



City of Murrieta City Council Policy

POLICY: Fund Balance Policy

POLICY NO.: 100-10

DATE: June 21, 2011

PURPOSE

To comply with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* with the intent of improving financial reporting by providing fund balance categories 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.

POLICY

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the 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 GASB Statement No. 54.

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.

- Non-spendable fund balance (*inherently non-spendable*)
- 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. Examples of non-spendable fund balance are prepaid expenses, loans receivable and inventories. Restricted fund balance is either imposed by laws 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.

- **General Fund Operating Reserve**

The General Fund Operating Reserve policy requires that an amount equal to 25% of operating expenditures be set aside for cash flow and catastrophic events such as natural disasters. The amount set aside will be adjusted upon adoption of the annual operating budget.

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 or designee for the purpose of reporting these amounts in the annual financial statements. Examples of assigned fund balance include:

- **Encumbrances**

Fund balance levels must be sufficient to meet funding requirements for materials or services ordered, but not received, before the end of the fiscal year.

- **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.

- **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

Unassigned fund balance is the residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. Unassigned fund balance is also used to report negative net resources in other fund types.

Fund Balance Classification

The accounting policies of the City consider restricted fund balance to have been spent first when the expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when the 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 the unassigned amounts.

This policy is being instituted in order 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.

Adopted

A handwritten signature in black ink, appearing to read 'Randon K. Lane', written over a horizontal line.

Randon K. Lane
Mayor