

# Gila County

## Assigning Fund Balance Procedures

This Procedure will create the five new classifications of governmental fund balances required by GASB No.54. The overall principal and goal of GASB No. 54 is to report governmental fund balances based on a hierarchy that shows from the highest to the lowest, the level or form of constraints on fund balance, and accordingly, the extent to which governments are bound to honor them.

### Definitions:

Fund Equity - A fund's equity is generally the difference between its assets and its liabilities. Fund balance is an accounting distinction is made between the portions of fund equity that is spendable and non-spendable. These are broken up into five categories:

- 1) **Non-spendable Fund Balance** - Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned). This also includes amounts that are legally or contractually required to be maintained intact (principal balance of endowments and permanent funds).
- 2) **Restricted Fund Balance** - Reflects the same definition as restricted net assets on the government wide Statement of Net Assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- 3) **Committed Fund Balance** - Includes amounts that are 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. The action to commit fund balances must occur prior to year end; however, actual amounts can be determined in the subsequent period.
- 4) **Assigned Fund Balance** - Amounts that are intended to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board of Supervisors itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the Board of Supervisors. This would include ANY activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above

definitions. No one is allowed to assign balances that result in a residual deficit.

- 5) **Unassigned Fund Balance** - Includes any remaining amounts after applying the above definitions (amounts not classified as non-spendable, restricted, committed or assigned). 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. Special rules exist for using this classification in funds other than the General Fund. In funds other than the General Fund unassigned only used if the balance is negative, therefore, the General Fund is the only fund that will report a positive unassigned balance.

**Committed Fund Balance** - The Board of Supervisors is the highest level of decision-making authority for Gila County. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board of Supervisors. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

**Assigned Fund Balance** -The Board of Supervisors of Gila County has authorized the County's Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

**Minimum Unassigned Fund Balance** - It is the goal of Gila County to achieve and maintain an unassigned fund balance in the General Fund equal to 18-25 % of expenditures. Gila County considers a balance of less than 10% to be cause for concern, barring unusual or deliberate circumstances. If unassigned fund balance falls below the goal or has a deficiency, Gila County will transfer funds from its General Fund Contingency Fund. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered non-spendable, such as fund balance associated with inventories or fixed assets.

**Order of Expenditure of Funds** - When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside, and unassigned fund balance), the identification will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

**Stabilization or "Rainy Day" Fund** - If Gila County were to establish a stabilization fund, even though not recognized under Uniform Accounting Manual for Arizona Counties (UAMAC), then it must be described in specific detail the resources committed and the circumstances that define the use of the funds. Using terminology such as "emergencies" or "revenue shortages" is not specific enough for GASB 54. If Gila County does not have a more specific policy, the fund will be reported as part of the General Fund as committed.

The requirements in GASB No. 54 will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.