

**COUNCIL POLICY
CITY OF CHULA VISTA**

SUBJECT: Fund Balance Policy for Governmental Funds per Governmental Accounting Standards Board Statement No. 54

POLICY NUMBER

159-04

EFFECTIVE DATE

June 7, 2011

PAGE

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ADOPTED BY: Resolution 2011-098

DATED: 06/07/2011

AMENDED BY: Resolution No. (date of resolution)

BACKGROUND

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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 a fund balance. The new categories and terminology reflect an approach that focuses, not on 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 from which amounts in the fund can be spent.

The term fund balance is used to describe the difference between assets (what is owned) and liabilities (what is owed) reported within a fund. In the past, fund balances have been classified into three separate components: Reserve, Designated and Undesignated. There are almost always important limitations on the purpose for which all or a portion of the resources of a fund can be used. The force of these limitations can vary significantly, depending on their source. The various components of the new fund balance reporting standard are designed to indicate the extent to which the City is bound by these limitations placed upon the resources.

PURPOSE

This fund balance policy establishes the procedures for reporting the various components of fund balance for the City's governmental funds. This policy does not apply to proprietary funds which were not addressed by GASB 54.

The policy also authorizes and directs the Director of Finance to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

POLICY

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GASB Statement No. 54 defines five new components of fund balance that will replace the current existing three components. The five new components are:

Nonspendable Fund Balance

The 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 intact such as the principal portion of an endowment. This category was traditionally reported as a “reserved” fund balance under the old standard.

Restricted Fund Balance

The 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. This category was traditionally reported as a “reserved” fund balance under the old standard.

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 that amount can be determined subsequently.

This category was traditionally reported as “designated” fund balance under the old standard.

Assigned Fund Balance.

The 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 authority, or by an official designated for that purpose. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Director of Finance for the purpose of reporting these amounts in the annual financial statements. Examples of assigned fund balance follow.

- 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. This would include capital projects and purchase orders.

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- Debt Service. Established to provide for future debt service obligations.
- Budget Balancing Measures. Funds set aside for the purpose of stabilizing the delivery of City services during natural disasters or 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. The 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 a positive balance in this category of fund balance.

The general fund, as the principal operating fund of the government, often will have net resources in excess of what can properly be classified in one of the four categories already described. If so, that surplus is presented as *unassigned fund balance*.

If resources were not at least assigned, they could not properly be reported in a fund other than the general fund to begin with. Therefore, only the general fund can report a positive amount of *unassigned fund balance*. Conversely, any governmental fund in a deficit position could report a negative amount of *unassigned fund balance*.

This category was traditionally reported an “undesignated” fund balance under the old standard.

Fund Balance Classification

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance (committed, assigned or unassigned) could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The policy of the City of Chula Vista is to follow the guidelines of GASB Statement No. 54 and its required practices. No other policy or procedure supersedes the authority and provisions of this policy.