

City of Escondido Fund Balance Policy

Purpose

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Procedures

Fund Balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are 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:

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

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, a resolution. City Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently. The following will be classified as committed fund balance.

General Fund

Reserve

The City Council has established a target Reserve balance of 25 percent of General Fund operating revenues in order to maintain adequate levels of fund balance to mitigate current and future risks and to adequately provide for cash flow requirements and contingencies for unseen operating or capital needs of the City. The Reserve balance is available to fund one-time unanticipated expenditure requirements, local disasters, or when actual revenue received is less than the amount budgeted resulting in an operating deficit in the General Fund.

When Reserve Funds are used the method for replenishing deficiencies including the source of funding and time period for replenishment to occur will be defined in the resolution.

The City Council may, by the affirming vote of three members, change the amount of this commitment and/or specific use of these funds.

The City Council has directed staff to review the General Fund target Reserve risk factor analysis annually to determine if the target Reserve balance has changed.

Special Revenue Funds

Center for the Arts

The City will commit that portion of fund balance derived from charges for services generated from Arts Center Activities for the operations of the California Center for the Arts.

Parks & Recreation

The City will commit that portion of fund balance received from operating activities of City facilities (charges for services) for the operation of City parks and recreation facilities.

Reidy Creek Golf Course Fund

The City will commit that portion of fund balance received from operating activities of the golf course (charges for services) for the operation of the Reidy Creek Golf Course.

Vehicle Parking District

The City will commit that portion of fund balance provided by parking permit revenues for the maintenance and operation of City-owned public parking lots.

Ryan Trust

The City will commit monies received from the Frances B. Ryan Trust, which was established to create the Pioneer Room, a historical perspective of Escondido, to provide financing for its ongoing operation.

Hegyri Trust

The City will commit Funds received for the Hegyi Family Trust to be used to recognize library volunteers.

Assigned Fund Balance

Amounts that are 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.

This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Finance Director for the purpose of reporting these amounts in the annual financial statements. A few 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.

Debt Service

Established to provide for future debt service obligations

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 categories.

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 could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

This policy is in place to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54.

RESOLUTION NO. 2015-215R

A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF ESCONDIDO, CALIFORNIA,
AUTHORIZING AN AMENDMENT TO THE
ESCONDIDO FUND BALANCE POLICY TO
ESTABLISH A GENERAL FUND TARGET
RESERVE BALANCE

WHEREAS, the Governmental Accounting Standards Board (“GASB”) has issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, with the intent of improving financial reporting by providing fund balance categories that will be more easily understood; and

WHEREAS, the City Council of the City of Escondido has adopted Resolution No. 2012-133R, the Fund Balance Policy; and

WHEREAS, the Fund Balance Policy provides that the City Council may commit funds for specific purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action to establish the commitment; and

WHEREAS, the City Council adopted Resolution No. 2015-174 that committed funds of \$16,892,319 to a General Fund Reserve to maintain adequate levels of fund balance to mitigate current and future risks and to adequately provide for cash flow requirements and contingencies for unseen operating or capital needs of the City; and

WHEREAS, the City Council desires at this time and deems it to be in the best public interest to amend the Fund Balance Policy and establish a General Fund target Reserve balance of 25 percent of General Fund operating revenues; and

Whereas, the City Council desires at this time and deems it to be in the best public interest to include in the Fund Balance Policy direction to staff to review the General Fund target Reserve risk factor analysis annually to determine if the Reserve target has changed;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.
2. That the City Council hereby adopts the modified attached Fund Balance Policy presented in Exhibit "A," attached to this Resolution and incorporated by this reference.