

REV: February 2026

Fund Balance Spending Policy:

Maintaining appropriate levels of fund balance is a key element of the City's overall financial health. This guideline is intended to provide the rationale of maintaining and use of undesignated funds.

Purpose:

- a.) To ensure the City can respond to large, unanticipated one-time expenditures or revenue reductions
- b.) To allow the City to have funds on hand to respond to unforeseen emergencies
- c.) To provide enough reserve to eliminate the need for short term borrowings or short-term borrowings due to timing issues with long term financing
- d.) To provide enough reserve to maintain a good credit rating for financial purposes
- e.) To provide the ability for the City Council to offset the tax levy due to the State imposed levy limits or a reduction in state aids or other non-tax revenue

Fund Balance Reporting in Governmental Funds:

Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Nonspendable fund balance:

Definition - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Classification - Nonspendable amounts will be determined before all other classifications. It is the responsibility of the City Finance Director to report all Nonspendable Funds appropriately in the City's financial statements.

Examples of Nonspendable Fund balance are inventory and prepaid expenditures.

Restricted fund balance:

Definition- Fund balance should be classified as restricted when constraints are placed on the use of resources are either:

Externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or
Imposed by law through constitutional provisions or enabling legislation.

Committed fund balance:

Definition-includes amounts that can be used only for specific purposes determined by a formal action of the City's highest level of decision-making authority (i.e. City Council). Authority to Commit-Commitments will only be used for specific purposes pursuant to a formal action of the City Council. A majority vote is required to approve a commitment and must take place within the fiscal reporting period, no later than December 31st; however, the amount can be determined subsequent to the release of the financial statements. A majority vote will be required to remove or change the specific use of a commitment

Assigned fund balance:

Definition-includes amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign - The City Council delegates the City Finance Director to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance:

Definition-includes the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes from which amounts had been restricted, committed, or assigned.

Review and Execution:

To preserve working capital and to adequately prepare for unforeseen events which require ready access to funds, it is the general rule of the City to maintain as the undesignated fund balance in the General Fund a sum not less than 10% or more than *funds equal to three months* of the annual General Fund operating budget.

After the annual audit is completed, the undesignated fund balance for all funds will be available for review by the Council. If the undesignated balance is greater than funds equal to three months of the current operating budget, the Council may take action to allocate excess funds.