

**SUBJECT:** Fund Balance Policy

**EFFECTIVE DATE:** June 21, 2016

**I. POLICY OBJECTIVE**

To establish procedures for reporting fund balance in accordance with Governmental Accounting Standards Board Statement No. 54 (GASB 54), and to establish fund reserve levels, and to authorize the City Manager, or his designee, to designate assignments of fund balance, annually, for the purpose of financial statement reporting.

**II. AUTHORITY**

Monrovia Municipal Code 2.28.060

**III. ASSIGNED RESPONSIBILITY**

Administration of this policy shall be the responsibility of the Administrative Services Department. The Finance Division, specifically, shall have the responsibility to ensure ongoing adherence.

**IV. APPLICABILITY**

Annual financial statements for periods beginning after June 15, 2016.

**V. BACKGROUND**

Fund balance, the difference between assets and liabilities, is one of the most important elements of an organization's financial statements. It is used by financial statement readers to determine an organization's financial position, to identify the organization's ability to pay future obligations, and to analyze the organization's long-term financial sustainability.

In February 2009, the Governmental Accounting Standards Board issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the Statement was to improve the usefulness, transparency, and understandability of governmental fund balance information by establishing five new categories of reporting, as follows:

Category	Nature of Classification
• Nonspendable	Cannot be readily converted to cash
• Restricted	Externally-imposed limitation on use
• Committed	Self-imposed limitation on use
• Assigned	Limitation resulting from "intended" use
• Unassigned	Residual balance not classified in one of the other categories

These new categories represent a hierarchy of classifications that illustrate the extent to which a government is bound by constraints on its resources within each governmental fund. The Statement does not change the total amount of fund balance reported, but substantially changes the methodology of classifying fund balance. By requiring that fund balance be classified into one of the five pre-defined categories, GASB 54 makes it easier for financial statement readers to understand the extent of the constraints placed on a government's fund balance.

The requirements of GASB 54 are effective for financial periods beginning after June 15, 2010.

VI. POLICY AND PROCEDURES

**FUND BALANCE REPORTING**

The City will report fund balance in accordance with all guidelines established in GASB 54. Per the requirements of GASB 54, fund balance must be classified in one of the following categories, as follows:

- Non-spendable Fund Balance

Fund balance that, by its very nature, cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples include items that are not expected to be converted to cash, such as inventories, prepaid items, long-term receivables, and land held for resale. An example of a legally or contractually restricted item includes the corpus, or principal, of a permanent fund.

Prior to GASB 54, this category was reported as "reserved" fund balance.

- Restricted Fund Balance

Fund balance that has been restricted for a specific purpose based on an externally enforceable legal restriction. A restriction may occur as a result of one of the following conditions:

- 1.) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- 2.) Imposed by law through constitutional provisions or enabling legislation.

These amounts may be spent only for the specific purposes imposed by the external restriction and may only be changed or lifted with the same level of consent.

Prior to GASB 54, this category was reported as "reserved" fund balance.

- Committed Fund Balance

Fund balance that has been committed for a specific purpose through formal action made by the highest level of decision-making authority within an organization. The City of Monrovia's highest level of decision-making authority is the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action.

The formal action of the government that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, may be determined in the subsequent period. The City of Monrovia's formal action would be made by Resolution.

Prior to GASB 54, this category was reported as "unreserved" fund balance.

Currently, no commitments of fund balance have been identified.

- Assigned Fund Balance

Amounts that are constrained by the government's "intent" to be used for a specific purpose, but are neither restricted nor committed, should be reported as assigned fund balance.

This policy delegates the authority to assign amounts to the City Manager, or his designee. Assignments made by the City Manager may also be removed by the City Manager.

For funds other than the General Fund, assigned fund balance includes all remaining balances (except for negative balances) that are not classified as non-spendable, restricted, or committed. For the General Fund, assignments include those amounts that have been assigned for a specific purpose by the City Manager. Assignments for a specific purpose may not be made if the assignment would result in a deficit unassigned balance.

Prior to GASB 54, this category was reported as "unreserved" fund balance.

Examples of assignments include the following:

1. Assignments for Special Programs (includes programs such as the City's ECB Departmental Savings, the Wilderness Management Plan, and other assignments that have been set aside to fund special programs).
2. Assignments for ongoing projects.

- Unassigned Fund Balance

Amounts that represent the residual fund balance after all other classifications have been made in the General Fund. The General Fund should be the only fund

that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance may be reported.

Prior to GASB 54, this category was reported as “undesigned” fund balance.

