



FUND BALANCE POLICY

Purpose

This policy establishes the procedures for classifying fund balance in the Commission's Governmental Fund financial statements utilizing the categories as required by Governmental Accounting Standards Board (GASB) Statement No. 54¹, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The assignment of fund balance will help ensure that there will be adequate financial resources to meet the Commission's financial obligations, communicate current and future funding investments, and ensure there is adequate working capital to protect the Commission against unforeseen circumstances and events such as revenue shortfalls and/or delays in the receipt of tax distributions.

Policy

The Commission will utilize the following five (5) categories for reporting fund balance in the Governmental Fund financial statements, in accordance with GASB 54 and the guidelines provided in the First 5 Financial Management Guide:

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

As the decision-making body for First 5 Ventura County, the Commission will authorize commitments of fund balance for specific purposes through formal actions taken at publicly noticed Commission meetings, in accordance with the Commission's bylaws. The commitment shall be in effect until the Commission takes formal action to remove or modify such commitment.

The Commission shall maintain a minimum fund balance of up to six (6) months in operating funds. The operating capital is maintained to guard against unanticipated circumstances or events, inadequate resources for cash flow and to mitigate short-term effects of revenue shortages or delays in receiving anticipated revenues. A minimum fund balance is necessary to enable the Commission to deal with unforeseen emergencies or changes in financial condition.

¹ Effective for financial statement periods beginning after June 15, 2010.

Definitions and Financial Reporting of Fund Balance

Fund balance for governmental funds represents all financial assets less liabilities normally expected to be liquidated with current financial resources. Per GASB Statement 54, there are five (5) separate categories of fund balance. Each category describes the level of restriction and the authority for making such restriction, as appropriate. At the close of the financial reporting period, amounts will be determined as follows:

1. Nonspendable fund balance

This category includes amounts that cannot be spent because they are either (a) not in spendable form assets that will never convert to cash (e.g., prepaid expenses or inventory) or (b) legally or contractually required to be maintained intact (e.g., resources that must be held intact pursuant to legal or contractual requirements, such as revolving loan fund capital or the principal of an endowment).

2. Restricted fund balance

This category includes resources that are subject to constraints for which there are externally enforceable legal restrictions (e.g., funding from the State Commission or foundations that are legally restricted to specific uses; funds legally restricted by County, state, or federal legislature, or a government's charter or constitution²; amounts collected from non-spendable items, such as the long-term portion of loan outstanding, if those amounts are also subject to legal constraints).

3. Committed fund balance

This category includes amounts that can only be used for specific purposes pursuant to limitations imposed at the highest level of decision making authority, which in the case of First 5 Ventura County is the Commission.

Formal action is required by the Commission to commit and to modify or remove the commitment. The action must occur prior to the end of the reporting period, yet the actual amount may be determined subsequently. The Commission shall commit funding for initiatives, programs, organizations and/or cost centers by taking formal action through the strategic plan, allocation/funding recommendations, and/or the long range financial plan. An executed contract does not be in place to reflect a commitment.

This category also includes the amount committed for a minimum fund balance whereby up to six (6) months of operating funds shall be maintained. Resources are maintained for working capital to guard against unanticipated circumstances or events, inadequate resources for cash flow and to mitigate short-term effects of revenue shortages or delays in receiving anticipated revenues.

² Tobacco tax allocations to county commissions are not automatically categorized as restricted fund balance. This is 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. Therefore, tobacco tax allocations remaining in fund balance must be reported in one or more of the components. (source: guidelines provided in the First 5 Financial Management Guide)

4. Assigned fund balance

This category includes the Commission's intended use of resources for specific purposes that are not classified as restricted or committed. Per GASB 54, funds may be "assigned" to specific purposes, although the assignment of fund balance under this category does not require that formal action be taken by the agency's highest level of decision-making. Unless formal authority is delegated, the Commission shall be the level of authority to allocate resources to the assigned category.

5. Unassigned fund balance

This category includes resources in the fund balance that cannot be classified into any of the other categories. These are residual net resources of the fund balance.

Any changes to GASB 54 and its definitions for classifying fund balance shall supersede this policy.