



Finance Department Fund Balance Policy

Originating Department: **Finance**
Effective Date: **September 17, 2013**

Approval Date: **September 17, 2013**
Revision Date: **N/A**

Background

In February 2009, the Governmental Accounting Standards Board (GASB) issued *GASB #54 Fund Balance Reporting and Governmental Fund Type Definitions*. The statement substantially changes how fund balances are categorized. It clarifies/modifies how some of the governmental funds are presented and classified.

This policy will provide a cross reference between the Pre-GASB #54 Fund Balance Classifications and the Post-GASB #54 Fund Balance Classifications.

Fund Balance Classifications: Current and GASB #54

Pre-GASB #54 Classifications of Fund Balance

Post-GASB #54 Classifications of Fund Balance

<i>Reserved</i> Non-spendable	<i>Not available for appropriation.</i> Not available for spending, either now or in the future, because of (e.g., debt retirement)	
<i>Designated</i> Restricted	<i>Available for appropriation but intended for a specific use.</i> Constraints on spending that are legally enforceable by outside parties.	
Unrestricted	<i>Designated</i> Committed	<i>Not available for appropriation.</i> Constraints on spending that the government imposes upon itself by highest-level formal action prior to the close of the period.
	<i>Undesignated</i> Assigned	<i>Available for appropriation.</i> Resources intended for spending for a purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board.
	Unassigned	Residual (general fund only)

I. PURPOSE

The Fund Balance Policy will provide a stable financial environment for the City's operations that allows the City to provide quality services to its residents in a fiscally responsible manner. The policy also provides a measure of financial protection against unanticipated events that would adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. No other policy or procedure supersedes the authority and provisions of this policy.

This policy is adopted to ensure the City maintains adequate fund balance and reserves to provide the capacity to:

- 1) Provide sufficient cash flow for daily financial needs
- 2) Secure and maintain investment grade bond ratings
- 3) Offset significant economic downturns or revenue shortfalls
- 4) Provide funds for unforeseen expenditures related to emergencies.

II. DEFINITIONS

Fund Balance – This is the cumulative difference of all revenues and expenditures. It can also be considered to be the difference between assets and liabilities reported in the governmental fund.

Nonspendable Fund Balance – Amounts that are not in spendable form or legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale (unless the proceeds are restricted, committed or assigned). The principal of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted Fund Balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Amounts constrained for a specific purpose by formal action of a government using its highest level of decision-making authority. Commitments include amounts that can only be used pursuant to internal constraints imposed by the City's Code of Ordinances. Commitments may be changed or lifted only by the City Commission taking the same formal action that imposed the original constraint. Action to constrain resources must occur prior to yearend; however, the amount can be determined in the subsequent period.

Assigned Fund Balance – In the General Fund, these are spendable amounts constrained by the City's intent to use for a specific purpose, but are neither restricted nor committed; the *intent* shall be expressed by the City Manager based on City Commission direction. For all governmental funds other than the General Fund, assigned fund balance is any residual positive amounts not classified as nonspendable, restricted or committed.

Unassigned Fund Balance – Unassigned Fund Balance is the residual classification for the General Fund. 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. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Unrestricted Fund Balance – The total of *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the City. It is also referred to as Spendable Fund Balance.

III. POLICY

This policy establishes the procedures for reporting, within the annual financial statements, fund balance within the City's governmental funds: General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.

General Fund – The General Fund is used to account and report all financial resources that are not required to be reflected in another fund. The City's minimum fund balance policy provides for the maintenance of an unrestricted fund balance for the General Fund at a level that is equivalent to two (2) months of operating expenditures (excluding on-behalf benefits payments) and required transfers.

Special Revenue Fund – Special Revenue Funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The term "proceeds for specific revenue sources" establishes that one or more restricted or committed revenues should be the foundation for a specific revenue fund. No specific reservation of Fund Balance is created by virtue or enactment of this policy. The amount of any reservation of Fund Balance shall be governed by the legal authority underlying the creation of the individual funds.

Debt Service Fund – Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. This policy does not create any specific reservation of Fund Balance within any Debt Service Fund as it is established as part of the ordinance or resolution which authorizes the issuance of the bonds.

Capital Projects Fund – The Capital Projects Funds are used to account for and report financial resource that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These projects may extend beyond a fiscal year. No specific reserve requirement is established for the Capital Projects Funds. However, at a minimum, the fiscal year end Fund Balance and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.

IV. SPENDING ORDER OF FUND BALANCES

The City establishes the policy to spend restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the spendable fund balance classifications could be used.

V. AUTHORIZATION OF ENDING FUND BALANCE

GASB 54 allows the City Commission authority to “assign” ending fund balances or bestow this authority to a city officer or designee. To provide the City with the most flexibility in financial reporting, the City Manager has the authority to assign resources and ending fund balances if applicable, with a report to commission during the Comprehensive Annual Financial Report presentation.

VI. MINIMUM RESERVE REQUIREMENT

In the event funds are not available to maintain the established required balances, a plan will be submitted by the City Manager to restore the minimum balance within a three-year period. Use of the fund balance below the recommended threshold is permitted only in an emergency, or in the case of an unanticipated economic downturn, which causes a material loss of revenues.

VII. EFFECTIVE DATE

This policy shall take effect immediately upon adoption and will be applied beginning with the preparation of the City’s September 30, 2013 Comprehensive Annual Financial Report.

VIII. ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed as part of the annual audit process, and the amount of restricted, committed, assigned, and non-spendable and the minimum level of spendable fund balance shall be determined during this process.

IX. ADDITIONAL INFORMATION, REQUIREMENTS/RESPONSIBILITIES

It will be the responsibility of the Finance Department to keep this policy current.