

## REPORT TO CITY COUNCIL

**DATE:** JUNE 22, 2011  
**TO:** HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL  
**FROM:** GREG RAMIREZ, CITY MANAGER  
**BY:** MELINDA BRODSLY, ACCOUNTANT  
**SUBJECT:** ADOPTION OF FUND BALANCE POLICY FOR THE GENERAL FUND

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The city is required to implement Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definition*, for the Fiscal Year 2011-12.

Staff has prepared, and the Finance Committee has reviewed a policy that establishes procedures for reporting unrestricted fund balance in the General Fund financial statements as required by GASB 54.

Attention was given to the classification of the Minimum Fund Balance Policy. While the City designated an amount equal to, or greater than, forty percent (40%) of each year's General Fund Operation Budget as the City's unobligated General Fund Reserve, it does not identify its purpose in significant detail; therefore it is classified as unassigned.

### RECOMMENDATION

Staff respectfully recommends the City Council adopt the Fund Balance Policy for the General Fund.

Attachment: City of Agoura Hills Fund Balance Policy for the General Fund

# **CITY OF AGOURA HILLS**

## **FUND BALANCE POLICY FOR THE GENERAL FUND**

### **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 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.

### **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.

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- 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 prepaid expenses. 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 needs to 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 Finance Director for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow:

- **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.

- **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. An example of unassigned fund balance would be the following:

### **Minimum Fund Balance Policy**

In June 2005, the City of Agoura Hills passed Resolution No. 05-1378 stating that the City Council and City Staff will endeavor to designate an amount equal to or greater than forty percent (40%) of each year's proposed General Fund Operating Budget as the City's unobligated General Fund Reserve. The City Council recognizes that the unobligated General Fund reserves are needed for cash flow requirements; and contingencies such as exposure to natural disasters, exposure to economic impacts, and vulnerability to actions of the State. This resolution requires that if, in any budget year, the City Council determines that the public interest requires expending any amount remaining in General Fund Reserves to fall below forty percent (40%) of that year's

General Fund Operating budget, the City Council and City staff, shall, in the following budget year, present a plan for returning the General Fund Reserve to the 40% level, as soon as practicable, based on the City's then-current budget circumstances.

### **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.