

## City of Thousand Oaks Administrative Policies and Procedures

<b>SUBJECT:</b> Governmental Fund Balance Policy	<b>APP NO.:</b> 14.020 <b>Submission Date:</b> 09/13/11 <b>Revision Dates:</b>	<b>AUTHORITY:</b> City Manager <b>Adoption/Approval Date:</b>  <b>Revision Dates:</b>
<b>DEPARTMENT:</b> <a href="#">FIN</a>		

### PURPOSE:

This Fund Balance Policy establishes guidelines and procedures for allocating and reporting fund balance in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and as committed by City Council, effective beginning fiscal year ending June 30, 2011.

### ACCOUNTING GUIDANCE:

Fund balance is the difference between the assets and liabilities reported in a governmental fund. GASB Statement No. 54 defines 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.

The following components are defined by GASB Statement No. 54 and shall constitute the City's Fund Balance:

- *Nonspendable Fund Balance* (inherently nonspendable) – Assets that cannot be converted to cash (i.e., prepaid items and inventories of supplies) and assets that will not be converted to cash soon enough to affect the current period.
- *Restricted Fund Balance* (externally enforceable limitations on use) – Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments and limitations imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* (self imposed limitations on use set in place prior to the end of the fiscal year) – Limitation imposed at the highest level of decision making that requires formal action at the same level to remove (City Council).
- *Assigned Fund Balance* (limitation resulting from intended use) – Intended use established by highest level of decision making, by a body designated for that purpose, or by an official designated for that purpose (delegated by the City Council to the City Manager).
- *Unassigned Fund Balance* (residual net resources) – Excess of nonspendable, restricted, committed, and assigned total fund balance.

### DIRECTIVE:

The first two components, Nonspendable and Restricted Fund Balance, are not addressed in this policy due to the nature of their restrictions. This policy is focused on the allocation and financial reporting of the last three components, Committed, Assigned, and Unassigned. The Council policies for these three components are provided below.

**Committed Fund Balance:** The City Council, as the City's highest level of decision-making authority, shall commit fund balance for specific purposes by formal action, such as by ordinance or resolution, or approval through adoption of this policy with the biennial budget. These committed amounts may not be used for any other purpose unless the City Council removes or changes the specified use through the same level of formal action. City Council action to commit fund balance shall occur within the fiscal reporting period; however the amount can be determined subsequently.

- **General Fund Emergency Contingency:** The City's General Fund shall maintain an emergency contingency. The contingency shall be calculated by taking 5% of General Fund and Library Fund's budgeted expenditures and any capital project budget carryovers. Budgeted expenditures will be those budgeted in the upcoming

fiscal year. General Fund emergency contingencies shall be used only with City Council approval for:

1. Emergencies (e.g., natural disasters such as fires, floods, or earthquakes or other catastrophic events) that are nonrecurring expenditures.
  2. Required to maintain essential services in a severe, short-term fiscal crisis when revenues are insufficient.
- **Working Capital Reserve:** The City's General Fund shall maintain a working capital reserve. This shall be calculated by taking 15% of General Fund and Library Fund's budgeted expenditures and any capital project budget carryovers. Budgeted expenditures will be those budgeted in the upcoming fiscal year. General Fund working capital contingencies shall be used only with City Council approval for:
1. Emergencies (e.g., natural disasters such as fires, floods, or earthquakes or other catastrophic events) that are non-recurring expenditures should the Emergency Contingency be insufficient.
  2. Required to maintain essential services in a severe, long-term fiscal crisis (more than three years) when revenues are insufficient.
  3. Unexpected major capital investment requirement that was not included in other committed or assigned fund balance components.
- **Capital, Maintenance, and Grant Projects:** Appropriations approved in the biennial Capital Improvement Program Budget.
- **Endowments:** \$8.0 million committed to the Endowment Fund with interest earnings committed to fund the City's annual Social Services, Community Events, and Sports Endowment grants and any future endowments established by City Council action.

**Assigned Fund Balance:** The City Council delegates the authority to assign fund balance to the City Manager, for intended specific purposes. The following assignments are established and may be modified by the City Manager as deemed appropriate.

