

**STAFF REPORT**  
**COUNCIL MEETING DATE:**  
**JUNE 13, 2011**

**ITEM FOR COUNCIL CONSIDERATION:**

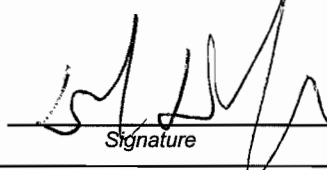
APPROVAL OF THE FUND BALANCE POLICY FOR THE GENERAL FUND

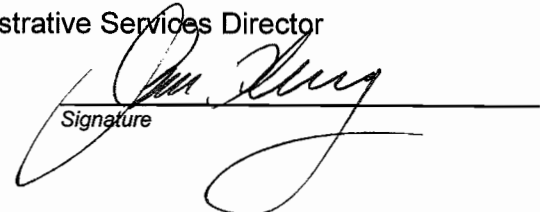
Report prepared by: John Thornberry, Administrative Services Director

Department: Administrative Services

Reviewed by:

City Manager

  
Signature

  
Signature

**STAFF RECOMMENDATION:**

ACTION ITEM X ; NON-ACTION ITEM \_\_\_

**STAFF RECOMMENDATION:** Approve the City Policy "Fund Balance Policy for the General Fund".

**MOTION:** I move adoption of the "Fund Balance Policy for the General Fund" as included in the staff report.

**I. BACKGROUND:**

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The requirements of this statement are intended to improve financial reporting by providing fund balance categories and classifications that will be more easily understood. The categories are more clearly defined to make the nature and extent of the constraints placed on a government's fund balance more transparent. Part of the City's implementation of this statement for Fiscal Year 2011-12 is the formal adoption of a fund balance policy. The policy explains the five components of fund balance and formally delegates to the Administrative Services Director, as required by the statement, responsibility for the assignment of fund balance for specific purposes for inclusion in the annual financial reports. Prior to GASB Statement No. 54, these amounts were reported by the Administrative Services Director as unreserved and designated and did not require City Council delegation.

## II. POLICY:

This Fund Balance 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 City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Administrative Services Director 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.

Fund balance is the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

1. Nonspendable fund balance (inherently nonspendable)
2. Restricted fund balance (externally enforceable limitations on use)
3. Committed fund balance (self-imposed limitations on use)
4. Assigned fund balance (limitation resulting from intended use)
5. Unassigned fund balance (residual net resources)

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 financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

### Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance must occur within the fiscal reporting period; however the amount can be determined subsequently,

### Assigned Fund Balance

Amounts that are constrained by the City'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 Administrative Services Director for the purpose of reporting these amounts in the annual financial statements.

### Debt Service

Established to provide for future debt service obligations.

### Budget Balancing Measures

Funds set aside for the purpose of stabilizing the delivery of City services during periods of operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

### 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.

### Fund Balance Classification

The accounting policies of the City consider restricted fund balance 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 classifications of fund balance could be used, the City 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 City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

## **III. FINANCIAL CONSIDERATIONS:**

Some illustrative examples of fund balance classifications are as follows:

Amounts in the General Reserve Fund (anticipated to be \$1,122,307.0 as of June 30, 2011) would be classified as Committed Fund Balance as these are amounts constrained in their use by City Council action.

An amount equivalent to the coming year's debt service payments (\$161,095) would be classified as Assigned Fund Balance by the Administrative Services Director as part of the annual audit process.

An amount equivalent to the budgeted use of reserves to balance the budget (\$146,661 in the Proposed Budget) would also be classified as Assigned Fund Balance as a budget balancing measure.

## **IV. LEGAL ISSUES:**

None.

## **V. ATTACHMENTS:**

None.