

TITLE: GENERAL FUND BALANCE

PURPOSE: To provide for the financial viability and stability of the Center by maintaining adequate reserves to cover unforeseen emergencies or carry out the strategic objectives of the Board of Trustees. (Key words: e.g. Fund Balance, Ratios, and Financial Review)

POLICY STATEMENT:

The Board of Trustees acknowledge that a General Fund Balance, which is₁ excess funds after expenses, should be maintained for the financial stability of the Center. General Fund Balances will be placed in one of three categories: Reserved, Designated, and Unreserved Undesignated. The Board Finance Committee will recommend the allocations between these three categories, after Staff has established a Designated Fund Balance in the amount of funds necessary to insure that the Center is in compliance with the financial ratios established by The Department of State Health Services (DSHS) and the Department of Aging and Disability Services (DADS).

POLICY ELABORATION:

I. DEFINITIONS:

- A. "Reserved" is defined as that portion of the fund balance, which is contractually mandated from an outside revenue source.
- B. "Unreserved, designated" is defined as that portion of the fund balance determined by the Finance Committee to be used for specific purposes.
- C. "Unreserved, undesignated" is defined as that portion of the fund balance that is not "reserved" or "designated".

D. "Financial Ratios" are defined as:

1. Current Ratio – a comparison of current assets to current liabilities (current means expended within one year).
2. Quick Ratio – a comparison of current assets, which can be "quickly" turned into cash to pay for current liabilities.
3. Acid Test Ratio – a comparison of cash and cash equivalents to current liabilities.
4. Days of Operations without Further Funding – the length of time that the Center can operate using only cash.
5. Long Term Debt to Fund Balance – the amount of long-term debt CHCS maintains for every dollar of fund balance.
6. Debt Service Coverage Ratio – how many times the Center can pay the current portion of its long-term debt with excess revenues.
7. Unreserved Fund Balance to Total Expenditures – the amount of time that the Center can operate using only its unreserved fund balance.
8. Total Profit Margin – assesses the percentage of revenue retained / (over-expended) because of the difference between revenues and expenditures

9. Salary and Fringe Benefits as a Percentage of Operating Expenses – the percentage of total expenditures consumed by personnel costs.

II. MANAGEMENT OF THE RATIOS AND THE GENERAL FUND BALANCE:

- A. The Chief Financial Officer and other appropriate staff shall exercise due diligence in reviewing the ratios and general fund balance. On a monthly basis, the Chief Financial Officer shall report to the Executive Director the status of the ratios and any recommended changes to the General Fund Balance designation. (“General Fund Balance Report”)
- B. The Executive Director exercise due diligence in reviewing the General Fund Balance Report. The Executive Director shall benchmark the Center’s ratios and general fund balance against other Texas MHMR centers and will identify all ratios to the Finance Committee which are not performing in the upper quartile when measured against such MHMR centers and provide recommended changes to the fund balance designation.
- C. The Finance Committee will forward the General Fund Balance Report to the Board of Trustees, at their regular scheduled meeting, with their comments on the status of the ratios and any recommended changes in the designation of the fund balance. The report shall include appropriate benchmarks against other Texas MHMR centers
- D. The Board of Trustees will consider the recommendations of the Finance Committee and determine the designation of the General Fund Balance. The Board of Trustees shall make the General Fund Balance Report a part of each regular Board meeting’s financial review.

Policy No. 3.5
Page Number 4 of 4
Effective Date: Nov. 18, 2004

REFERENCES/BIBLIOGRAPHY:

The Department of State Health Services (DSHS) and the Department of Aging and Disability Services (DADS) Performance Contract

OFFICE OF PRIMARY RESPONSIBILITY: Chief Financial Officer