeting, a Compensation Policy, as amended, to state procedures and policies for establishing salaries. Details regarding employee benefits are outlined in the Commission's Employee Handbook.

## O. 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. Staff can reference additional details found within the financial statements included in the annual audit report.

## P. Accounting for Leases

Leases entered into by the Commission are accounted for pursuant to Governmental Accounting Standards Board, GASB, standards. A lease is defined as a contract that conveys the control of the right to use another entity's nonfinancial asset (the underlying asset) as specific in the contract for a period of time in an exchange or exchange-like transaction. Commission staff shall refer to [GASB standards and guidance](#) when accounting for leases.

#### **Q. 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 or designee 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 designee shall sign off on the travel and then report to the Commission at the next regularly scheduled meeting. Further travel-related expense procedures can be found in the Commission's Travel Policy and Procedures Manual that is maintained and updated as needed by Commission staff.

#### **R. 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 leases, claims and judgments, personal and major medical leave, and pension costs.

General fixed assets and intangible assets acquired via lease agreements shall be recorded in accordance with GAAP and GASB standards and guidance.

#### **S. 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. Monthly journal entries are prepared to record the monthly activity.

Staff prepares adjusting and monthly journal entries within the accounting system on an as needed basis. Journal entry supporting documentation is filed/saved 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 the Procurement Policies and Procedures Manual based on best practices in public procurement which clearly identifies and describes the different methods of the administrative and programmatic procurement and contracting process. The Manual is reviewed and updated annually, if needed, by the Executive Director and/or the Commission. Details can be found within the aforementioned 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 contingent upon the Funded Partner's performance in meeting contractual requirements and is based on the nature of each project.

A single cash advance usually consists of 25% of the annual contract amount and may not exceed 50% of the agreed upon annual contract amount. Once 50% of the annual contract amount has been advanced, additional funds will not be released until 75 percent of the previously released funds have been expended and reported. The final quarter advance of the fiscal year will only be two-thirds of the quarterly advance amount. The last month of each fiscal year is on a reimbursement basis. Based on the service or agreement type, Commission staff has the authority to set the frequency and amount of the advance.

If, at the end of the contract period (i.e. fiscal year), the Funded Partner has not utilized any portion of the funds advanced, the Funded Partner 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. Other details on advances are outlined in the Commission's Funded Partner Manual.

### 2. Progress Payments

Funded Partners formally request reimbursement for services by submitting an invoice via the Commission's online programmatic database, unless advised otherwise. Funded Partners are required to upload expense details, which produces a 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 data and fiscal reports. The Commission staff contract managers verify satisfactory progress has been made toward project objectives, as determined by the Commission's performance monitoring and reporting system and verify that all reported expenditures are allowable under the terms of the contract.

Contractor reimbursement process as follows:

- a. A program progress report, as defined in the contract (which could be monthly, quarterly, or semi-annually), is required to be submitted by each Funded Partner by certain dates specified in the contract.
- b. The request for reimbursement (financial report) documents the Funded Partner's outlays for the period, by budget line item, and includes any disbursement amounts received and any reimbursements due (documentation is required by each Funded Partner to support the expenditures referenced on the financial status report).

- c. The contract manager reviews the Funded Partner's request for reimbursement (financial report) to verify the accuracy of the report.
- d. The contract manager:
  1. Verifies that satisfactory progress has been made toward project objectives.
  2. Approves the request for reimbursement.
  3. Prints/saves the approved financial report and the reimbursement summary for review.
- e. The approved financial report is then forwarded through the process outlined in the Accounts Payable/Cash Disbursements section of this Manual.

### **C. Budget Modifications**

Funded Partner budget modifications are required when any main line item (Personnel, Operating Expenses, Professional Services, Evaluation, Capital, Equipment, and Indirect) is anticipated to exceed 10% of the original budget. 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 prior to the submission deadline (Deadlines may be found 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 Funded Partner

Budget modifications are reviewed by the F5FC contract manager 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 the original approved contract amount. 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).

