

SACRAMENTO GROUNDWATER AUTHORITY POLICIES AND PROCEDURES MANUAL

Policy Type : Fiscal Management
Policy Title : Financial Commitment and Assignment Fund
Policy : Policy
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Financial Commitment and Assignment Fund Policy

The policy establishes a financial commitment fund to mitigate current and future risks due to revenue shortfalls and unanticipated expenditures. Commitment funds are discretionary funds committed by the Sacramento Groundwater Authority (SGA) Board of Directors to accomplish financial obligations of the organization. Commitment fund balances are a crucial consideration in long-term financial planning. The adequacy of the target commitment balance and/or annual contributions will be reviewed annually during the SGA budgeting process and may be revised accordingly as necessary. The following commitment category is established:

I. Operating Fund:

- A. Purpose: To ensure cash resources are available to fund daily administration and operations for SGA member services. Additionally, this fund may provide resources for the matching fund component for partnership funding opportunities not previously anticipated during the annual budget process.
- B. Use of Funds: These funds will be used to pay for expenses according to budget and spending authority. This fund may also be used as the matching fund component for partnership opportunities with other local, state or federal organizations that were not anticipated during the budget process. Additionally, this fund will be used to cover the timing lag of invoicing for dues versus receipts of dues. Funds in excess of the maximum target balance may be used to offset future member dues. This fund will be reviewed on an annual basis to determine the fund's adequacy.
- C. Rationale: SGA has a fiduciary responsibility to maintain adequate cash flow to meet its operating expenses in a timely manner. Additionally, matching funds are sometimes needed on short notice to take advantage of state and/or federal partnership funding opportunities. Government Code Section 53646(b) (3)

suggests that an agency should have sufficient cash flow to meet the next six months of budgeted expenses. The next six months of projected cash revenues can be included as a source of cash flow to satisfy this requirement. The Government Finance Officers Association recommends **a minimum** operating fund of two months of regular operating expenses or regular operating revenues for governmental organizations.

- D. Target Balance: A minimum target balance will be 33% or four months of cash to fund operating expenses. A maximum target balance will be approximately 50% of annual operating expenses (approximately six months of operating expenses). This fund will reflect excess funds resulting from additional unanticipated revenues or operating expense savings.
- E. Contributions: Annual contributions will vary, depending upon other commitments and current year expense requirements. Initial funding of this designation in fiscal year 2004 – 2005 will be from the excess carryover from the fiscal year 2003 – 2004.

From time to time, the Board may also assign financial resources for a specific purpose. For example, a specific project started in one fiscal year which originally was anticipated to finish in one fiscal cycle, but will not be completed until the following fiscal year, may require assigning specific financial resources to complete the project.

Assignment fund balances address short-term financial projects or requirements. These assignment fund balances are designed to be expended as the project is completed.