

Fund Balance Policy

Purpose

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

Fund Balance Classifications

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 the 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 creditors, 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. City Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently.

Assigned Fund Balance

Amounts that are constrained by the City's *intent* to be used for specific purposes should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager and/or the Finance Director for the purpose of reporting these amounts in the annual financial statements.

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.

Minimum Unassigned Fund Balance

The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year – July and December. As such, it is the City’s goal to begin each fiscal year with sufficient working capital to fund operations between semi-annual receipts of property taxes.

This policy establishes a year-end targeted unassigned fund balance amount of 52.5% of the subsequent year’s budgeted expenditures for cash-flow timing needs. At all other times the unassigned fund balance should never be less than 10% of budgeted expenditures.

The City Council may consider appropriating year end fund balances in excess of the policy level for one-time expenditures, such as capital expenditures or any other authorized purpose.

Targeted Assigned Fund Balance

This policy also establishes targeted assigned fund balance for the following funds:

- Insurance Fund \$1,000,000
- Technology Replacement Fund 500,000
- Permanent Improvement Revolving Fund 950,000

Use of Fund Balances

When both restricted and unrestricted resources are available for use, it is the City’s policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the City’s policy to use resources in the following order: 1) committed, 2) assigned, 3) unassigned.

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. No other policy or procedure supersedes the authority and provision of this policy.