

Management Directive

CHAPTER NO.: 700 – Audits and Accounting

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SUBJECT: 780 – Fund Balance Policy

DATE: July 11, 2017
Revised:

781 - Purpose

To create a fund balance policy as outlined by the Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The purpose of GASB 54 is to improve the usefulness of fund balance information and to help eliminate confusion as to its meaning. GASB 54 created fund balance classifications that are based on a hierarchy of constraints that impose spending and use restraints on fund balance amounts.

According to the GASB 54 fund balance model, a fund balance policy should consist of a minimum fund balance level, definitions of fund balance categories, and a fund balance spending order. Additionally, the fund balance policy should identify what governing body has the highest level of decision making authority, what body has the authority for setting committed fund balance levels and what body or officer has been delegated the authority to assign fund balance.

The purpose of the following fund balance policy is to establish goals and to provide guidance concerning the desired level of fund balance maintained by the County to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

782 - Minimum Fund Balance

The County's goal is to reach a total fund balance level in the General Fund reserve of no less than one month of regular operating revenues which will be committed by the Board of Supervisors (BOS) through the Budget process or by resolution. Prior to the use of this fund for such purposes, the County Administrative Officer (CAO) or the Auditor-Controller/Treasurer-Tax Collector (ACTTC) will prepare and present a report to the BOS addressing the requirements for use of the funds and the amount of funds requested. The general reserve may only be established, canceled, increased, or decreased at the time of adopting the budget as provided in (GC) section 29088 and may be increased any time during the year by a four-fifths vote of the BOS. The BOS shall make a decision on use of the funds only by ordinance or resolution.

782.1 General Reserves uses

- a. After adopting a resolution stating the facts constituting an emergency by a four-fifths vote of the board at any regular or special meeting, the board may appropriate and make the expenditure necessary to meet an emergency in any of the following cases:
 - i. Upon the happening of an emergency caused by war, fire, failure or the imminent failure of a water system or supply, flood, explosion, storm, earthquake, epidemic, riot, or insurrection.
 - ii. For the immediate preservation of order or of public health.
 - iii. For the restoration to a condition of usefulness of any public property, the usefulness of which has been destroyed by accident.
 - iv. For the relief of a stricken community overtaken by calamity.
 - v. For the settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of any public utilities owned by the county.
 - vi. To meet mandatory expenditures required by law.

Fund balance may come from a portion of the unassigned carryover from prior year, from an increase in the receipt of revenues over expenditures from the current year, from non-recurring revenues or some other means determined by the Board of Supervisors. An annual review for the sufficiency of the General Fund minimum fund balance by the ACTTC or the CAO should be performed and recommended steps should be taken to comply with the targeted goal.

783 - Definitions

Fund balance is the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources in a governmental fund. The definitions of fund balance are as follows:

- 783.1 Nonspendable fund balance – includes amounts that cannot be spent because they are either (a) not in a spendable form (such as inventories and long-term notes receivable) or (b) legally or contractually required to be maintained intact (such as the corpus of an endowment fund).
- 783.2 Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- 783.3 Committed fund balance – includes amounts that can only be used for the specific purposes determined by a formal action of the County's highest level of decision-making authority (i.e. the Board of Supervisors). Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally.
- 783.4 Assigned fund balance – includes amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority to assign.
- 783.5 Unassigned fund balance – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned

amounts are available for any legal purpose. These amounts are reported only in the General Fund. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

784 - Spending Order

If expenditures meet the spending criteria, the County will spend the most restricted dollars before less restricted in the following order:

- 784.1 Restricted
- 784.2 Committed
- 784.3 Assigned
- 784.4 Unassigned

Departments are required to transfer restricted funds at least quarterly to the fund in which the qualified expenditures have been incurred. The CAO Analysts will work with the Auditor-Controller's office to ensure departments are bringing in their restricted funds.

785 - Authority to Commit and Assign Fund Balance

The committed and assigned fund balances represents resources set aside by the County to fund specific purposes.

The County's highest level of decision-making authority should be the BOS. The BOS is required to commit available fund balance for specific purposes by a 4/5 vote.

The BOS delegates the authority to assign fund balance to the CAO. Assignments may be done at year-end, only by a written request with stated specific purposes (must be more specific than the general use of the funds) by the CAO to the ACTTC. The written request for assignment shall be presented to the ACTTC no later than the 15th of June, and the appropriateness of the request are subject to review and approval by the ACTTC to be assigned. The total dollar assignment can be made after June 30th, once the specific total is known.

The following table illustrates the recommended authorities for approval for each fund balance category.

Fund Balance Category	BOS Approval Required	CAO Approval Required
Non-spendable	No	No
Restricted	No	No
Committed	Yes	No
Assigned	No	Yes
Unassigned	No	No

786 - Encumbrances

Encumbered amounts for which resources have already been restricted, committed or assigned should not result in a separate display of the encumbered amounts within the classifications. Those encumbered amounts that have not been previously classified should not be classified as unassigned but rather as committed or assigned.