



City Council
Agenda Memo

TO: Larry D. Gilley, City Manager
FROM: Mindy Patterson, Director of Finance
SUBJECT: Approval of Fund Balance Policy

City Council
Meeting Date: 01-09-14

GENERAL INFORMATION

In September 2011, Council approved the Fund Balance Policy relating to the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 was to enhance the usefulness of fund balance information by 1) clarifying existing governmental fund type definitions and 2) providing clearer fund balance classifications that can be more consistently applied.

GASB 54 uses five basic categories: ***Non-spendable*** – cannot ever be spent (inventories, prepaids), cannot currently be spent (long-term portion of receivables); ***Restricted*** – externally enforceable legal restrictions (grants, debt covenants, contributors, etc); ***Committed*** – use is limited by the City and imposed by the City Council (highest level of decision making. May only be changed or lifted by City Council. Commitment must be made prior to year end; ***Assigned*** – intended use of resources set by the City Council or an official designated by the City Council; ***Unassigned*** – remaining fund balance after all other categories.

The Fund Balance Policy includes a section on *Minimum Unassigned Fund Balance*. The Bond rating agencies have indicated that there needs to be a formal Minimum Fund Balance Policy restriction. Therefore, the only change to the policy is to formalize the 3 month or 25% of annual expenditures reserve.

STAFF RECOMMENDATION

Staff recommends approving the Fund Balance Policy by Oral Resolution.

ATTACHMENT

Exhibit “A” ~ Fund Balance Policy

Prepared By: Name <u>Mindy Patterson</u> Title <u>Director of Finance</u>	Item No. <u>6.1</u>	<p align="center">Disposition by City Council</p> <input type="checkbox"/> Approved <input type="checkbox"/> Denied <input type="checkbox"/> Other Ord/Res # _____ _____ City Secretary
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City of Abilene
Fund Balance Policy
Revised for GASB 54

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Abilene by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability and 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 other similar circumstances. This policy will ensure the City maintains adequate fund balances in the City's various operating funds with the capacity to:

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

Definitions

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

Fund Balance – An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. Fund balance is classified into five categories:

1. **Nonspendable fund balance** – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain in-tact such as the principal of an endowment.
2. **Restricted fund balance** – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.
3. **Committed fund balance** – includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a *formal action* of the City Council. Commitments may be changed or lifted only by the Council taking the same *formal action* that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

4. **Assigned fund balance** – includes the portion of net resources for which an *intended* use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.
5. **Unassigned fund balance** – includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Policy

Committed Fund Balance

- The City Council is the City'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 a resolution approved by the Council at the City's Council meeting. The resolution must either be approved or rescinded, 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.

Assigned Fund Balance

- The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance

The City shall maintain a total fund balance in the general fund equal to 25% of annual expenditures. The City considers a balance of less than 20% to be cause for concern, barring unusual or deliberate circumstances. In the event that the total fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

Replenishment of Minimum Fund Balance Reserves

If total fund balance unintentionally falls below 20% or if it is anticipated that at the completion of any fiscal year the projected total fund balance will be less than the minimum requirement, the City Manager shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow. The plan shall detail the

steps necessary for the replenishment of fund balance as well as an estimated timeline for achieving such.

These steps may include, but are not limited to, identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues, charges and/or fees; use of year end surpluses; and/or enacting cost saving measures such as holding capital purchases, reducing departmental operating budgets, freezing vacant positions, and/or reducing the workforce. The replenishment of fund balance to the minimum level shall be accomplished within a three-year period. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the City, then the Council shall establish an extended time line for attaining the minimum balance.

Order of Expenditure of Funds

When 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 City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Appropriation of Unassigned Fund Balance

Appropriation from the minimum unassigned fund balance shall require the approval of the Council and shall be utilized only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted.

The Council may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

Monitoring and Reporting

The Director of Finance shall be responsible for monitoring and reporting the City's various reserve balances. The City Manager is directed to make recommendations to the Council on the use of reserve funds both as an element of the annual operating budget submission and from time to time throughout the fiscal year as needs may arise.

Compliance with the provisions of the policy shall be reviewed as a part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures.