

TOWN OF PROSPER ADMINISTRATIVE REGULATIONS

CHAPTER 13: FUND BALANCE POLICY

SECTION 13.01: PURPOSE AND OVERVIEW

The purpose of this policy is to establish minimum fund balance levels for each Town of Prosper's budgeted funds. It is essential that the Town maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, or adverse circumstances. The Town of Prosper avoids appropriating fund balance for recurring uses. However, if fund balance is used for a recurring use, the budget will clearly identify the uses of fund balance and explain the circumstances requiring the use of fund balance and whether that use has brought fund balance below the minimum target level. In addition, the budget will also address whether fund balance is likely to be used again to fund recurring uses and a course of action to replenish fund balances to target levels.

This policy ensures the Town maintains adequate fund balances in various operating funds for capacity to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant downturns or revenue shortfalls, and
4. Provide funds for unforeseen expenditures related to emergencies.

SECTION 13.02: DEFINITIONS AND CATEGORIES

A. Fund Balance

Defined as the difference between a fund's assets and liabilities reported in a governmental fund, which is more a measure of liquidity than of net worth. This would be most similar to *working capital* as used in the private sector. For financial reporting purposes, the Governmental Accounting Standards Board (GASB) requires the Town to divide its fund balance into the following sub-categories using defined flow assumptions:

1. Restricted Fund Balance – While the Fund Balance Policy is intended to focus more on unrestricted portions of fund balance, it is important to note a Town Charter provision in Section 7.08 as amended in May 2011 that imposes a legal restriction on a Contingent Reserve of the General Fund. It reads, "Provision shall be made in the annual budget maintaining a

contingency reserve fund balance designation in an amount not less than twenty percent (20%) of the total general fund expenditures, to be used in case of unforeseen items of expenditure or revenue shortfalls. This shall apply to current operating expenses and shall not overlap with any other amount of reserves maintained by the Town. Such contingency reserve appropriation shall be under the control of the Town Manager and distributed by him or her only in the event of an emergency or after supplemental appropriation by the Town Council. The proceeds of the contingency reserves shall be disbursed only by transfer to departmental appropriation, the spending of which shall be charged to the departments or activities for which the appropriations are made."

2. Committed Fund Balance – The Town Council is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance or resolution adopted by the Town Council. The formal action must either adopt or rescind the commitment, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
3. Assigned Fund Balance – The Town Council authorizes the Town Manager or his/her designee as the official authorized person to assign fund balance to a specific purpose approved by this fund balance policy.
4. Flow Assumptions for the Order of Expenditure of Fund Balance – While multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the Town Council, and unassigned fund balance), the Town will start with the most restricted category and spend those funds first before moving down to the next category with available funds. Normally this would result in the use of restricted, then committed, then assigned, and lastly, unassigned fund balance.

The Town reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds if determined to be in the Town's best interest.

B. Minimum Level of Fund Balance

1. The Government Finance Officers Association (GFOA) has issued Best Practice recommendations providing practical guidance for determining appropriate levels of fund balance for both the General Fund and for proprietary funds. Each year in preparation for the annual budget process, finance staff will review the events of the prior year relative to Best Practice criteria to determine the need for any revisions to Fund Balance policies.
2. Minimum Unassigned Fund Balance – It is the goal of the Town to achieve and maintain an unassigned fund balance in the general fund of twenty percent (20%) charter requirement plus one percent (1%) for a total of twenty one percent (21%) of budgeted expenditures. This minimum level of fund balance is a hedge for emergency expenditures, unforeseen revenue declines, or other adverse circumstances and, may be utilized during these unusual financial circumstances. However, if such a situation occurs, the Town will implement corrective action plan to restore the unassigned fund balance within a five-years to the original minimum fund balance level of twenty one percent (21%).
3. Other Governmental Funds.-
 - a. TIRZ 1-\$25,000
 - b. TIRZ 2-\$25,000

- c. Crime Control Special Purpose District (SPD) \$25,000 cash balance after subtracting accrued sales tax receivable.
 - d. Fire Control SPD- \$25,000 cash balance after subtracting accrued sales tax receivable
 - e. Debt Service Fund-3-5% of budgeted debt service.
4. Proprietary Funds-Proprietary Funds which include internal service funds have significant variation in reliability/predictability of both revenues and expenses. Fund Balance targets are assigned based on these individual considerations and the desire to avoid transferring resources from other governmental or proprietary funds within the year in the event of economic downturn or disaster. Minimum Fund Balances for the following Funds will be maintained:
- a. Water and Sewer Fund- 25% of operating expenditures
 - b. Stormwater Utility Fund-17% of operating expenditures
 - c. Solid Waste Fund-\$250,000
 - d. Vehicle Equipment and Replacement Fund (VERF) Internal Service Fund -Cash balances approximately equal (+/- 10%) to accumulated depreciation in the fund