

STAFF REPORT

MEMO TO: SUTTER COUNTY CHILDREN & FAMILIES COMMISSION
FROM: DEB COULTER, EXECUTIVE DIRECTOR
SUBJECT: DISCUSSION AND POSSIBLE APPROVAL OF FUND BALANCE REPORTING
POLICY TO IMPLEMENT GASB 54

BACKGROUND: The Governmental Accounting Standards Board issued statement No. 54 in February 2009 on Fund Balance Reporting and Governmental Fund Type Definitions, this statement changes the way amounts are reported in our fund balance. The statement establishes fund balance classifications that comprise a hierarchy based on the extent to which the government entity is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds. The statement required that the new reporting standards would be effective for fiscal years beginning after June 15, 2010.

CURRENT PROPOSAL: Commission staff have drafted the attached policy to implement the standards for the 2010/2011 fiscal year reporting period as required by the state.

RECOMMENDATION: It is the recommendation of the Executive Director that the Commission approve the Fund Balance Reporting policy as submitted.

IMPACT ON COMMISSION RESOURCES: none

POLICY ACTION REQUESTED: Approval of this request.

DC:bd

SUTTER COUNTY CHILDREN AND FAMILIES COMMISSION

FUND BALANCE REPORTING POLICY (FOR THE IMPLEMENTATION OF GASB 54)

Fund balance shall be reported in the annual audited financial statements using the following 5 categories, which are consistent with Statement 54 of the Government Accounting Standards Board (GASB):

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

The determination of how the fund balance is reported under these categories shall be consistent with the guidelines provided in the *First 5 Financial Management Guide*. At year end, the fund balance shall be reported out in accordance with the following five categories.

Nonspendable Fund Balance

This category includes elements of the fund balance that cannot be spent because of their form, or because they must be maintained intact. Examples would include:

- Assets that will never convert to cash, such as prepaid items and inventories of supplies
- Assets that will not convert to cash soon enough to affect the current period, such as non-financial assets held for resale; or
- Resources that must be held intact pursuant to legal or contractual requirements, such as revolving loan fund capital or the principal of an endowment

Restricted Fund Balance

This category includes resources that are subject to constraints that are externally enforceable legal restrictions. Examples would include:

- Funding from the State Commission or foundations that are legally restricted to specific uses. For example, funds advanced by First 5 CA under specific agreements for services, or matching funds for specific initiatives would be reported as restricted funds.
- Funds legally restricted by county, state, or federal legislature, or a government's charter or constitution.
- Amounts collected from non-spendable items, such as the long term portion of loan outstanding, if those amounts are also subject to legal constraints.

NOTE: Tobacco tax revenues are not automatically categorized as restricted fund balance because the purposes for which tobacco tax allocations may legally be used are no narrower than the purpose for which the commissions were created in Proposition 10 enabling legislation.

Committed Fund Balance

Two criteria determine the committed fund balance:

- The use of funds is constrained by limits imposed by action of the First 5 Placer Children and Families Commission – the governmental unit's highest level of decision making.
- Removal or modification of the use of funds can be accomplished only by action of the Commission. (Both the establishment of the commitment and/or modification or removal must occur prior to the end of the fiscal year being reported upon.)

Resources in this category would include:

- Resources committed for a future initiative when Commission action is required to remove or modify the commitment.
- Resources that have been committed by the Commission for specific agreements that have not yet been executed when Commission action is also required to remove this commitment.
- Resources committed as the local match for a State Commission initiative.
- Funding that has been designated for previously executed legally enforceable contracts but not yet spent, including multi-year contracts, when cancellation of such contracts would require Commission approval.

Assigned Fund Balance

The assigned portion of the fund balance reflects the Commission's intended use of resources, which can be established either by the Commission or the Executive Director. The "assigned" component is similar to the "committed" component, with two essential differences, shown in the following table:

Key Differences Between Committed and Assigned Fund Balance

	Committed	Assigned
A decision to use funds for a specific purpose requires action of the Commission	Yes	No
Formal action of Commission is necessary to impose, remove or modify a constraint and formal action has taken place before end of the reporting period	Yes	No

The purpose of the assignment must be narrower than the fund itself. For this reason, tobacco tax revenues would not automatically be placed in the "committed" component. Resources to be included in this category include:

- Appropriation of all or a portion of existing fund balance sufficient to eliminate a projected deficit in the subsequent year's budget.
- Funding that has been designated for previously executed legally enforceable contracts but not yet spent, including multi-year contracts, when cancellation of such contracts would not require Commission approval.
- Resources assigned to a specific program or project or organization for which the commission has approved a plan or budget.
- Resources approved by a commission for a long range financial plan where formal approval is not required to modify amounts.

Unassigned fund balance

Resources in the fund balance that cannot be classified into any of the other categories are included here.

All expenditures normally incurred by the Commission can be clearly delineated into one of the five fund balance classifications, as noted above. The Commission will spend the most restricted dollars before less restricted in the following order:

- a. Nonspendable (if funds become spendable)
- b. Restricted
- c. Committed
- d. Assigned
- e. Unassigned

If a situation arises where there is a possibility of assignment into more than one category (such as committed, assigned and unassigned), reductions will occur in this sequence (i.e., the committed amount will be reduced first, followed by assigned amounts and then unassigned amounts.)