



# City of Aliso Viejo

## COUNCIL POLICY

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<b>FUND BALANCE POLICY</b>	<b>2012-04</b>	<b>300-08</b>	<b>05/18/2011</b>	<b>1 of 3</b>

### PURPOSE

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the fund financial statements. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures or other similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations. In addition, the policy authorizes the City Manager and Director of Financial services to prepare financial reports which accurately categorize fund balance per GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

### POLICY

#### Classification of Fund Balances

Fund Balance shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet. Governmental fund assets are those of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds. Negative fund balance amounts shall not be reported for restricted, committed, or assigned funds. The fund balance of the general fund, one of the governmental fund types, is of primary significance because the general fund is the primary fund, which finances most operations in the City. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance will be presented using the following classifications depicting the relative strength of the spending constraints placed on the purposes for which the resources can be used:

**Non-spendable Fund Balance** – portion of fund balance that cannot be spent because it is either (a) not in a spendable form, such as prepaid items, inventories or supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. Included are inventories, prepaid amounts, deferred expenditures, long-term receivables, notes receivable, and outstanding encumbrances. Specifically, in the City's annual financial reports, this component of fund balance includes:

- Prepaid amounts.

**Restricted Fund Balance** – portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants) or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Specifically, in the City's financial reports, this component of fund balance includes:



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- Funds Reserved for Debt Service
- Gas Tax Fund Balance
- M2 Fund Balance
- AQMD Fund Balance
- SLESF Fund Balance.

**Committed Fund Balance** – portion of fund balance that is subject to self-imposed constraints on spending due to formal action of the highest level of decision-making authority (the City Council); funds remain committed unless removed in the same manner. Historically, this category has not been previously reported in the City’s financial reports.

**Assigned Fund Balance** – portion of fund balance that is constrained by the City’s intent to utilize fund balance for a specific purpose, but that is neither restricted nor committed. Currently includes the following Council-designated reserves:

- Contingency Reserves
- Self-Insurance/Benefit Obligations
- Long Term Debt
- Asset Replacement Reserves
- Emergencies & Unanticipated CIP Projects.

**Unassigned Fund Balance** – portion of fund balance that is the difference between the total fund balance and the total of the non-spendable fund balance, restricted fund balance, committed fund balance, and assigned fund balance.

Due to the already present and/or legal limitations on the use of non-spendable and restricted fund balances, they are not subject to this Fund Balance Policy. The following fund balance policies are only relevant to the unrestricted fund balances, which include committed, assigned, and unassigned.

### **Authorization and Action to Commit Fund Balance**

The City Council is the government’s highest level of decision-making authority and the formal action that is required to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at a City Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined subsequent to fiscal year end.



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### **Authorization and Action to Assign Fund Balance**

By resolution, the Council has authorized the City Manager and Director of Financial Services to assign fund balance. Therefore, assignments of fund balance by the City Manager and Director of Financial Services do not require formal action by the City Council. The City Council maintains its authority, at all times, to assign fund balance to a specific purpose in relation to this Fund Balance Policy by providing direction to staff.

### **Minimum Unassigned Fund Balance**

The City will strive to maintain an unassigned fund balance of between 25% and 35% of the budgeted operational expenditures in the City's General Fund. Due to the volatile nature of a majority of City revenues, it is not deemed excessive for the City to maintain a fund balance in the General Fund at levels greater than 35% of the budgeted operational expenditures. The purpose of this unassigned balance is to provide a safety net that ensures the orderly provisions of services to citizens in the event of an unanticipated budget shortfall or emergency situation.

Should unassigned fund balance fall below the target amount, the City will seek to reduce expenditures, prior to increasing revenues, in order to replenish fund balance within a reasonable timeframe. The City will make every effort to avoid using fund balances for recurring operational expenditures. To the extent that the unassigned fund balance exceeds the minimum target, the City may draw upon fund balance to provide cash financing for capital projects or other one-time purchases.

### **Order of Expenditure of Funds**

The spending prioritization, or flow assumption, is to use the most restricted category of funds that is available before unrestricted amounts. Within unrestricted resources, committed resources are used first, followed by assigned resources, and finally unassigned resources.