

**SUBMITTAL TO THE FLOOD CONTROL AND
WATER CONSERVATION DISTRICT BOARD
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

805B



SUBMITTAL DATE:
March 26, 2013

FISCAL PROCEDURES APPROVED
JEANINE J. REY, FINANCE DIRECTOR

BY Jeannine J. Rey
JEANINE J. REY
Departmental Concurrent

FROM: General Manager-Chief Engineer

SUBJECT: FISCAL POLICY F2, *Fund Balance Policy*

RECOMMENDED MOTION:

Approve the addition of FISCAL POLICY F2, *Fund Balance Policy*, to the Fiscal Section of the District's Fiscal Policy Manual.

BACKGROUND:

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to help improve the decision making usefulness of the fund balance information as well as improve on how fund balance information is reported.

Continued on Page 2.

JR: mc

WARREN D. WILLIAMS
General Manager-Chief Engineer

FINANCIAL DATA	Current F.Y. District Cost:	N/A	In Current Year Budget:	N/A
	Current F.Y. County Cost:	N/A	Budget Adjustment:	N/A
	Annual Net District Cost:	N/A	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

APPROVE

BY: Steven C. Horn
Steven C. Horn, MPA

C.E.O. RECOMMENDATION:

County Executive Office Signature

- Dep't Recomm.: Consent Policy
- Per Exec. Ofc.: Consent Policy

Prev. Agn. Ref.:

District: All

Agenda Number:

11-4

**FLOOD CONTROL AND WATER CONSERVATION DISTRICT BOARD SUBMITTAL
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

SUBJECT: FISCAL POLICY F2, *Fund Balance Policy*

SUBMITTAL DATE: March 26, 2013

Page 2

BACKGROUND: Continued

It is the Policy of the District to address the implications of GASB Statement No.54.

FISCAL POLICY F2, *Fund Balance Policy*, addresses the implications of GASB Statement No.54 and that a minimum level of fund balance in the General Fund is to be maintained to provide a financial "cushion" against the potential surprise from unforeseen or unintended events and circumstances (e.g. revenue shortfalls and unanticipated expenditures).

The policy is created in consideration of unanticipated events that could adversely affect the financial condition and position of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balances in order to:

- Provide sufficient cash flow for daily financial need;
- Secure and maintain investment grade bond ratings;
- Offset significant economic downturns or revenue shortfalls; and
- Provide funds for unforeseen expenditures related to emergencies.

For FY 2011-2012, the District reported fund balance classifications in accordance with GASB Statement No. 54 and the County of Riverside's Governmental Fund Balance and Reserve Policy B-30. Pursuant to the District Act, the District is audited each year by an independent accounting firm. To address the District's specific risks and needs as a self-supporting entity and based on the recommendation of its auditors for that purpose, the District's *Fund Balance Policy*, F2, will supersede the County of Riverside Policy B-30 for reporting fund balance classifications in its audited statements and *Comprehensive Annual Financial Report*.

It is the goal of the District to achieve and maintain an unrestricted fund balance in the General Fund equal to a minimum of 66% of General Fund expenditures, annually evaluate the minimum fund balance provisions and make adjustments as needed.



POLICY

RIVERSIDE COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

NUMBER: FISCAL POLICY F2

SUBJECT: FUND BALANCE POLICY

POLICY:

It is the Policy of the Riverside County Flood Control and Water Conservation District to address the implications of GASB Statement No. 54 and that a minimum level of fund balance in the General Fund is to be maintained to provide a financial “cushion” against the potential surprise from unforeseen or unintended events and circumstances (e.g. revenue shortfalls and unanticipated expenditures).

PROCEDURE:

Introduction

Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. According to the Governmental Accounting Standards Board (GASB), “Of central importance to the credit reviews performed by municipal bond analysts, fund balance information is also used by taxpayer associations, research organizations, oversight bodies, state, county and local legislators and their staffs, and reporters. Financial statement users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the government” (1) GASB.