### **E. Contract Management**

1. **Contract Term.** Upon a contract's renewal period, if staff is unsatisfied with performance, staff will contact the contractor and schedule a review of the matter which will be presented to the appropriate committee. Otherwise, the Commission delegates the Executive Director to renew agreements within the originally approved term, including its approved renewal period, and within the approved contract amount without additional Commission approval.
2. **No Cost-Extension.** In the event a contract requires additional time to meet the agreed upon intent of the funding opportunity, the Executive Director may extend the agreement term

without additional Commission approval so long as staff is satisfied with performance and no additional dollars are added to the originally approved contract amount.

Process to execute contracts including signatures by Legal Counsel and Commission Chair will still be followed, as required based on contract amounts.

## 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 at regular Commission meetings and on an annual basis within the audit report. Specifically, management will take steps 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 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 the 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. The policy is in compliance as follows:

- The Conflict of Interest Policy was adopted in a public meeting (minutes of the meeting are available for auditors) and available to 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
- 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 staff prepare a 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 acceptance at the Commission meeting.

### **C. Administrative Costs**

Under the First 5 Fresno County (F5FC) Strategic Plan, the role of Commission staff is broader than just that of contract development and oversight and includes support of programmatic services and running internal programs. The definition of administrative costs simplifies program administration in the way program services will be delivered under the Commission's 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 of which the Commission allocates costs.

- 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 Funded Partner (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. Organizing Procedures and Accountability Mechanisms

To ensure accountability, Commission staff abide 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 on 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. Nonspendable Fund Balance

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's proportionate 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 childcare 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 must 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. Assigned Fund Balance

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 funds are outlined in Section E & F 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. Unassigned Fund Balance

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. Definition and Purpose of Contingency Fund

In an effort to be proactive, the Commission has set 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 Commission-owned Lighthouse for Children (LFC) facility, 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. Contingency Fund Target Level

The Contingency Fund shall remain at \$1,500,000 (one million five hundred thousand 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. Commission staff will review the fund amount at minimum every two years. 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. Conditions for Use of Contingency Fund

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
<ul style="list-style-type: none"> <li>• State and local legislation affecting revenue or requiring compliance</li> <li>• Lawsuits against F5FC or LFC</li> <li>• Unexpected default or a decline in State and local revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Unanticipated major repairs or replacement of an asset used in the daily operations of the building or service to the staff</li> <li>• Acts of terrorism against the building or other infrastructure causing a financial hardship</li> <li>• Natural disasters</li> <li>• Expenditures arising from a claim or judgment that is otherwise not covered by insurance</li> </ul>

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 Contingency Fund as they are considered relevant to the Strategic Reserve Fund.

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. Authority of Contingency Fund Use

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. Contingency Fund Replenishment

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. Strategic Reserve Fund**

### 1. Definition and Purpose of Strategic Reserve Fund

The Commission sets aside a fund to guard against any future immediate and unanticipated Proposition 10 revenue deficits or shortfalls. Funds are set aside to allow for a quicker and more effective recovery from programmatic setbacks. The probability of a significant business disruption is small; however, having a Strategic Reserve Fund may save the Commission from potential failure to recover in the event that a deficit materializes.

### 2. Strategic Reserve Fund Target Level

The Strategic Reserve Fund shall remain at \$2,000,000 (two million dollars) as approved by the Commission. 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. Conditions and Authority of Strategic Reserve Fund Use

Use of funds will be determined by the Commission based on circumstance and level of severity. The Strategic Reserve Fund shall be reported in the Committed Fund Balance in the agency's budget at the beginning of each fiscal year.

If a need arises for the potential drawing of funds allocated to the Strategic Reserve Fund, Commission staff shall present the request to the Commission for consideration and approval at a regularly scheduled meeting.

The process of appropriating the Strategic Reserve Fund will adhere to the guidelines within this manual to minimize risk while striving to safeguard the Commission's liabilities.

### 4. Strategic Reserve Fund Replenishment

In the event the Strategic Reserve 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 Strategic Reserve Fund in the subsequent fiscal years until the target level is met.

## **G. Record Retention**

Financial records are required to be retained for 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 Funded Partner (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.