

TOWN OF PROSPER ADMINISTRATIVE REGULATIONS

CHAPTER 13: FUND BALANCE POLICY

SECTION 13.01: PURPOSE AND OVERVIEW

The purpose of this policy is to establish guidelines for fund balance levels within each of the Town of Prosper's 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 expenses. However, in the event that fund balance is used to support recurring expense, the budget will clearly identify the uses of fund balance and provide an explanation of the circumstances requiring the use of fund balance. In addition, the budget will also address the future potential uses of fund balance for operating expenditures 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. 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 in regards 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 equal to five percent (5%) of budgeted expenditures for unanticipated expenditures, unforeseen revenue fluctuations, or other adverse circumstances. The unassigned fund balance level, however, may be reduced during unusual financial circumstances. However, if such a situation occurs, the Town will implement necessary corrective action within a five-year plan to restore the unassigned fund balance to the equivalent of one percent (1%) of budgeted expenditures. This amount is in addition to the twenty percent (20%) restricted fund balance amount required by the Town Charter.
3. Non-governmental fund balances –The Town recognizes the need to apply a minimum balance policy to the proprietary funds maintained by the Town. Therefore, the Town shall

strive to maintain a minimum ending working capital balance (current assets minus current liabilities) of at least twenty-one percent (21%) of budgeted non-capital expenditures for each of the proprietary funds. If the working capital level should fall below the desired minimum, the Town will implement necessary corrective action within a five-year plan to restore the working capital balance to twenty-one percent (21%) of budgeted non-capital expenditures.