

# Library Joint Powers Authority

## Fund Balance Policy - Governmental Funds

This Fund Balance policy for governmental funds is established based upon a long-term perspective of the Library Joint Powers Authority (JPA) maintaining a strong fiscal position and promoting sustainability through negative economic trends. It is also intended to preserve flexibility throughout the fiscal year in order to make adjustments in funding for programs approved in connection with the annual budget. This policy relates only to the JPA's governmental funds (general, special revenue, capital project, and debt service).

In addition, this policy is established to comply with the Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The statement was created to improve financial reporting by providing fund balance categories that would be more easily understood. It also defines and identifies a constraint based hierarchy of fund balance categories for the use of resources reported in its governmental funds. The policy eliminates the original "*reserved*" component of fund balance category in favor of "*restricted*" to facilitate consistent information reported in fund and government-wide financial statements ("*restricted*" has always been a component of the government-wide financial statements), and requiring the same presented categories regardless of governmental fund or governmental fund type. ..

### Fund Balance Categories for Governmental Funds

Fund balance can be classified into five categories:

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaid expenditures) or funds that legally or contractually must be maintained intact (i.e. endowments). Funds are required be placed in the *nonspendable* fund balance category even though this action creates a deficit *unassigned* fund balance. No formal action is necessary to place funds under this category.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation. Placing funds under the *restricted* category is not allowable if the action results in creating a deficit *unassigned* fund balance. No formal action is necessary to place funds under this category.

Committed Fund Balance consists of funds that are set aside by the Library JPA Board for a specific purpose. Placing funds under the *committed* fund balance category requires a formal action of the JPA Board with the passage of a simple majority vote at or prior to the last meeting for the applicable fiscal year. The exact amount to place under *committed* fund balance is not necessary when bringing the action before the Board. Placing funds under the *committed* category is not

allowable if the action results in creating a deficit *unassigned* fund balance. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose. Funds can be placed in the *assigned* category by the authority of the Director of Libraries. Placing funds under the *assigned* category is not allowable if the action results in creating a deficit *unassigned* fund balance. No formal action is necessary to place funds under this category.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources, and provide the resources necessary to meet unexpected expenditures and revenue shortfalls through out the fiscal year. The only fund that may have an unassigned fund balance is the Library JPA's primary general fund. It is also the only category that can be used to report a negative fund balance. No formal action is necessary to place funds into this category.

### **Governmental Fund Type Descriptions**

Although there are multiple governmental fund types, the Library JPA currently only has a General Fund type for financial reporting purposes.

General Funds account for all financial resources not accounted for and reported in Special Revenue Funds, Capital Project Funds or Debt Service Funds.

### **Financial Statement Reporting**

Classifying Fund Balance Amounts for each fund is the responsibility of the City of Santa Cruz Finance Department, under the authority of the Finance Director, and should be determined by applying the City's accounting policies to the composition of the ending fund balance. Placing funds under the *committed* fund balance category requires the approval of the Library JPA Board prior to the end of the fiscal year of the reporting period. Placing funds under the *assigned* fund balance classification requires the approval of the Director of Libraries.

Order of Classification within each fund is determined by the fund's *nonspendable* amount and the remaining fund balance. All *nonspendable* funds (inventories, prepaid expenditures, etc.) must always be classified first, even if this action creates a deficit *unassigned* fund balance. Classifying funds under the remaining categories is not allowable if the action creates a deficit *unassigned* fund balance. The Library JPA establishes that, unless prohibited by legal requirements, the following Fund Balance category order should be used when classifying remaining funds:

- restricted
- committed
- assigned
- unassigned

The Library JPA also establishes that, unless prohibited by legal requirements, the following Fund Balance category order is considered to be spent for incurred expenditure. Each category should be exhausted before using funds from the next available category:

- restricted
- committed
- assigned
- unassigned

Stabilization Arrangements are funds formally set aside for use in revenue stabilization, capital outlay replacement, contingencies, emergencies, or other similar purposes. These arrangements are subject to the controls under which they can be spent, and may only be expended when certain criteria are met. The formal action which defines how and when these funds may be spent would determine which fund balance category they would be placed under (*restricted* or *committed*). Stabilization arrangements are still subject to the criteria of the fund balance category and placing funds under the *restricted* or *committed* category is not allowable if the action results in creating a deficit *unassigned* fund balance.