

**FUND BALANCE POLICY
FOR FINANCIAL
STATEMENT REPORTING**

<i>POLICY NUMBER:</i> <u>212</u>
<i>DATE ADOPTED:</i> <u>June 28, 2011</u>
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PURPOSE

To outline the policies and procedures adopted by the Board of Supervisors regarding provisions for identifying and classifying fund balances in accordance with Governmental Accounting Standards Board Statement No. 54. This policy establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

BACKGROUND

Fund Balances in the General Fund and non-General Fund budgetary units are comprised of classifications and balances of monies set aside for a specific purpose, or funds that are unrestricted and available for use as circumstances dictate, including being used each year to balance the budget.

Currently, the fund balance is divided into three basic classifications for accounting and tracking purposes: designations, reserves, and unreserved / undesignated. The unreserved / undesignated fund balance is the official title for what has previously been described as “fund balance” in the County of Colusa’s budget reports and discussions and is available for those uses the Board of Supervisors deems necessary. Reserves are legally restricted funds established for a future specific use and are not available for general appropriations. Designations have been set aside by the Board of Supervisors for a specific purpose.

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, to become effective for financial statements with periods beginning after June 15, 2010. Statement No. 54 is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. Basically, a hierarchy has been established clarifying the constraints that govern how a government entity can use amounts reported as fund balance. Statement No. 54 establishes the following five new fund balance classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

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CLASSIFICATION TYPES

A Nonspendable Fund Balance includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact (such as inventories, prepaid amounts).

A Restricted Fund Balance includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers (such as creditors, grant providers, or contributors) or through enabling legislation.

A Committed Fund Balance includes amounts that can be used only for the specific purpose determined by the Board of Supervisors and imposed by formal action (resolution, ordinance). Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action that imposed the constraint originally. The formal action must occur prior to the end of the reporting period. The amount which will be subject to the constraint may be determined in the subsequent period.

An Assigned Fund Balance is comprised of amounts intended to be used by the government entity for specific purposes that are neither restricted nor committed. Intent can be expressed by the Board of Supervisors or by an official or body (a budget or finance committee) to which the Board delegates the authority. Assigned fund balance can be used to eliminate a projected budgetary deficit in the subsequent year's budget. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.

An Unassigned Fund Balance is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts in the General Fund are technically available for any allowable government purpose. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

POLICY / PROCEDURES

Classification of Fund Balances

1. The Auditor-Controller is authorized to evaluate existing fund balance classifications (designations, reserves and unreserved / undesignated) and reclassify them in accordance with GASB Statement No. 54, for implementation effective the fiscal year ended June 30, 2011.

POLICY OF THE COLUSA COUNTY BOARD OF SUPERVISORS

*HISTORY
First Adopted: 6/28/11*

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2. For funds that are determined to fall within the “Committed Fund Balance” classification, the Board of Supervisors shall adopt a resolution before fiscal year-end to establish or re-establish the specified purpose for the funds. Committed Fund Balances must be re-established annually before fiscal year-end.

GASB 54 Classifications	Specifications	Examples
Nonspendable Fund Balance	Not in spendable form; legally or contractually required to be maintained intact	Inventories Prepaid Amounts Advances to Other Funds
Restricted Fund Balance	Constrained for a specific purpose, changed only with consent of outside party; legally enforceable	Grants Bond Proceeds Highway User Tax Prop 36 Mental Health Building Permit Fees Development Impact Fees
Committed Fund Balance	Established by Board of Supervisors for specified purpose (by resolution); must be established before fiscal year-end; requires Board action to appropriate; commitment survives budget	General Reserve Accumulated Capital Outlay
Assigned Fund Balance	Established by governing body or delegated representative; less formal (minutes, memo, purchase order, budget document); may be established after fiscal year-end; may expire at any time by any action	General Fund Transfers Out Capital Projects Purchase Orders Encumbrances Delegated authority to amend budgets, contracts or purchase orders
Unassigned Fund Balance	Residual fund balance after deducting nonspendable, restricted, committed and assigned fund balance	Only the General Fund can report positive unassigned fund balance

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Funding Flow Assumptions

1. This policy considers restricted amounts to be spent before unrestricted fund balance when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, and unassigned) amounts are available.
2. Similarly, within unrestricted fund balance, committed, assigned, and then unassigned amounts in that order will be spent when an expenditure is incurred for a purpose for which amounts in any of those unrestricted fund balance classifications could be used.