



Fund Balance Policy

Purpose

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to establish a key element of the financial stability of the City. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations. Additionally the policy authorizes and directs that annual financial reports be prepared which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

General Policy

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 purpose for which amounts can be spent.

1. Nonspendable fund balance (*inherently nonspendable*)
2. Restricted fund balance (*externally enforceable limitations on use*)
3. Committed fund balance (*self-imposed limitations on use*)
4. Assigned fund balance (*limitation resulting from intended use*)
5. Unassigned fund balance (*the residual classification of the general fund*)

Provisions

Nonspendable and Restricted Funds

Nonspendable funds are those funds that cannot be spent because they are either: 1) not in spendable form (e.g. inventories and prepaids); 2) Legally or contractually required to be maintained intact. (e.g. permanent corpus). Restricted funds are those funds that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates). Nonspendable and Restricted Funds will be maintained and then summarized in the City's annual financial report by the City's financial staff.

Committed Funds

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 majority vote or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment. Council action to commit fund balance needs to occur with the fiscal reporting period, no later than June 30th; however, the specific amount committed can be determined in a subsequent period.

Assigned Funds

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 City Manager for the purpose of reporting these amounts in the annual financial statements. The residual equity of governmental funds other than the general fund will by the nature of their establishment be reported as assigned in the annual financial statements.

Minimum Unassigned Fund Balance

The City is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. While a specified minimum level has not been established, the City considers a balance less than 25% (or the equivalent of 3 months operations) to be cause for concern, barring unusual or deliberate circumstances, and will act accordingly in its consideration of future budget obligations.

Enterprise Funds

By their nature Enterprise Funds do not report fund balance, but rather net assets. However it is crucial that the Enterprise Funds have an appropriate amount of working cash on hand to fund daily operations. Provisions in the City's Charter already address this need. Additionally there are various reservations and designations established.

Order of Expenditure of Funds

The City Council has authorized the City Manager to determine when expenditures meet the use restrictions of a particular fund balance or net asset category. As a general rule, when multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. The City Manager will provide a report periodically to Council of the use of funds by category.

Annual Review and Determination of Fund Balance

Compliance with the provisions of this policy shall be reviewed, presented and discussed as part of the Year End Budget Process and presentation to City Council, and amounts by the specified categories shall be estimated and reported.

Approved by City Council on: May 17, 2011