- **Encumbrances:** Encumbrance balances that are not included in restricted or committed fund balance shall be considered assigned and will be reported by function.
- **Continuing Appropriations:** Fund balance levels sufficient to meet funding requirements for projects approved in prior fiscal years and which are carried forward into the new fiscal year. Continuing appropriations will be reported by function.
- **Public Building/Infrastructure Replacement/Maintenance Reserve:** Assigned for future building and infrastructure replacement and maintenance projects as identified in Capital Improvement Plan but not included in the City Council approved Budget and/or as future project requirements are identified.
- **Contingency for Legal Settlements:** Assigned for legal settlements that may exceed the City's actuarially determined annual accrued liability in the General Liability Internal Service Fund determined based on ongoing litigation.
- **Compensated Absences:** Assigned for unused vacation and miscellaneous leave hours earned by City employees at the employees' hourly rate.
- **Debt Service:** Assigned to provide for future debt service obligations.

**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 components. The General Fund is the only fund that may report a positive (surplus) unassigned balance. Conversely, any governmental fund in a negative (deficit) position could report a negative amount of unassigned fund balance.

**Surplus:** Since a surplus does not represent a recurring source of revenue, it shall not be used to fund a recurring expense; however, the surplus may be appropriated for use to fund a one-time expenditure or use not already funded through an appropriation. If it is determined there is an operating surplus:

- 1) The City Council delegates the authority to the City Manager, at his/her discretion, to:
  - a) Transfer 10% of unassigned fund balance, not to exceed \$100,000, to the Community Recreation and Open Space Endowment Fund (CROSEF).
- 2) The City Council may appropriate funds for the following nonrecurring purposes:
  - a) Capital improvements and purchases. Surplus funds may be used for capital improvements and equipment purchases that are not financed with borrowings or other contributions.
  - b) Elimination of unfunded liabilities related to the City's Post-Employment Benefits. Any surplus may be transferred to reduce the unfunded liability in the Pension Fund, or California Employer's Retiree's Benefits Trust Fund (CERBT), and/or any other fund initiated by the City to provide post-employment benefits.
  - c) Reduction or avoidance of debt. If there is short-term debt within the General Fund, the surplus may be applied to reduce, or eliminate, the debt if determined to be advantageous for the City. If a borrowing is scheduled, the surplus may be used to reduce the principal amount the City needs to obtain if determined to be advantageous for the City.
  - d) Tax, fee, or rate stabilization. Surplus funds may be assigned for a stabilization fund in order to avoid raising taxes, fees, or rates related to the fund in subsequent years.

**Deficit:** If it is determined there is a deficit in the General Fund, the deficit shall be restored through the following mechanisms, in order of priority:

- 1) Reduction of assigned fund balance levels
- 2) Committed fund balance levels
- 3) Transfer of unassigned fund balances from other related funds where legally permissible.

**Funds:**

1. **General Fund:** City's primary operating fund accounts for all financial resources of the City except those required to be accounted for in another fund.
2. **Special Revenue Funds:** Account for specific revenues that are legally restricted to expenditures for particular purposes.
3. **Debt Service Funds:** Account for the accumulation of resources and payment of principal and interest of the Public Finance Authority or Redevelopment Agency (RDA). City will maintain sufficient reserves in its debt service funds that will equal, or exceed, the reserve fund balances required by bond covenants.
4. **Capital Projects Funds:** Established on a project length basis and are used to account for revenues and expenditures during the construction/acquisition of major capital facilities and projects. These funds are financed mainly by borrowings and contributions, and are not used to accumulate resources for future capital improvements, and therefore will not be used to build up reserves.
5. **Enterprise Funds:** Business-type activities intended to recover all or significant portion of their costs through user fees and charges. Net assets are restricted to the fund's stated purpose.
6. **Internal Service Funds:** Established on a cost reimbursement basis and should only be used to account for the payments of the City's self-insurance programs. Revenues are received by charging the other funds and departments of the City. The City will maintain positive net assets in each of the internal service funds. When an internal service fund accumulates net assets greater than the actuarially required level, the City may transfer any or all of the excess to other operating funds, as deemed necessary.
7. **Agency Funds:** Account for the resources held by the City in a fiduciary capacity for individuals, governmental entities, and others.

***Fund Balance Classification:***

The accounting policies of the City consider restricted fund balance spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance are 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.

***Annual Reporting and Periodic Review:***

Before completion of the City's Comprehensive Annual Financial Report, the Finance Director shall prepare a Fund Balance Status Report as part of the City's financial reporting process. At least every two years, the City Council will affirm or revise the Policy including the percentage range established by the components described herein (usually during the biennial budget process).

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