

FUND BALANCE POLICY

Introduction

The City recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the City and is fiscally advantageous for both the City and its taxpayers. This policy establishes goals and provides guidance concerning the desired level of fund balance maintained by the City to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

Definitions and Classifications

Fund Balance is a term used to describe the net assets of government funds. It is calculated as the difference between the assets and liabilities reported in a governmental fund.

Governmental fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance applicable to governmental funds are defined as follows:

- 1) **Non-spendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by the City or external parties either constitutionally or through enabling legislation (e.g., grants or donations).
- 3) **Committed fund balance** – amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal vote of the City Council through the adoption of a resolution. The same formal action is required to subsequently remove or modify a commitment of fund balance (e.g., the City Council’s commitment in connection with future construction projects).
- 4) **Assigned fund balance** – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by City Council or by a designee to whom the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

Policy

The City shall strive to maintain a minimum unassigned fund balance in the general fund of 40% of general fund revenues measured on a Generally Accepted Accounting Principles (GAAP) basis. In the event the unassigned fund balance drops below this minimum level, the City will develop a restoration plan, implemented through the annual budgetary process, to bring the balance back to the target level.

Additionally, the City shall strive to maintain a minimum of 35% cash reserves of general fund revenues measured on a Generally Accepted Accounting Principles (GAAP) basis. This cash reserve target is part of the City's goal to accumulate unrestricted funds for operational emergencies.

Policy Administration

Annually, during the Annual Comprehensive Financial Report (ACFR) presentation, the External Auditor or Finance Director shall report the City's fund balance and the classification of the various components in accordance with GAAP and this policy.