

# Fund Balance Policy

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**Policy Number:** 01-02

**Date:** January 9, 2017

**Purpose:** Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance reserve policies are established to avoid cash flow interruptions, generate investment income, and reduce the need for borrowing. The fund balance reserves identified within this policy are the minimum balances necessary to accomplish these objectives.

While keeping in mind the uneven nature of the City's cash flows, should the projected ending fiscal year fund balance fall below the desired percentage or amount, the City should create a plan to restore the appropriate levels.

## **Part II – Governmental Funds**

This section only applies to fund balances reported in the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Permanent Funds.

### **1. Definitions**

The five fund balance classifications outlined in GASB Statement 54 follows:

**Nonspendable Fund Balance:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

**Restricted Fund Balance:** This classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed Fund Balance:** This classification reflects specific purposes pursuant to constraints imposed by formal action of the district's highest level of decision-making authority (generally the governing board). Also, such constraints can only be removed or changed by the same form of formal action.

**Assigned Fund Balance:** This classification reflects amounts that are constrained by the government's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.

Unassigned Fund Balance: This classification is the residual classification for the general fund only. It is also where *negative residual amounts for all other governmental funds* would be reported.

## **2. Fund Balance Commitments & Assignments**

Committed fund balance for a specific use must be taken by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council. In order to be recognized in the annual Audit Report, commitments of fund balance must be enacted prior to the end of that Report's particular fiscal year.

Assigned Fund Balance is intended for specific purposes not imposed by external parties or City Council's formal action. The City Council authorizes the City Manager and/or his/her designee(s) to assign fund balance. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular Fund.

## **3. Reserves**

General Fund: Unassigned fund balance will be maintained at a minimum level equal to 25% of annual expenditures. The City's unassigned General Fund balance will be maintained to provide the municipality with sufficient working capital and a margin of safety to address emergencies without borrowing.

TIF Funds: The City currently has two budgeted TIF Funds (the Central Area TIF and TIF II). These Funds should be self-supporting and should maintain a fund balance equivalent to meet the planned improvements identified in a multi-year capital schedule(s).

Capital Projects Fund: This Fund is used for resources accumulated and used in right of way improvements such as street repair, street reconstruction, and curb and gutter replacement. Costs associated with this Fund must not be State MFT eligible and must cost over \$5,000 and have a useful life of at least three years. The funding source for this Fund will be the local home rule motor fuel tax. The Capital Projects Fund should work toward establishing a fund balance at a minimum dollar amount to meet the planned improvements identified in a multi-year capital replacement schedule(s).

Special Revenue Funds: These Funds are used to account and report the proceeds of specific revenue sources which are restricted or committed toward expenditures for specific purposes other than debt service or capital projects. In general, all these Funds should maintain the least fund balance necessary to cover current fiscal year expenditures, plus an amount to pay for those expenditures of the subsequent fiscal year needed to avoid a cash deficit position.

#### **4. Fund Balance Classification**

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund type. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The General Fund may also include an unassigned amount.

#### **5. Prioritization of Fund Balance Use**

When an expenditure is incurred for a purpose which can be paid from multiple fund balance classifications, the City will spend the most restricted dollars before less restricted, in the following order:

- Nonspendable (if funds become spendable)
- Restricted
- Committed
- Assigned
- Unassigned

### **Part III – Enterprise, Internal Service, & Fiduciary Funds**

This section applies to Funds outside the scope of GASB 54.

#### **1. Definitions**

Restricted Net Assets: The component of net assets restricted by external parties, constitutional restrictions, and enabling legislation.

Net Assets Invested in Capital Assets, Net of Related Debt: A component of net assets calculated by reducing capital assets by accumulated depreciation and the principal portion of related debt.

Unrestricted Net Assets: The portion of net assets that is neither restricted nor invested in capital assets net of related debt.

#### **2. Reserves**

Water Operating Fund: The unrestricted net assets of the Water Fund will be maintained at a minimum level equal to 25% of the annual budgeted operational expenses. Net position above 25% will be transferred annually to the Water Capital Fund for use in funding the Water Capital plan.

Water New Construction Fund: This revenue is from impact fees and is restricted for any new water main infrastructure in the City of DeKalb.

Water Capital Projects Fund: This fund will be used to account for all capital revenues and expenditures to Water Capital as approved by City Council in the annual budget. Capital projects include existing water infrastructure for water mains, wells, treatment plants, pumping systems and water towers. Additionally, Water Division equipment and

fleet that exceed \$10,000 with a useful life exceeding one year would be accounted for through this fund and be subject to the same annual budget approval by Council.

Airport Fund: The unrestricted net assets of the Airport Fund will be maintained at a minimum level equal to 25% of annual budgeted operational expenses, plus the budgeted capital improvements for the current fiscal year.

Other Specified Funds: The Health Insurance Fund should maintain unrestricted net assets of one month of IPBC premium. Any amount above this threshold may be transferred to the Workers' Compensation Fund or Liability/Property Insurance Fund to be used toward claims, eliminate potential deficits, or maintain net asset policy in these other Funds.

The Workers' Compensation Fund should maintain unrestricted net assets of \$1,000,000 collectively (or 1 year premium for reinsurance plus the average annual retention costs associated with that premium).

The Liability/Property Insurance Fund should maintain unrestricted net assets approximately equivalent to 25% of annual budgeted expenses.

## **Part IV – Other**

### **1. Cash Deficits**

Should any Fund incur a cash deficit by the end of the fiscal year, an interfund loan will be created with a Fund or Fund(s) which have a cash surplus (unless restricted by statute or Fund Balance policy).

### **2. Reporting**

Year to date revenues and expenditures for the General Fund will be issued to the City Council by their second regular meeting of each month.

On a quarterly basis, the City Council shall receive an update on the General Fund with a year-end forecast for the fiscal year and also receive a summary of major fund balances.

TIF Funds will be reported in greater detail to Council by the end of March and by the end of September of each year.

The City Council shall receive an update on Workers' Compensation claims through December 31 by the end of March and claims through June 30 by the end of September of each year.

A semi-annual report on economic development incentives will be reported to Council by the end of March and by the end of September of each year.

An update on retiree insurance costs will be reported annually by the end of March of each year.