

## COUNCIL POLICY STATEMENT

Policy No. 40  
General Subject: Finance  
Specific Subject: Fund Balance and Target Fund Balance  
Date Approved: August 15, 2005  
Date Revised: December 19, 2011

### PURPOSE

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), which was adopted by the City as of the fiscal year ended April 30, 2012. In the fund financial statements, governmental funds now report five components of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

This policy establishes guidelines for the appropriate level of fiscal year end (a) unassigned General Fund balance; (b) assigned fund balances for all special revenue funds; and (c) unrestricted net asset balance for all Enterprise Funds (“Target Fund Balances”).

### RATIONALE

Having a policy for Target Fund Balances will provide ongoing guidance to the City Council and senior staff regarding the appropriate relationship between an available balance in any individual fund and revenues and expenditures with respect to that fund. It is essential that the City maintain an adequate level of available fund balance to mitigate risks and provide a backup for revenue shortfalls. Adherence to an appropriate policy will also help the City maintain and improve its credit rating.

### POLICY STATEMENT

#### FUND BALANCE POLICIES

It is neither sufficient nor advisable to monitor only the aggregate balance of all the City’s accounting funds. The balance in each individual fund must be separately monitored. A fund balance shall be the difference between assets and liabilities reported as to any particular fund. A fund balance must measure the net current financial resources in a fund that may be available to finance expenditures to be made from that fund in present and future accounting periods. Fund balance reporting will be accomplished in accordance with the most recent authoritative pronouncements and each Fund may be defined according to the following categories of funds:

**Nonspendable Funds:** refers to amounts that cannot be spent because they are either not spendable form or are legally or contractually required to be kept intact. This would include, but is not limited to, inventory prepayments and non-current receivables.

**Restricted Funds:** refers to amounts that are subject to externally imposed restrictions such as those imposed by creditors, grantors, contributors and/or laws and regulations of the City or state or federal government. Bonded capital project funds and debt service funds are included in this category. Special revenue funds are, by definition, Restricted Funds.

**Committed Funds:** refers to amounts that can only be used for specific purposes pursuant to constraints imposed by specific formal action of the City Council. The City Council may commit funds by a resolution or ordinance. Committed Funds cannot be used for any purpose other than that specified by Council action unless the Council removes or changes the specific allowable use by taking the same type of formal action it employed to previously commit those funds.

**Assigned Funds:** refers to amounts for which the Council has expressed an intention for use for specific purposes; but which are not Restricted or Committed as defined above. An Assigned Fund balance does not lapse at fiscal year end, but is carried over into the next fiscal year.

**Unassigned Funds:** refers to all spendable monies not contained in the other four classifications set forth above. In funds other than the General Fund, the unassigned classification may be used only to indicate that a deficit balance has resulted from overspending for specific purposes for which amounts had been Restricted, Committed or Assigned.

#### TARGET FUND BALANCE POLICIES

For the General Fund, the Target Fund Balance shall be equal to three months of budgeted operating expenditures.

For all non Enterprise Funds with the exception of the General Fund, the Target Fund Balance shall be zero (0).

For Enterprise Funds the City's Target Fund Balance shall be equal to two months of budgeted operating expenditures, plus an additional amount to cover emergency expenditures. For the Parking Fund this emergency amount shall be \$50,000, for the Water Fund this emergency amount shall be \$570,000 and for the Sewer Fund this emergency amount shall be \$300,000.

According to law, the Library Fund Target Fund Balance must be set by the Library Board.