

FUND BALANCE POLICY

Background

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB #54 Fund Balance Reporting and Governmental Fund Type Definitions. The statement was implemented in June 2010. GASB #54 defines how fund balances are categorized and clarifies how some of the governmental funds are presented and classified.

GASB #54 Classifications of Fund Balance

<p>Non-spendable</p>	<p><i>Not available for appropriation.</i> Not available for spending, either now or in the future.</p>	
<p>Restricted</p>	<p><i>Available for appropriation</i> but intended for a specific use. Constraints on spending that are legally enforceable by outside parties.</p>	
<p>Unrestricted</p>	<p>Committed</p>	<p><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.</p>
	<p>Assigned</p>	<p><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.</p>
	<p>Unassigned</p>	<p>Residual. <i>Available for any legal purpose.</i> (General Fund only)</p>

I. PURPOSE

The Fund Balance Policy (the "Policy") will assist the City in providing 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 could, in the absence of the Policy, 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 the Policy.

The Policy is adopted to ensure the City maintains adequate fund balance and reserves to mitigate current and future risks and to ensure stable tax rates. Additionally, the Policy aims 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; and
4. Provide funds for unforeseen expenditures, such as those related to emergencies.

II. PROCEDURES & RESPONSIBILITIES

The Finance Director or designee shall be responsible for executing the Policy. In doing so, the Finance Director or designee shall establish and amend, when necessary, operational procedures for the implementation of the Policy.

III. 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 a 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 the long-term amount of loans and notes receivable, as well as property acquired for resale (unless the proceeds are restricted, committed or assigned).

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. Commitment of fund balance may be made for such purposes including, but not limited to, a) major maintenance and repair projects; b) meeting future obligations resulting from a natural disaster; c) accumulating resources pursuant to stabilization arrangements; d) establishing reserves for disasters; and/or e) for setting aside amounts for specific projects.

Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the original constraint. Action to constrain resources must occur prior to year-end; 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 that they be used for a specific purpose but are neither restricted nor committed; the intent shall be expressed by the city management based on City Council direction. For all governmental funds other than the General Fund, assigned fund balance is any residual positive amounts not classified as non-spendable, restricted, or committed.

Unassigned Fund Balance – 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; also referred to as Spendable Fund Balance.

IV. THE POLICY

The Policy establishes the procedures for reporting, within the annual financial statements, unrestricted fund balance (comprised of committed, assigned, and unassigned categories) within the City's governmental funds (General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds) and within the City's major enterprise funds (Utilities Fund and Stormwater Fund).

General Fund – The General Fund is used to account and report all financial resources that are not required to be reported in another fund. The fund shall establish an Unrestricted Fund Balance equivalent to a minimum of four months of regular budgetary General Fund operating expenditures.

The Unrestricted Fund Balance is needed to ensure timely payment of debt obligations and/or legal judgments; to ensure fund stabilization in the events of unanticipated loss of revenues, unanticipated expenses, and/or losses not covered by insurance, or to cover costs until receipt of insurance or FEMA proceeds; to ensure that bond covenants or other legal obligations are met; and for such other uses as dictated by legal requirements or City Council action.

Special Revenue Funds – 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 Funds – 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 debt.

Capital Projects Funds – Capital Projects 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. 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.

Enterprise Funds – The City will strive to maintain unrestricted net assets equal to 90 days of actual operating expenses of the prior fiscal year in the Utilities Fund and Stormwater Fund. This reserve is needed to cover short-term cash flow variations, economic downturns, and emergencies. Unrestricted net assets under the 90-day goal should be used only for unanticipated expenditures.

V. SPENDING ORDER OF FUND BALANCES

The City will spend restricted amounts first when both restricted and unrestricted fund balance are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar-for-dollar spending. Additionally, the City will 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 can be used.

VI. AUTHORIZATION OF ENDING FUND BALANCE

GASB 54 allows the City Council 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 Finance Director or designee is authorized to assign resources and ending fund balances if applicable.

VII. MINIMUM RESERVE REQUIREMENT

In the event funds are not available to establish the balances required under the Policy, the Unrestricted Fund Balance target shall be achieved by adding a designated amount to the budget to cover the deficiency over a period not to exceed three (3) years.

VIII. REPLENISHMENT OF MINIMUM RESERVE DEFICITS

If it is anticipated at the completion of any fiscal year that the projected or estimated amount of Unrestricted Fund Balance will be less than the minimum requirement, then the City Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period as stipulated in the minimum reserve requirement section.

IX. BUDGETING

The actual amount of unrestricted fund balance (total of committed fund balance, assigned fund balance, and unassigned fund balance) is not known until the completion of the annual audit, which takes place after the end of the fiscal year being audited. However, an estimate of unrestricted fund balance (also called estimated beginning fund balance) must be made during the annual budget adoption process (July through September) which is prior to September 30th, the end of the fiscal year.

X. ANNUAL REVIEW

Compliance with the provisions of the Policy shall be reviewed as part of the annual budget adoption 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.

Funds which exceed their established fund balance target by 10% or more for two consecutive years will be reviewed by administration. If appropriate and permitted by law, the amount over the target will be transferred to the General Fund, or other funds of the City, with the approval of City Council.

Funds which fall below their established fund balance target by 10% or more for two consecutive years will be reviewed by administration. If it is determined that the fund balance target level is still appropriate, a corrective action plan to restore the fund to the appropriate level will be submitted to City Council for approval.

XI. ADDITIONAL INFORMATION, REQUIREMENTS, RESPONSIBILITIES

It will be the responsibility of the Finance Director or designee to execute the Policy and to keep the Policy current.

XII. EFFECTIVE DATE

The Policy shall take effect immediately upon its adoption and will be applied beginning with the preparation of the City's September 30, 2025 Annual Comprehensive Financial Report and adoption of the City's Fiscal Year 2026 Budget.