

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

906



FROM: Executive Office

SUBMITTAL DATE:
September 1, 2011

SUBJECT: Addition of Board Policy B-30 "Government Fund Balance and Reserve Policy"

RECOMMENDED MOTION: That the Board of Supervisors approve the addition of Policy B-30 "Government Fund Balance and Reserve Policy" to the Board of Supervisors Policy Manual

BACKGROUND: In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of this Statement was to improve the usefulness of fund balance information presented in governmental financial statements. It shifted the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the government is bound to honor spending constraints on those fund resources.

Since the issuance of GASB Statement No. 54, the Auditor-Controller's Office has completed an evaluation of all governmental funds, reclassified funds into the appropriate fund category, created new fund balance accounts when appropriate, and collaborated with county departments to ensure the smooth implementation of the accounting changes on July 1, 2011. To ensure fund balance is (Continued on the next page)

Karen L. Johnson, Management Analyst

FINANCIAL DATA	Current F.Y. Total Cost:	N/A	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	N/A	Budget Adjustment:	N/A
	Annual Net County Cost:	N/A	For Fiscal Year:	N/A
SOURCE OF FUNDS: Not Applicable				Positions To Be Deleted Per A-30 <input type="checkbox"/>
				Requires 4/5 Vote <input type="checkbox"/>

C.E.O. RECOMMENDATION:

APPROVE

BY:
Christopher M. Hans

County Executive Office Signature

☐ Consent ☒ Policy
☐ Consent ☒ Policy

Dep't Recomm.:
 Per Exec. Ofc.:

Prev. Agn. Ref.: | **District:** All | **Agenda Number:**

3.15

accurately classified and reported on the annual financial statements, the Board should update and formalize its fund balance and reserve policy. The goal of this policy is to ensure that the county maintains adequate fund balances and reserves to:

- Provide sufficient cash flow for daily financial needs,
- Secure and maintain investment grade bond ratings,
- Offset significant economic downturns or revenue shortfalls, and
- Provide funds for unforeseen expenditures related to natural disasters or acts of terrorism.

The Executive Office collaborated with the Auditor-Controller's Office so that the policy meets GASB standards.

COUNTY OF RIVERSIDE, CALIFORNIA
BOARD OF SUPERVISORS POLICY

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GOVERNMENTAL FUND BALANCE AND RESERVE POLICY

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Purpose:

Fund balance, the difference between assets and liabilities in a governmental fund, is a widely used component in government financial statements analysis. The Governmental Accounting Standards Board (GASB) issued Statement No. 54 to improve how fund balance information is reported and enhance its decision-making value. This policy applies to the governmental fund type which includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

The purpose of this policy is to establish the guidelines for:

- The use of reserves with a restricted purpose versus an unrestricted purpose when both are available for expenditures.
- The establishment of stabilization arrangements for governmental funds.
- The minimum fund balance allowable for governmental funds.

Policy

Governmental Fund Balance Categories

In accordance with GASB Statement No. 54, all of the county's governmental fund balances will be comprised of the following categories:

Nonspendable fund balance – amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.	
Restricted fund balance– amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.	
Unrestricted	Committed fund balance – amounts that are committed for a specific purpose. These funds require action from the Board of Supervisors to remove or change the specified use. <i>Authority to commit: Commitments will only be used for specific purposes pursuant to a formal action by the Board of Supervisors. Board of Supervisors approval is required to establish, change, or remove a commitment.</i>
	Assigned fund balance – amounts that have been set aside and are <i>intended</i> to be used for a specific purpose but are neither restricted nor committed. Assigned amounts cannot cause a deficit in unassigned fund balance. <i>Authority to assign: Assignments within the general fund must be established by the county Executive Officer or an Executive Officer designee. No formal action is required to remove an assignment.</i>
	Unassigned fund balance – funds that are not reported in any other category and are available for any purpose within the General Fund. The General Fund is the only fund that will have an unassigned fund balance.

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Spending Prioritization for Fund Categories

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Board to consider restricted amounts to be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Board that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

Minimum Fund Balance Policy for Governmental Funds

Establishing guidelines for minimum fund balance for governmental funds is essential to ensuring a prudent level of fund balance is maintained for unanticipated expenditures, delays in revenue receipt, or revenue shortfalls.

Unassigned Fund Balance - General Fund

The county shall maintain a minimum unassigned fund balance in its General Fund of at least 25 percent of the fiscal year's estimated discretionary revenue. A significant portion of the minimum unassigned fund balance may be used for one-time or short term expenditures caused by an economic crisis and should be designated within an "Economic Uncertainty" account. Use of these funds should be as the last resort in balancing the county budget.

During the initial implementation of this policy, the Executive Office will develop a plan to ensure fund balance is at the minimum level within three years. The plan for accomplishing this will be included with the recommended budget submitted to the Board for approval each fiscal year. Following the initial implementation of the policy, if fund balance drops below the established minimum levels, the Executive Office will develop a plan to replenish the balance to established minimum levels within two years and submit the plan to the Board for approval.

Fund Balance – Special Revenue Funds

Special Revenue fund balances shall be kept at the higher of the minimum level dictated by the funding source or an amount that does not fall below zero. In the event that the fund balance drops below the established minimum levels, the department with primary responsibility for expending the special revenue will develop a plan to replenish the balance to established minimum levels within two years and submit the plan to the Board for approval.

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Committed Fund Balance - Disaster Relief

The county shall commit a portion of General Fund for Disaster Relief. The use of these funds will be restricted to one-time or short term expenditures that are the result of a natural disaster or act of terrorism. The funds restricted for this purpose shall be at least two percent of discretionary revenue or \$15 million, whichever is greater.

Reference: