RESOLUTION NO. 2018-03

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELL ADOPTING THE CITY OF BELL FUND BALANCE POLICY

WHEREAS, the Finance Director has prepared and submitted to the City Council for its review, the Fund Balance Policy (Exhibit A) which meets the standards set forth by the Governmental Accounting Standards Board (GASB) Statement 54: “Fund Balance Reporting and Governmental Fund Type Definitions”.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF BELL DOES HEREBY FIND AND RESOLVE AS FOLLOWS:

SECTION 1. The proposed Fund Balance Policy (Exhibit A) is hereby approved and adopted subject to revisions and amendments as deemed necessary and approved by the City Council.

PASSED, APPROVED AND ADOPTED this 10th day of January, 2018.

Fidencio Joel Gallardo, Mayor

APPROVED AS TO FORM:

David Aleshire, City Attorney

CERTIFICATE OF ATTESTATION AND ORIGINALITY

I, Angela Bustamante, City Clerk of the City of Bell, hereby attest to and certify that the foregoing resolution is the original resolution adopted by the Bell City Council at its regular meeting held on the 10th day of January, 2018, by the following vote:

AYES: Councilmembers Romero, Saleh, Valencia, Vice-Mayor Quintana and Mayor Gallardo

NOES: None

ABSENT: None

ABSTAIN: None

Angela Bustamanta, City Clerk
City of Bell

Fund Balance Policy

Adopted: January 10, 2018
Resolution No: 2018-03

Prepared By:
Finance Department
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City of Bell

Fund Balance Policy

PURPOSE

This Fund Balance Policy establishes guideline and procedures for allocating and reporting fund balance in the financial statements in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

This policy and procedures prescribed by it supersede all previous policies and regulations regarding the City’s fund balance and reserves.

ACCOUNTING GUIDANCE:

Fund balance is the difference between the assets and liabilities reported in a governmental fund. GASB Statement No. 54 defines five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

The following components are defined by GASB Statement No. 54 and shall constitute the City’s Fund Balance:

A. **Nonspendable fund balance (inherently nonspendable)** – Assets that cannot be converted to cash (i.e., prepaid items and inventories of supplies) and assets that will not be converted to cash soon enough to affect the current period.

B. **Restricted fund balance (externally enforceable limitations on use)** – Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments and limitations imposed by law through constitutional provisions or enabling legislation. Examples include grants, gas tax, Measure B sales tax and Developers impact fees.

C. **Committed fund balance (self-imposed limitations on use set in place prior to the end of the fiscal year)** - Limitation imposed at the highest level of decision making that requires formal action at the same level to remove (City Council).
D. Assigned fund balance (limitation resulting from intended use) – intended use established by highest level of decision making, by a body designated for that purpose, or by an official designated for that purpose (delegated by the City Council to the City Manager).

E. Unassigned fund balance (residual net resources) – Excess of nonspendable, restricted, committed, and assigned total fund balance.

Funds:

1. The General Fund: City’s primary operating fund accounts for all financial resources of the City except those required to be accounted for in another fund.

2. Special Revenue Funds: Account for specific revenues that are legally restricted to expenditures for particular purposes.

3. Debt Service Funds: Account for the accumulation of resources and payment of principal and interest of the Public Finance Authority or Successor Agency. City will maintain sufficient reserves in its debt service funds that will equal, or exceed, the reserve fund balances required by bond covenants.

4. Capital Project Funds: Established on a project length basis and are used to account for revenues and expenditures during the construction/acquisition of major capital facilities and projects. These funds are financed mainly by borrowings and contributions, and are not used to accumulate resources for future capital improvements, and therefore will not be used to build up reserves.

5. Internal Service Funds /Non departmental fund: Established on a cost reimbursement basis. Revenues are received by charging the other funds and departments of the City. The City will maintain positive net assets in each of the internal service funds. When an internal service fund accumulates net assets greater that the actuarially required level, the City may transfer any or all of the excess to other operating funds, as deemed necessary.

6. Agency Funds: Account for the resources held by the City in a fiduciary capacity for individuals, governmental entities, and others.
DIRECTIVE:

1. Hierarchy of Fund Balance Use
   When multiple categories of fund balance are available for expenditure, the City will spend the most restricted funds first before moving down to the next category with available funds in the following order:
   a. Restricted
   b. Committed
   c. Assigned
   d. Unassigned

2. Committing Fund Balance
   The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken 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 in the subsequent period.

3. Assigned Fund Balance
   The City Council delegates the authority to assign fund balance to the City Manager, for intended specific purposes. The following assignments are established and may be modified by the City Manager as deemed appropriate.
   a. Encumbrances: Encumbrance balances that are not included in restricted or committed fund balance shall be considered assigned and will be reported by function.
   b. Continuing Appropriations: Fund balance levels sufficient to meet funding requirements for projects approved in prior fiscal years and which are carried forward into the new fiscal year. Continuing appropriations will be reported by function.
   c. Public Building/ Infrastructure Replacement/ Maintenance Reserve: Assigned for future building and infrastructure replacement and maintenance projects as identified in Capital Improvement Plan but not included in the City council approved Budget and/or futures project requirements are identified.
d. Contingency for Legal Settlements: Assigned for legal settlements that may exceed the City’s actuarially determined annual accrued liability in the General Liability Internal Service Fund determined based on ongoing litigation.

e. Compensated Absences: Assigned for unused vacation and miscellaneous leave hours earned by City employees at the employees’ hourly rate.

f. Debt Service: Assigned to provide for future debt service obligations.

4. Unassigned Fund Balance:

These are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four components. The General Fund is the only fund that may report a positive (surplus) unassigned balance. Conversely, any governmental fund in a negative (deficit) position could report a negative amount of unassigned fund balance.

**Surplus:** Since a surplus does not represent a recurring source of revenue, it shall not be used to fund a recurring expense; however, the surplus may be appropriated for use to fund a one-time expenditure or use not already funded through an appropriation.

**Deficit:** If it determined there is a deficit in the General Fund, the deficit shall be restored through the following mechanisms, in order or priority:

- Reduction of assigned fund balance levels
- Committed fund balance levels
- Transfer of unassigned fund balances from other related funds where legally permissible.

**Fund Balance and Reserves**

1. General Fund Minimum Fund Balance. The City will strive to maintain a minimum unassigned fund balance of at least 25% of operating expenditures in the General Fund. This represents 90 days of cash flow and is based on the GFOA’s draft methodology for setting reserve levels in adequately providing for:

- Economic uncertainties, local disasters and other financial hardships or downturn in the local or national economy.
- Contingencies for unseen operating or capital needs.
- Unfunded liabilities such as self-insurance, pensions and retiree health obligations.
- Institutional changes, such as State budget takeaways and unfunded mandates.
- Cash flow requirements.
  Whenever the City’s General Fund Reserves fall below this target, the City will strive to restore reserves to this level within five years. As revenues versus expenditures improve, the City will allocate about half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects. Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:
  - One time uses in meeting cash flow needs; closing a projected short-term revenue-expenditure gap; responding to unexpected expenditure requirements or revenue shortfalls; and making investments in human resources, technology, liability reductions, economic development and revenue base improvements, productivity improvements and other strategies that will strengthen City revenues or reduce future costs.
  - Where a forecast show an ongoing structural gap, in providing a strategic bridge to the future.

2. Facilities, Equipment, Fleet and Infrastructure Replacement. The City will establish an Asset Replacement Fund and strive to set annually aside funds to provide for the timely replacement of long-lived capital assets such as facilities, equipment, vehicles and infrastructure. The annual contribution to this fund will generally be based on the annual use allowance or depreciation, which is determined based on the estimated life of the asset vehicle or equipment and its original purchase cost. Interest earnings and sales of surplus equipment as well as any related damage and insurance recoveries will be credited to this fund.

3. Future Capital Project Fund Balance Assignments. The Council may assign specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interests of the City.

4. Other Commitments and Assignments. In addition to the assignments noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; commitments for encumbrances; and other reserves, commitments or assignments required
by contractual obligations, state law or generally accepted accounting principles.

Annual Reporting and Periodic Review:
Before completion of the City's Comprehensive Annual Financial Report, the Finance Director shall prepare a Fund Balance Status Report as part of the City's financial reporting process. At least every two years, the City Council will affirm or revise the Policy including the percentage range established by the components described herein (usually during the biennial budget process).