

**CITY OF EL CAJON  
CITY COUNCIL POLICY**

SUBJECT:		POLICY #
<b>FUND BALANCE</b>		<b>B-12</b>
REFERENCE:	EFFECTIVE	PAGE
<b>GASB Statement No. 54, <i>Fund Balance Reporting and Governmental Fund Type Definitions</i></b>	<b>06/14/11</b>	<b>1 of 3</b>

**PURPOSE:**

To establish a fund balance policy that will ensure the City maintains adequate fund balance and reserves in the various governmental funds to provide sufficient cash flow for daily needs, secure and maintain investment grade bond ratings, offset significant economic downturns or revenue shortfalls, and provide funds for unforeseen expenditures related to emergencies.

**BACKGROUND:**

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the City Council to make certain decisions regarding the use of resources and classifications of ending fund balance in order for the annual financial reports (audits) to be in compliance with generally accepted accounting principles (GAAP). This new standard does not change the total amount of a given fund balance, but it substantially alters the categories and terminology used to describe the components that make up fund balance. The new categories and terminology reflect an approach that focuses, not on the financial resources available for appropriation within a fund, but on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

GASB Statement No. 54 defines five categories of fund balance.

*Nonspendable Fund Balance* – That portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained in tact, such as the principal portion of an endowment.

*Restricted Fund Balance* – That portion of a fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed Fund Balance* – That portion of a fund balance that includes amounts that can only be used for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment.

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*Assigned Fund Balance* – That portion of a fund balance that includes amounts that are constrained by the government’s intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established at either the highest level of decision making, or by an official designated for that purpose.

*Unassigned Fund Balance* – That portion of a fund balance that includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that should report this category of fund balance.

Unrestricted fund balance is the combination of Committed, Assigned, and Unassigned fund balance.

**POLICY:**

This policy focuses on the financial reporting of the Committed, Assigned, and Unassigned Fund Balance categories. Nonspendable and Restricted Fund Balance are established by definition in GASB Statement No. 54 and cannot be modified by City action.

This policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

In addition, GASB Statement No. 54 allows the City Council authority to “assign” ending fund balance or bestow this authority to a city officer or designee. The City Manager is hereby designated as the official who has the authority to establish, modify, or rescind a fund balance assignment.

**COMMITTED FUND BALANCE:**

**General Fund - Operating Reserve**

To continue a long-standing practice of maintaining an operating reserve, equal to 20% of annual expenditures, which serves two purposes: (1) To provide General Fund cash flow between July and December when expenditures typically exceed revenues, and (2) To serve as a reserve against unexpected events or risks outside the City’s control. This amount is computed by the City Manager or designee and approved by the City Council each year in conjunction with the adoption of the annual budget.

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**ASSIGNED FUND BALANCE:**

General Fund

The City Manager will identify fund balance assignments, if any, in the Preliminary and Final Budget for each fiscal year.

Special Revenue, Capital Projects, and Debt Service Funds

The City Council has demonstrated their intent to utilize this portion of fund balance for the purpose that these funds were established.

**UNASSIGNED FUND BALANCE:**

General Fund - Reserve for Future Budget Imbalance

This reserve is established for the purpose of stabilizing 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.