



## Fund Balance Policy (per GASB 54)

### PURPOSE

The purpose of this policy is to establish a key element of the financial stability of the City of La Vernia (the City), setting guidelines for fund balance. 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 intent of this policy is to ensure the City maintains adequate fund balances in the City's various operating funds with respect to the following:

1. Providing sufficient cash flow liquidity for the City's general governmental operations,
2. Securing and maintaining investment grade bond ratings,
3. Offsetting significant economic downturns or revenue shortfalls, and
4. Providing funds for unforeseen expenditures related to emergencies.

### DEFINITIONS

*Fund Equity* – A fund's equity is generally the difference between its assets and liabilities.

*Fund Balance* – An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. These included the following categories:

1. Non-spendable fund balance – includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid expenses.
2. Spendable Fund Balance:
  - A. Restricted – includes amounts that are constrained for specific purposes that are externally imposed by providers, such as creditors, grantors, or contributors, or amounts constrained due to regulations of other governments. Examples include grant awards and bond proceeds.
  - B. Committed – Includes amounts that are limited to specific purposes that are *internally imposed* by the City through formal action of the City Council. Commitments may be changed or removed only by formal action of the City Council. This includes balances formally approved by the City Council during the budget adoption and amendment process. The formal action must be

approved by the City Council prior to the end of the fiscal year in which the commitment will be reflected on the financial statements.

- C. Assigned – includes amounts that are intended for specific purposes that are considered neither restricted nor committed. Intent can be expressed by the City Council or by an official to which the City Council delegates the authority. Assignments of fund balance are less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, the 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.
- D. Unassigned – the residual classification of amounts in the General Fund, which includes all amounts not classified in other fund balance categories. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

## **POLICY/PRACTICES**

1. Minimum fund balance or fund balance reserve for City funds shall be as listed below. The reserve will be considered assigned fund balance, and other assignments and restrictions cannot be included as part of the reserve calculation:
  - a. General Fund – 35% of on-going expenditures
  - b. All other funds – 25% of on-going expenditures
2. The General Fund shall have a maximum fund balance of 60%, excluding non-reserve assignments and commitments. When the amount is exceeded, the City shall identify one-time expenditures for which to use the funds, consider tax rate changes, and/or review non-tax revenue rates to ensure no unnecessary over-collection of revenues.
3. For enterprise funds, the fund balance will be defined as working capital and shall represent current assets minus current liabilities without future bond payments.
4. The City Council may appropriate unassigned fund balance for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.
5. When multiple categories of fund balance are available for expenditure, such as a capital project being funded by a combination of grant funds, funds set aside by the City Council, and unassigned fund balance, the City will spend project funds from the most restricted category first (e.g., grant funds). When the most restricted fund balance has been spent on the project, then funds will be spent from the next most restrictive category (e.g., committed or assigned fund balance), continuing this pattern until all project funds have been expended.
6. The city shall minimize the use of committed fund balances in major operating funds when possible. Methods of reducing the commitments include transferring project funds to capital projects, creating and maintaining equipment replacement and long-term maintenance funds, and creating and maintaining operating project funds for non-capital projects.

7. The Finance Administrator shall be responsible for monitoring and reporting the City's various reserve balances. The City Administrator is directed to make recommendations to the Council regarding the use of reserve funds as an element of the annual operating budget submission or as necessary throughout the fiscal year, as circumstances may arise.
8. Compliance with the provisions of this policy shall be reviewed as a part of the annual operating budget adoption and subsequent review will be included in the annual audit and financial statement preparation procedures.

*[Approved September 05, 2024, by the La Vernia City Council, Resolution # \_\_\_\_\_]*