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Fund Balance Policy

Approved:

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Purpose

First 5 San Bernardino (Commission) considers it prudent to establish a policy for its fund balances. The Fund Balance Policy will assist with effective development of annual budgets, and promote clear communications with the general public, staff, and administration. The elements of the policy are created by the Commission for its own purposes and may, therefore, be revised by the Commission as needed in the future.

The purpose of this policy is to:

1. Establish who has the authority to commit or assign fund balance.
2. Classify current fund balance categories to be compliant with the new fund balance classifications contained in the reporting requirements of Statement 54 of the Government Accounting Standards Board (GASB) effective June 15, 2010. The guidelines for adoption must be consistent with the First 5 Financial Management Guide.

Definitions and Reporting

1. Fund Balance - All financial assets less liabilities normally expected to be liquidated with current financial resources. The following are categories of fund balance:
 - a. Non-spendable (inherently non-spendable)
 - i. Portion of net resources that cannot be spent because they are not in an expendable form (e.g., Prepaid Expense or Inventory).
 - ii. Portion of net resources that cannot be spent because they must be maintained intact (e.g., revolving fund or the principal of an endowment).
 - b. Restricted (externally enforceable limitations on use)
 - i. Amounts or limitations constrained to specific purposes by their providers (such as creditors, grantors, contributors, or laws and regulations of other governments - e.g., funds advanced by First 5 CA under specific agreements for services such as matching funds for specific initiatives).
 - ii. Amounts or limitations imposed by law through constitutional provisions or enabling legislation. (e.g., funds legally restricted by county, state, or federal

legislature, or a government's charter or constitution; or amounts collected non-spendable items such as long term portion of loan outstanding if those amounts are subject to legal constraint).

c. Committed (self-imposed limitations in place prior to end of the period)

- i. Limitation imposed at the highest level of decision making that require the same formal action at the same level to remove or modify.
- ii. Resources in this category include:
 1. Resources committed for a specific purpose and/or future initiatives.
 2. Funding that has been designated for legally enforceable contracts but not yet spent (includes multi-year contracts).
 3. Resources that have been committed by a Commission for specific agreements that have not yet been executed.
 4. Resources committed as local match for a State Commission initiative, programs or projects within the approved long-range financial plan, funding recommendations or the strategic plan.
- iii. Minimum fund balance reserves.
 1. The minimum fund balance reserve is maintained at the level of \$22M. Reserve funds may be utilized for the following purposes:
 - a. Cash flow: to mitigate delays in receiving revenues.
 - b. Extreme events: to restore and continue operations should an unanticipated event or natural disaster occur.
 - c. Budget: to ensure a sufficient level of fund balance to meet the Commission obligations in the event of a revenue shortage.

d. Assigned (limitation resulting from intended use)

- i. Amounts or limitations that are constrained by the Commission's intent to be used for a specific purpose.
 - ii. The purposes of the assignment must be narrower than the fund itself.
 - iii. Resources that fit into the "assigned" category may include:
 1. Appropriation of a portion of existing fund balance sufficient to eliminate a projected deficit in the subsequent year's budget.
 2. Resources assigned to a specific program, project, or organization for which the Commission has approved a plan or budget.
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3. Resources approved by the Commission for a long-range financial plan (formal approval is not required to modify the amount).

f. Unassigned (residual net resources)

i. Resources in the fund balance that cannot be reported any other classification.

g. Minimum Fund Balance

ii. Funds reserved for unanticipated circumstances and/or events. (e.g., revenue shortfalls, unanticipated delay in receipt of revenues, unanticipated expenditures, working capital).
