

RESOLUTION NO. 11-35

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LANCASTER, CALIFORNIA, APPROVING AND ADOPTING A FUND BALANCE POLICY AND AUTHORIZING THE CITY MANAGER AND/OR FINANCE DIRECTOR TO ASSIGN FUND BALANCE TO A SPECIFIC PURPOSE IN RELATION TO THIS FUND BALANCE POLICY

WHEREAS, the Governmental Accounting Standards Board (GASB) is the rule making body for governmental accounting; and

WHEREAS, GASB, seeking to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions, has issued its Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for reporting periods beginning after June 15, 2010;

NOW, THEREFORE, BE IT RESOLVED AND ORDERED BY THE CITY COUNCIL OF THE CITY OF LANCASTER, CALIFORNIA, THAT:

Section 1. Fund Balance Policy attached hereto as Exhibit "A" is hereby approved by the City Council of the City of Lancaster, California; and

Section 2. City Manager and/or Finance Director are each hereby authorized and empowered, for and on behalf of the City to assign fund balance to a specific purpose in accordance with and in relation to the City's Fund Balance Policy, attached hereto.

PASSED, APPROVED and ADOPTED this _____ day of _____, 2011 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

APPROVED:

GERI K. BRYAN, CMC
City Clerk
City of Lancaster

R. REX PARRIS
Mayor
City of Lancaster

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss
CITY OF LANCASTER)

CERTIFICATION OF RESOLUTION
CITY COUNCIL

I, _____, _____ City of Lancaster, CA, do hereby certify that this is a true and correct copy of the original Resolution No. 11-35, for which the original is on file in my office.

WITNESS MY HAND AND THE SEAL OF THE CITY OF LANCASTER, on this ____ day of _____, _____.

(seal)

**City of Lancaster
Lancaster Redevelopment Agency
Fund Balance Policy**

PURPOSE:

This Fund Balance Policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements, and establishes a hierarchy of fund balance expenditures. The policy also authorizes and directs the City Manager and/or Finance Director to prepare financial reports, which accurately categorize fund balance per Governmental Accounting Standards Board Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). Further, this policy is established in order to provide a measure of financial protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

FUND BALANCE COMPONENTS:

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. GASB 54 establishes the following five 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.

A. Non-Spendable Fund Balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. The “not spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amounts of loans and notes receivable.

B. Restricted Fund Balance

The restricted fund balance classification includes amounts that reflect 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), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

C. Committed Fund Balance

The committed fund balance classification includes 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. 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 (for example legislation, resolution, ordinance) 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.

D. Assigned Fund Balance

The assigned fund balance classification 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 by (a) the governing body itself or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

E. Unassigned Fund Balance

The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The General Fund is the only fund that should report this category of fund balance.

STABILIZATION ARRANGEMENTS (Prudent Reserve):

Per GASB 54, governments have the option to formally set aside unrestricted fund balance amounts for use in emergencies, revenue shortages, or budget imbalances. The authority to set aside such amounts can be established by statute, ordinance, resolution, charter, or constitution. These amounts may be spent only if certain specific circumstances exist. Stabilization amounts should be reported in the general fund as restricted or committed. The notes to the financial statements disclose the authority for establishing the arrangement, the requirement for additions to the amount, the conditions under which amounts may be spent, and the balance.

The City Council adopted Resolution 96-111 on June 17, 1996 establishing a policy that the adopted budgets of the City of Lancaster's General Fund include a minimum of 10% unallocated Fund Balance. This unallocated Fund Balance will provide a contingency in case of unexpected decreases in revenues or unexpected expenditures. Additionally, the resolution directs that these funds can only be used for specific expenditure(s) following a formal vote of the City Council.

HEIRARCHY OF SPENDING FUND BALANCE:

The City/Agency's current fund balance practice provides that restricted fund balance be spent first when an expenditure is incurred 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 can be used; committed amounts are to be spent first, followed by assigned amounts and then unassigned amounts. GASB 54 mandates that this hierarchy of expending fund balance be reported in new categories, using new terminology, and be formally adopted by the Lancaster City

Council/Lancaster Redevelopment Agency. It should be noted that the new categories only emphasize the extent which the City/Agency is bound to honor expenditure constraints and the purposes for which amounts can be spent. The total reported fund balances would remain unchanged.

COMPARISON OF PAST PRACTICE AND GASB 54 FUND BALANCE TYPES:

A. General Fund

- Past Practice Definition - The General Fund is used to account for all financial resources not account for in another fund
- GASB 54 Definition - The General Fund is used to account for all financial resources not account for in another fund.

B. Special Revenue Funds

- Past Practice Definition - Special Revenue Funds account for proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.
- GASB 54 Definition - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

C. Capital Projects

- Past Practice Definition - Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities.
- GASB 54 Definition - Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital Project 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.

D. Debt Service

- Past Practice Definition - Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- GASB 54 Definition - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

PAST PRACTICE ELIMINATED CLASSIFICATIONS	NEW GASB 54 CLASSIFICATIONS
Reserved	Non-Spendable
	Restricted
Unreserved and Designated	Committed
	Assigned
Unreserved and Undesignated	Unassigned