

FUND BALANCE POLICY - Adopted by Resolution September 9, 2010 effective Noon, January 10, 2011

A. Fund Balance Policy

The City hereby establishes and will maintain reservations of Fund Balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Policy shall only apply to the City's governmental funds. Fund Balance shall be composed of restricted, committed, assigned, non-spendable and unassigned amounts.

Fund Balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the City, in accordance with policies established by the City Council.

B. Definitions

Fund Balance – refers to the difference between assets and fund liabilities in the governmental funds balance sheet and is referred to as fund equity.

Non-Spendable Fund Balance – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (principal of an endowment fund, for example).

Restricted Fund Balance – Amounts that can be spent only for the specific purposes stipulated by external resource providers (such as grantors), or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed Fund Balance – Amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision making authority. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – Amounts the City intends to use for a specific purpose.

Unassigned Fund Balance – The residual classification for the general fund and includes amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance which is not obligated or specifically designated and is available for any purpose.

C. Classification of Fund Balance

1. When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first.
2. When expenditures are incurred for purposes for which amounts in any of unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

D. Reservations of Fund Balance

The fund balances of the City's governmental funds include but are not limited to:

1. Non-spendable Fund Balance

a. Inventory Reserve

The inventory fund balance reserve is established to indicate those amounts relating to inventories that are not in spendable form.

b. Prepaid and Deposits Reserve

The prepaid and deposits fund balance reserve is established to indicate those amounts relating to prepaids and deposits that are not in spendable form.

2. Restricted Fund Balance

a. Encumbrances

The City encumbers funds associated with a purchase order which is evidence of a contract by third party restriction.

3. Committed Fund Balance

The City Council hereby establishes the following committed fund balance reserves:

a. Tree Planting Trust Fund Reserve

Ordinance 31-09 establishes and provides for funding of the Tree Planting Trust Fund. Expenditures are also authorized by ordinance and may be made with appropriate approval.

b. Park Purchases Reserve

Ordinance 9-96 establishes and provides for funding of an escrow account for park, recreation or open space needs in lieu of dedication of land for residential subdivisions. The funds are to be used for acquiring parks and developing playgrounds with appropriate approval.

c. *Council Reserve (General Fund)*

A minimum reserve of ~~15~~ 20 percent of the General Fund beginning adopted appropriations (expenditure budget) should be incrementally established and maintained for use in meeting unanticipated needs and/or emergencies.

1. Use of Council Reserve. Council reserves shall be used only after all efforts have been exhausted to fund unanticipated needs and/or emergencies, such as implementing a modified hiring freeze and expenditure reductions. Once the Mayor has determined that it is necessary to draw down Council reserves, written communication should be provided by the Mayor to City Council, explaining the nature of the unanticipated need and/or emergency and requires approval by a two-thirds vote of City Council. Use of funds may only be initiated when current fiscal year revenues decrease by 5 percent or more of the total adopted beginning estimated revenues, including transfers. A maximum of fifty percent of the shortfall or fifty percent of the prior fiscal year ending Council reserve balance may be drawn, whichever is less. At no time may the reserve be less than 7.5 percent of adopted annual appropriations or half of the prior fiscal year ending Council reserve balance, whichever is greater. The Council reserve may not be used for more than two consecutive years.
2. Replenishment of Council Reserve. If the reserves are drawn down below the minimum required level of ~~15~~ 20 percent, then a budgetary plan shall be implemented to return the reserve to a minimum ~~15~~ 20 percent level in no more than a 5 year period. The progress of replenishment should be reported in the annual budget.
3. Funding of Council Reserves. Proceeds from the sale of City (general government) owned surplus real property and any other funds identified in the budget will be used to increase the reserve. Interest earnings will be applied on the reserve balance each fiscal year.

4. Assigned Fund Balance

a. *Carry Forward*

The carryforward fund balance reserve is identified by the Mayor at the close of each fiscal year, subject to approval of City Council, and is comprised of the designated and departmental carry forwards.

1. Designated Carry Forward – funds identified in the annual budget (and any amendments thereto) to provide for differences, if any, between budgeted revenues and expenditures.

2. Departmental carry forward – funds for which appropriations have been made in previous fiscal years that have been approved by the Mayor to be carried forward to subsequent fiscal years, subject to City Council approval.

b. Special Assessments

The special assessment fund balance reserve is established to indicate those funds derived from and available for the special assessment program.

E. Authority to Assign

The Mayor shall have authority to assign amounts of fund balance to a specific purpose; however, before expenditure, amounts must be appropriated by City Council.

F. Minimum Level of Unassigned Fund Balance

The City does not currently have a formal minimum fund balance policy.

G. Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed, presented and discussed as part of the annual Comprehensive Annual Financial Report (CAFR) process and presentation to City Council, and the amounts of restricted, committed, assigned, non-spendable and unassigned fund balance shall be reported. In addition, the amount of the Council reserve will be reviewed as part of the annual budget.

H. Additional Information, Requirements and Responsibilities

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