



Administrative Policy Manual

City Policy No:   B-11  

Date:   12/4/2013  

Approved: Resolution 9669

## **FUND BALANCE POLICY**

1. **PURPOSE:** To establish procedures for financial reporting of fund balance classifications and the hierarchy for spending fund balance.
2. **SCOPE:** The policy also authorizes and directs the Finance 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.

### 3. **GENERAL POLICY:**

#### 3.1 Procedures:

Fund balance is essentially 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.

- 3.1.1 Non-spendable fund balance (inherently non-spendable)
- 3.1.2 Restricted fund balance (externally enforceable limitations on use)
- 3.1.3 Committed fund balance (self-imposed limitations on use)
- 3.1.4 Assigned fund balance (limitation resulting from intended use)
- 3.1.5 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.

#### 3.2 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.

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 needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

### 3.3 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 City Manager, Finance Officer or Deputy Finance Officer for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow:

#### 3.3.1 Continuing Appropriations:

Fund balance levels must be sufficient to meet funding requirements for projects approved in prior years and which must be carried forward into the new fiscal year.

#### 3.3.2 Debt Service:

Established to provide for future debt service obligations.

#### 3.3.3 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.

### 3.4 Unassigned Fund Balance:

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

#### 3.4.1 Financial Reserve Policy

The Financial and Budget Management Policy denoted as No. B-10 of the City of Indio's Administrative Policies established benchmarks for reserves and a contingency fund. The City Council recognizes that the unobligated General Fund reserves are needed for cash flow requirements, downturns in the economy, vulnerability to actions by State and Federal governments, interruptions in revenue stream and exposure to damages to infrastructure caused by natural disasters, and other contingency factors.

### 3.5 Hierarchy of Spending Fund Balance:

The City's current fund balance practice provides that restricted fund balance be 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.

2. Summary:

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.

## Component Definitions

### VARIOUS COMPONENTS OF FUND BALANCE AS DEFINED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54

#### **Non-spendable Fund Balance:**

*Petty Cash:* The portion of fund balance that represents the asset amount of petty cash, held by a given fund.

*Prepaid Expenditures:* The portion of fund balance that represents the asset amount of prepaid expenditures, held by a given fund.

*Notes Receivable:* The portion of fund balance that represents the asset amount of notes receivable, held by a given fund.

*Advances to Other Funds:* The portion of fund balance that represents the asset amount of cash advanced to other funds, held by a given fund.

*Loans Receivable:* The portion of fund balance that represents the asset amount of loans receivable, held by a given fund.

#### **Restricted Fund Balance:**

*Traffic Congestion Relief:* The portion of fund balance derived from funds received from the State to be used for future traffic congestion relief.

*Debt Redemption:* The portion of fund balance derived from those funds within a given fund that has been set aside for debt redemption.

*Bond Proceed Requirement:* The portion of fund balance that is to be used in compliance with the Bond Official Statement.

*Bond Reserve Requirement:* The portion of fund balance derived from those funds that are set aside from debt proceeds and maintained as security for holders of the debt.

*State Gas Tax:* The portion of fund balance derived from gas taxes to be used as specified by the California Streets and Highways Code.

*Roadway and Traffic:* The portion of fund balance derived from fees collected to be used for funding future street planning and projects.

*Traffic Signalization:* The portion of fund balance derived from assessments collected to be used for funding future traffic signal planning and projects.

*Transportation Development Act Article 3:* The portion of fund balance derived from Article 3 of the TDA to be used for transportation (including streets and sidewalks) purposes.

*Traffic Safety:* The portion of fund balance derived from funds received from the Los Angeles County Municipal Courts for vehicle code violations to be used for traffic safety purposes.

*Proposition A Local Transit Assistance:* The portion of fund balance derived from county sales tax fees collected to be used for funding local transit.

*Local Transportation:* The portion of fund balance derived from fees collected to be used for funding future local transportation planning and projects.

*Street Lighting:* The portion of fund balance derived from homeowner assessments to be used for electricity and maintenance costs to operate street lights in certain sections of the City.

*Landscaping:* The portion of fund balance derived from homeowner assessments to be used to maintain landscaping in the City.

*Park Maintenance:* The portion of fund balance derived from assessments collected by the County to fund park maintenance costs.

*Solid Waste:* The portion of fund balance derived from the collection of fees by refuse haulers to develop a Source Reduction and Recycling Element.

*Air Quality Management:* The portion of fund balance derived from funds received from the South Coast Air Quality Management District to reduce air pollution.

*Grants:* The portion of fund balance derived from funds received for specific grant programs to be utilized in accordance with the grant restrictions.

*Arterial System Finance Program (ASFP):* The portion of fund balance derived from grants to be used in accordance with the grant restrictions for the specific development project.

*Fund Balance - Restricted:* The portion of fund balance that is in any non-general fund governmental fund that is restricted under the “Restricted Fund Balance” definition as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

**Committed Fund Balance:**

*Capital Projects:* The portion of fund balance that has been appropriated for specified capital projects and remains unspent.

*Building Replacement:* The portion of fund balance that is set aside each year during budget adoption to be used in future years for building maintenance and repairs.

*Arterial System Finance Program (ASFP):* The portion of fund balance that has been appropriated for specific public improvements in connection with a particular development project and remains unspent.

*Fund Balance - Committed:* The portion of fund balance that is in any non-general fund governmental fund that is committed under the “Committed Fund Balance” definition as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

**Assigned Fund Balance:**

*Donations:* Used to account for the portion of fund balance that is derived from unrestricted donations made to the City.

*Fund Balance - Assigned:* The portion of fund balance that is in any non-general fund governmental fund that is assigned under the “Assigned Fund Balance” definition as prescribed by Governmental Accounting Standards Board Statement No. 54 and not otherwise defined in this category above.

**Unassigned Fund Balance (General Fund Only):**

*Prior Year Available Fund Balance:* The portion of fund balance that is brought forward from the prior fiscal year and is available for appropriation to fund current fiscal year activities.

*Contingency Reserve:* The portion of fund balance that has been set aside as the City’s reserve for contingencies per the financial reserve policy.

*Fund Balance:* Any portion of General Fund fund balance that does not fall under any of the fund balance definitions presented above.