

City of Tulare – Administrative Policy No. ~~13-01~~ FN-05
Fund Balance Policy
Approved: 06/04/2013

**City of Tulare
Fund Balance Reporting Policy
In Accordance with GASB 54 and Governmental Fund Type
Definitions**

Purpose

The Government Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in February, 2009. This statement establishes a constraint-based approach in reporting fund balances. The statement also revises governmental fund type definitions and clarifies required reporting for stabilization funds.

GASB 54 applies to fund balance presentations as displayed on the governmental fund balance sheet. It does not impact the reporting of proprietary and fiduciary fund balances.

Effective

GASB 54 was effective for the fiscal year 2010-2011 annual financial reports. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively be restating fund balance for all prior periods presented.

Fund Balance Policy

Fund Balance Classifications

GASB 54 significantly changes the presentation of governmental fund balances on the fund financial statements. The table below displays the current fund balance classifications versus the new classifications.

<u>Classifications Through Fiscal Year 2009-2010</u>	<u>GASB 54 Classifications Beginning in Fiscal Year 2010-2011</u>
Reserved Unreserved Designated Unreserved/Undesignated	Non-spendable Restricted Committed Assigned Unassigned

Prior to GASB Statement No. 54, fund balances were divided into reserved and unreserved portions. The function of reserved fund balance was simple to isolate the portion of fund balance that was not available for the following period's budget. In turn, unreserved fund balance served as a measure of current available financial resources.

GASB 54 instead classifies fund balance based on the level of constraints placed on the usage of fund resources. For example, federal revenues received into a fund would generally be a restricted *revenue source*. GASB 54 focuses on the revenue source itself, rather than on its availability for expenditure

GASB 54 defines specific criteria for the resources that can be reported in each possible fund balance classification. It is not expected or required that all funds report all possible balance classifications.

Non-spendable Fund Balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either:

- Not in spendable form, or
- Legally or contractually required to be maintained intact.

The “not in spendable form” criterion includes items not expected to be converted to cash – for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) or a permanent fund is an example of an amount legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance should be reported as restricted when constraints placed on the use of resources are either:

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

Enabling legislation, as the term is used in GASB 54, authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource, providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups or the judiciary – to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (City Council) should be reported as committed fund balance. Those committed amounts cannot be used for any other

purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

In contrast to fund balance restricted by enabling legislation, amounts in the committed fund balances classification may be redeployed for other purposes with appropriate due process. The government imposes constraints on the use of committed amounts separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the government that commit amounts to specific purposes is not considered to be legally enforceable.

The formal action that commits fund balance to a specific purpose must occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent year.

Assigned Fund Balance

Amounts 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. Intent should be expressed by:

- the City Council, or
- a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Both the committed and assigned fund balance classification includes amounts constrained to being used for specific purposes by actions taken by the government itself. However, the authority for making an assignment is not required to be the state's highest level of decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts classified as committed.

Assigned fund balance includes:

- All remaining amounts (except for negative balances) reported in governmental funds, other than the general fund, not classified as non-spendable and neither restricted nor committed; and
- Amounts in the general fund intended to be used for a specific purpose with less restriction than implied by the restricted or committed classification.

By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund, the City has assigned those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose narrower than the general purposes of the government itself. The action taken to assign fund balance can be done after year end. Assignments cannot cause the fund to report a negative (deficit) fund balance.

An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenue satisfies the criteria to be classified as an assignment of fund balance as long as it does not cause a negative (deficit) fund balance.

Unassigned Fund Balance

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within 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 exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Stabilization Arrangements

GASB 54 also clarifies the required fund balance reporting for stabilization (rainy day) arrangements.

Stabilization funds hold amounts formally set aside for use in emergency situations or when revenue shortages or budgetary imbalances arise. These amounts are subject to controls that dictate the circumstances under which they can be spent. The formal action that allows spending of stabilization funds should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely.

Stabilization arrangements that do not meet the criteria to be supported within the restricted or committed fund balance classifications should be reported as unassigned in the general fund.

The fund balance for the City's Capital Asset, Catastrophic, Economic Incentive, Measure I and Technology Reserve will be classified as committed. The City Council annually identifies these reserves and their specific purpose during the passing of the budget.

Encumbrances

Encumbering funds already considered restricted, committed or assigned base on the constraints placed on them does not add to or further limit the use of the funds. Encumbrances should not be displayed separately within the restricted, committed, and assigned categories.

Amounts encumbered for a specific purpose may be reported as assigned fund balance only if the resources are not already considered to be reportable as restricted or committed fund balance.

Significant encumbrances at fiscal yearend will be disclosed in the notes to the financial statement along with other significant commitments.

Note Disclosures

The following new note disclosures are required by GASB 54:

- Additional detail regarding the purposes of restrictions, commitments, and assignments, if the required level of detail is not met through display on the face of the balance sheet.
- Components of non-spendable balances if displayed in the aggregate on the financial statements
- The decision-making authority and formal action, if any, that results in commitments of fund balance.
- The bodies or persons with authority to express intended uses of resources that result in assigned fund balance.
- The order in which the City assumes restricted, committed, assigned, and unassigned amounts are spent when amounts in more than one classification are available for a particular purpose.
- Information about minimum fund balance policies, if a government has one.
- Significant encumbrances reported in conjunction with other disclosures of significant commitments.
- For stabilization arrangements; the authority for establishing such arrangements, requirements for additions and the conditions under which amounts may be used. If not reported on the face of the financial statements, the stabilization balance would be disclosed.
- The purpose of each major special revenue fund and which revenues or other sources are reported in those funds.

Spending Priority

The city's spending priority is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

Most funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of the fund will be allocated to the applicable fund balance classifications in the order of the spending policy above.

Governmental Fund Types Defined

As part of the GASB 54 fund balance reexamination project, GASB clarified terms used in governmental fund type definitions. The clarifications aim to improve consistency in reporting similar governmental fund activity across the country. The most significant change to the definitions is related to the special revenue fund type.

General Fund

The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund

Special revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted* or *committed* to expenditure for *specific purposes* other than debt service or capital projects.

The specific restricted or committed revenue sources should be expected to continue to comprise a substantial portion of the fund. Other resources reported in a special revenue fund, such as transfer or investment earnings, may be reported if they are also restricted, committed or assigned for the specific purpose of the fund.

To remain a special revenue fund for financial statement purposes, the fund must:

- Report restricted or committed *specific revenue sources*.
- Those specific revenue sources must be *restricted* or *committed* to expenditure for specific purposes.
- The specific revenue sources must be expected to continue to be a substantial portion of the inflows.

Transfers-in do not count as a specific revenue source. Special revenue funds that do not meet the GASB 54 definition will be reclassified to the general fund.

GASB does not require the reporting of special revenue funds. With GASB 54, there are additional disclosure requirements for each special revenue fund presented. Given these factors, the Financial Reporting section will limit the use of special revenue funds citywide.

Debt Service Fund

Debt service funds are used to account for and report financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital Projects Fund

Capital projects funds are used to account for and report financial resources restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent Funds

Permanent funds are used to account for and report resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizens. Permanent funds do not include private- purpose trust funds, which should be used to report situations in which the government is required to use the principal or earning for the benefit of individuals, private organizations, or other governments.