#### Fund Balance Accounting Policy

GASB 54 also requires governments to disclose their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent when applying and classifying fund balance amounts. As such, the City of Monrovia’s accounting policies consider restricted fund balance to be spent, first, when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. Additionally, when an expenditure is incurred for which amounts in any of the unrestricted fund balance classifications could be used, the City’s accounting policies dictate that committed balances will be used first, followed by assigned balances, and then unassigned balances.

#### **FUND TYPE USE**

GASB 54 also establishes uniform guidelines for the use of governmental fund types for financial reporting. The Statement clarifies existing governmental fund type definitions in order to improve the comparability of governmental fund financial statements and to help financial statement users better understand the purposes for which governments have chosen to use particular funds for financial reporting.

The City will utilize governmental fund types in accordance with the guidelines established in GASB 54. Below is a listing of the governmental fund types and their acceptable use per GASB 54:

- General Fund - The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund.
- Special Revenue Fund - Special revenue funds should be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Capital Projects Fund – Capital project funds should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Debt Service Fund – Debt service funds should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

- Permanent Fund – Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs (for the benefit of the government or its citizenry).

## V. FUND BALANCE RESERVE LEVELS

The Government Finance Officers Association (“GFOA”) recommends that local governments establish a formal policy on the level of unrestricted fund balances that should be maintained in the General Fund for Generally Accepted Accounting Principles and budgetary purposes. GFOA recommends, at a minimum, that governments maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Two months is equal to 16.67% of either operating revenues or operating expenditures. This policy is designed to focus on the City’s short and long term obligations and address significant swings in cash flows due to economic cycles and unanticipated emergencies.

The fund balance reserve levels are established for the following funds:

1. General Fund
2. Enterprise Funds
3. Facilities Fund
4. Fleet Replacement Fund
5. Retirement Fund

### 1. General Fund:

Minimum Reserve Balance and Working Capital Fund Balances:

- The City will strive to maintain a minimum working capital fund reserve of at least 10% of General Fund budgeted operating expenditures.
- The City will strive to maintain a minimum emergency contingency reserve fund reserve of at least 10% of General Fund budgeted operating expenditures. This reserve represents the minimum emergency contingency reserve the bond rating agencies and bond insurance companies recommend cities maintain to deal with local disasters, emergencies, and/or unexpected appropriation needs.
- The fund reserve amounts are to be applied to the General Fund’s recurring operating budget only. One-time (non-recurring) expenditures, as well as transfers out to other funds will not be used to calculate the reserve amounts.

**2. Enterprise Funds**

Minimum Reserve Balance and Working Capital Fund Balances:

- The City will strive to maintain a minimum working capital fund reserve of at least 30% of budgeted operating expenditures for all Enterprise Funds.
- Enterprise Funds include Water (Utilities) Fund, Sewer and Sanitation Fund, Storm Drain Fund, Street Sweeping Fund, Environmental Services Fund.

This is considered the minimum level necessary to adequately provide for economic uncertainties and other financial hardships or downturns in the local or national economy; contingencies for unseen operating or capital needs; and/or cash flow requirements.

**3. Facilities Fund**

- The City will strive to maintain a minimum emergency contingency reserve fund reserve of at least 30% of the Facilities Fund budgeted operating expenditures. This reserve represents the minimum reserve necessary to address local disasters, emergencies, and/or unexpected appropriation needs.

**4. Fleet Replacement**

- For all city vehicles and heavy equipment, the City will maintain a Fleet Replacement Fund to provide for the timely replacement of vehicles and heavy equipment with an individual replacement cost of \$15,000 or more.
- The City will strive to maintain a minimum fund balance in the Fleet Replacement Fund of at least 30% of the estimated replacement value of all of the vehicles and equipment in the fleet inventory.

**5. Retirement Fund Pension Cost Reserve Fund**

- The City will strive to maintain a reserve for the purposes of offsetting unanticipated fluctuations in the PERS rate, which can cause the City's annual pension costs to increase or decrease dramatically from one year to the next.
- The City will strive to maintain a minimum reserve balance of \$1 million in this fund.

**Future Capital Project Designations**

- The City may designate specific fund balance levels for future development of capital projects that has been determined to be in the best long-term interests of the City.

**Other Governmental Fund Types – Discretionary Funds**

- For all discretionary funds, fund balance levels should be sufficient to meet funding requirements for projects approved in prior years.
- Any discretionary funds with unrestricted fund balances may have the unrestricted fund balances added to the General Fund working capital reserve or the General Fund emergency contingency reserve.

**Use and Replenishment**

- The use of fund reserves shall be consistent with conditions described under each fund type above. The use of reserves shall only be approved if there is a defined time period within which the City seeks to use the reserve funds and to replenish the fund balances. The replenishment period should usually be one to three years. For example, year-end surpluses may be used for replenishing fund balances.

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Approved As To Form:

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