I. PURPOSE

The purpose of this policy is to classify fund balance categories in accordance with the reporting requirements of Statement 54 of the Government Accounting Standards Board (GASB) effective June 15, 2010.

II. APPLICABILITY

The guidelines for adoption are consistent with both GASB Statement 54 and the First 5 Association of California Financial Management Guide and establish authority for committing or assigning fund balances.

III. POLICY

In compliance with GASB 54, this policy sets forth the following:

The authorization level for committing or assigning a fund balance is established by the Board of Commissioners. Formal action of the Commission will be defined as an action taken at a publicly noticed meeting.

IV. PROCEDURES

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, defined below in order of the strength of commitment. Each separate component is identified by the extent to which First 5 LA is bound to honor the constraints on the specific purposes on which amounts can be spent as follows:

- Non-spendable (inherently unspendable)
- Restricted (external limitations on use)
- Committed (self-imposed limitations on use for a specified purpose)
- Assigned (limitation resulting from broadly intended use; specific purpose not yet identified)
- Unassigned (residual net resources-no restrictions)
DEFINITIONS AND REPORTING

A. **Non-spendable:** That portion of fund balance that includes amounts that cannot be spent because they are either 1) not in a spendable form; or 2) legally or contractually required to be maintained intact.

Example: Cash advances to grantees and contractors.

B. **Restricted:** That portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. A Resolution approved via formal action by the Board of Commissioners is required to accept the restricted funds, acknowledging receipt.

Example: Funds advanced by external entities under specific agreements for services such as matching funds for specific initiatives.

C. **Committed:** That portion of fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners. These constraints remain binding unless removed via the same type of formal action and instrument as defined by this policy. A Resolution approved via formal action by the Board of Commissioners is required to commit funds.

Resources in this category may 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, including multi-year contracts.
3) Resources that have been committed by the Commission for specific agreements that have not yet been executed.
4) Resources committed as a local match for State Commission initiatives, programs or projects within the approved long range financial plan, funding recommendations or the strategic plan.

Example: Funds allocated to specific initiatives for which the planned use is narrowly defined.

D. **Assigned:** That portion of fund balance that includes amounts constrained by the Commission’s intent to be used for broadly defined purposes that do not rise to the level of committed. The purpose of the assignment must be narrower than the fund itself. Assignments can be made via formal motion approved by the Commission; a Resolution is not required to assign funds. The Commission has elected not to designate a separate body, committee or an official who can specify such purposes.

Resources in this 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.
3) Resources approved by the Commission for a long range financial plan (where formal approval is not required to modify the amount.

Example: Funds reserved for Commission use consistent with the current Strategic Plan.
Because the Committed and Assigned fund balance components are commonly confused, the First 5 Association of California Financial Management Guide provides the following chart to distinguish between these two categories:

**Comparison: Committed vs. Assigned**

<table>
<thead>
<tr>
<th></th>
<th>Committed</th>
<th>Assigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>A decision to use funds for a specific purpose requires action of governing body</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Formal action of governing body is necessary to impose, remove or modify this constraint and formal action has taken place before end of reporting period</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

E. **Unassigned:** That portion of fund balance that cannot be reported in any other classification but may reflect an internal restriction that requires a footnote to the Financial Statements.

Resources in this category for First 5 LA purposes may include:

1) Minimum Fund Balance Reserve: Must include 25 percent of the total fiscal year budget, to be adjusted and approved annually. 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 Stabilization: To ensure a sufficient level of fund balance to meet the Commission obligations in the event of a revenue shortage.

2) Operating funds which includes personnel related cost, services and supplies.

V. **RESPONSIBILITIES**

In accordance with GASB 54 guidelines, 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 Commission should undergo an annual reaffirmation process prior to fiscal year-end to review all levels of fund balance and determine what action is needed. As part of this reaffirmation process, the Commission should take formal action prior to the fiscal year-end to either modify the existing fund balance levels or maintain them. This reaffirmation process generally takes place in conjunction with the approval of the fiscal year Budget by the Board of Commissioners.

VI. **REFERENCES/LEGAL AUTHORITY**

Statement 54 of the Government Accounting Standards Board (GASB)
First 5 Association of California Financial Management Guide
VII. APPROVALS

Raoul Ortega, Finance Director, Initiating Authority

Date

John Wagner, Executive Vice President

Date

Kim Belshé, Executive Director

Date