

COUNTY OF SHASTA		Number
ADMINISTRATIVE MANUAL		2-104
SECTION:	Finance and Budget	Fund Balance Policy for Financial Statement Reporting
INITIAL ISSUE DATE:	March 1, 2011	
LATEST REVISION DATE:	July 13, 2012	
PAGE NO:	Page 1 of 5	

PURPOSE

To outline the policies and procedures adopted by the Board of Supervisors regarding provisions for identifying and classifying fund balances in accordance with Government Accounting Standards Board Statement 54.

BACKGROUND

Government entities should maintain a prudent level of financial resources to protect against reducing service levels or incurring debt because of temporary revenue shortfalls or unpredicted one-time expenditures. To this end, the Board adopted *Administrative Policy 2-103, Budgetary Reserves* on December 4, 2007. In addition to the General Reserve, 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 Shasta’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 appropriation. Designations have been set aside by the Board of Supervisors for a specific purpose.

The Government 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 54). Statement 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 54 establishes the following five new fund balance classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

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 or prepaid amounts).

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

COUNTY OF SHASTA		Number
ADMINISTRATIVE MANUAL		2-104
SECTION:	Finance and Budget	Fund Balance Policy for Financial Statement Reporting
INITIAL ISSUE DATE:	March 1, 2011	
LATEST REVISION DATE:	July 13, 2012	
PAGE NO:	Page 2 of 5	

A Committed Fund Balance includes amounts that can be used only for the specific purpose determined by the Board of Supervisors. 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 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.

An Unassigned Fund Balance is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

POLICY/PROCEDURE

Fund Balances

1. To maintain the County's credit rating and meet seasonal cash flow shortfalls, economic downturns or a local disaster, the budget shall provide for an anticipated balance for general government and enterprise fund types.
2. Fund balance will be maintained to provide the County with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
3. The upper goal for the unreserved/undesignated General Fund balance is 50 percent, but not less than 20 percent of the average final budgeted General Fund appropriations for the preceding three fiscal years. Effective the fiscal year ending June 30, 2011, this category will be identified as Unassigned Fund Balance.
4. A designation for debt service that is equal to one year of debt service payments will be maintained. Effective the fiscal year ending June 30, 2011, this category will be in the Assigned Fund Balance.

COUNTY OF SHASTA		Number
ADMINISTRATIVE MANUAL		2-104
SECTION:	Finance and Budget	Fund Balance Policy for Financial Statement Reporting
INITIAL ISSUE DATE:	March 1, 2011	
LATEST REVISION DATE:	July 13, 2012	
PAGE NO:	Page 3 of 5	

5. Funds in excess of the upper goal may be considered for the following one-time or short-term purposes:
 - a. Restore funds advanced from the General Reserve in prior fiscal years;
 - b. Increase the General Reserve to its minimally approved level;
 - c. Capital and technology improvements;
 - d. Reduction of unfunded liabilities, including Retirement and Retiree Health obligations;
 - e. Debt retirement;
 - f. Productivity enhancements;
 - g. Cost avoidance projects;
 - h. Litigation;
 - i. Local match for grants involving multiple departments;
 - j. Other purposes deemed to be fiscally prudent for the County as identified and recommended by the County Executive Officer and approved by the Board of Supervisors.

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 54, for implementation effective the fiscal year ending June 30, 2011.
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.

COUNTY OF SHASTA		Number
ADMINISTRATIVE MANUAL		2-104
SECTION:	Finance and Budget	Fund Balance Policy for Financial Statement Reporting
INITIAL ISSUE DATE:	March 1, 2011	
LATEST REVISION DATE:	July 13, 2012	
PAGE NO:	Page 4 of 5	

GASB 54 Classifications		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 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 non-spendable, restricted, committed and assigned fund balance	Only the General Fund can report positive unassigned fund balance

COUNTY OF SHASTA		Number
ADMINISTRATIVE MANUAL		2-104
SECTION:	Finance and Budget	Fund Balance Policy for Financial Statement Reporting
INITIAL ISSUE DATE:	March 1, 2011	
LATEST REVISION DATE:	July 13, 2012	
PAGE NO:	Page 5 of 5	

Funding Flow Assumptions

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. Similarly, within unrestricted fund balance, committed, assigned 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.

RESPONSIBLE DEPARTMENTS

County Administrative Office
Auditor-Controller

REFERENCES

Administrative Update--07/13/2012
BOS Policy Resolution No. 2011-02--3/1/11 (Adopted)
Government Accounting Standards Board Statement No. 54