



Chico Area Recreation and Park District “Helping People Play”

Fund Balance Policy

Purpose

This policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the General Manager to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Definitions

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following five categories:

- Nonspendable Fund Balance (inherently nonspendable)
Amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- Restricted Fund Balance (externally enforceable limitations on use)
Amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
- Committed Fund Balance (self-imposed limitations on use)
Amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the General Reserve for emergencies).
- Assigned Fund Balance (limitation resulting from intended use)
Amounts intended to be used by the government for specific purposes. Intent can be expressed by the Board of Directors or by a designee to whom the Board of Directors delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates

that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

- Unassigned Fund Balance (residual net resources)
Includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on the financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

Policy Scope

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on the financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

Committed Fund Balance

The Board of Directors, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a resolution. These committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use through the same type of formal action taken to establish the commitment. Board of Directors action to commit fund balance should occur prior to the end of the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequently.

- General Fund Reserve
The General Fund balance committed to emergency contingencies is established each year to cover approximately 3 or more months of projected operating costs. The fund may be utilized upon declaration of an emergency by the Board of Directors with a 4/5 affirming vote.
- Petty Cash Reserve
The petty cash reserve is set aside to match petty cash kept on hand by the District to conduct operations. The reserve is set at \$1,500.

Assigned Fund Balance

Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the

General Manager for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance are as follows:

- Accumulated Capital Reserve
Funds set aside for the purpose of future capital projects.
- Debt Service
Funds set aside for future debt service obligations.
- Deferred Maintenance Costs
Funds set aside to replace fixed assets owned by the District. A benchmark funding for this account may be 10% of projected annual depreciation.
- Election Costs
Funds set aside for future election costs.

Unassigned Fund Balance

These are residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories.

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year-end of not less than 5% of operating expenditures. If the unassigned fund balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

The first priority for Excess Unassigned Fund Balance at the beginning of each fiscal year, if any, is to increase the General Fund Reserve to ensure it is maintained within the recommended range of approximately 3 or more months of expected General Fund operating expenditures.

The second priority for Excess Unassigned Fund Balance at the beginning of each fiscal year, if any, is to dedicate excess fund balance for known and quantified unfunded liabilities or one-time unmet needs, including but not limited to the following:

- a. Unmet building or maintenance needs
- b. Employee pension plan contributions

Order of Expenditure of Funds

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classification of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

This policy is in place to provide a measure of protection for the District against unforeseen circumstances and to comply with GASB #54. No other policy or procedure supersedes the authority and provisions of this policy.