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to help improve the decision-making usefulness of the fund balance information as well as improve on how fund balance information is reported.

Purpose

The following policy has been adopted by the District Board of Supervisors in order to address the implications of GASB Statement No. 54. The policy is created in consideration of unanticipated events that could adversely affect the financial condition and position of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balances in order 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 emergencies

(1) GASB: GASB Website Home Page; Education tab; Plain Language Documents; GASB Standards and Projects; *GASB Statement Brings Greater Clarity and Consistency to Fund Balance Reporting.*

This *Fund Balance Policy* establishes the procedures for reporting both restricted and unrestricted fund balance in the financial statements. Fund balance is now required to be reported using five major classifications based on the extent to which the District is bound by the constraint on resources reported in the funds. The policy also authorizes and directs the Finance Director to prepare financial reports showing fund balance classifications as required by GASB Statement No. 54.

A fund balance policy ought to focus on ***UNRESTRICTED FUND BALANCE*** in the General Fund, which is defined as:

Total Fund Balance

Less: Non-spendable fund balance

Less: Restricted fund balance

Equals: *Unrestricted Fund Balance*

GUIDELINES:

GASB Statement No. 54 eliminates the current use of the terms “reserved” and “designated” in the reporting of fund balance, and replaces those terms with five new categories for classifying fund balance. Following are the new categories and related definitions to be used for describing the components of the fund balance:

Restricted:

Nonspendable fund balance – Includes amounts either not in spendable form, or legally or contractually required to be maintained intact. This would include, for example, inventory, pre-paid costs, noncurrent receivables and the principal of an endowment fund.

Restricted fund balance – Reflects the same definition as restricted net assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in special revenue funds, bonded capital project funds, debt service funds, and program funds funded with federal program dollars. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

Unrestricted:

Committed Fund Balance – Includes amounts committed for specific purposes by formal action of the Board of Supervisors. Amounts classified as “Committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the Board of Supervisors removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. Action to constrain resources must occur prior to year end; however, the amount can be determined in the subsequent year.

Assigned Fund Balance – Includes amounts, intended by the District, to be used for specific purposes. Amounts are neither restricted nor limited. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Finance Director and District management for the purpose of reporting these amounts in the financial statements.

Assigned fund balance includes:

- For the General Fund, these are the amounts, assigned by the Finance Director and District management, that are intended to be used for specific purposes e.g. providing for payroll and benefit costs as well as operating capital in case of revenue shortfalls, natural disasters or other emergencies, and providing funds for unforeseen expenditures including actions by federal and state agencies. The amounts reported as assigned should not result in a deficit in unassigned fund balance.
- For all governmental funds (other than the General Fund), these are all remaining positive amounts (except for negative balances) that are not classified as non-spendable and are neither restricted nor committed. However, if there is a negative balance after classifying amounts as non-spendable, restricted or committed, the fund would report a negative amount as Unassigned and zero to be reported as Assigned.

Unassigned Fund Balance – includes any remaining amounts after classifying fund balances according to the fund balance categories of *NONSPENDABLE*, *RESTRICTED*, *COMMITTED* and *ASSIGNED* which were previously defined in this policy. Planned spending in the subsequent year’s budget would be included here and can no longer be described as “designated” unless formally *COMMITTED* or *ASSIGNED*.

Fund Balance Spending Order

Unless legal requirements disallow it, the District will spend the most restricted dollars before less restricted in the following order:

1. Non-spendable – if the funds become spendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

Minimum Fund Balance Policy for the General Fund:

It is the goal of the District to achieve and maintain an unrestricted fund balance in the General Fund equal to a minimum of 66% of General Fund expenditures. The rationale and support for this minimum percent is based on a quantified assessment of risks for FY 2012-13.

Further, it is the goal of the District to annually evaluate the minimum fund balance provisions and make adjustments according to an assessment of current events and circumstances as well as changing forecasts, projections and other related risks.

ADDITIONS:

This policy is in place to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

REVISION HISTORY – March 2013