

CITY OF SUNSET HILLS
PROPOSED FUND BALANCE POLICY

Purpose

This policy is to help ensure that the City maintains adequate fund balances to provide the basis for a stable financial environment and to allow the City to provide quality services to its residents. The maintenance of adequate reserves is essential to the financial strength and flexibility of the city as a whole. Fund balances as described in this policy will provide working capital for regular ongoing operations and reserves for emergency situations to avoid service disruptions.

Fund Balance Categories

Non-spendable: Amounts that cannot be spent because the resources the fund balance represents are either not in a spendable form (inventory, prepaid expenses or long-term receivables) or cannot be spent due to legal or contractual requirements (endowment fund principal).

Restricted: Amounts that can only be used for a specific purpose due to restrictions placed on the funds by external parties such as granting agencies, creditors or governmental bodies. Examples include revenues restricted by state statute, grant funds unspent bond proceeds.

Committed: Amounts with a purpose formally imposed by resolution by the Board of Aldermen. Binding unless modified or rescinded by the Board of Alderman.

Assigned: Amounts constrained by the expressed written intent of the Board of Aldermen, City Administrator, or designee.

Unassigned: All amounts not included in other fund balance classifications. Other than target levels of unassigned fund balance as defined in this policy, there are no restrictions on the use of these balances.

Positive unassigned balances can exist only in the general fund. By definition, balances in special revenue funds that are not otherwise restricted (non-spendable, restricted or committed) are inherently restricted to the purpose of that fund and are considered to be assigned. Commitments and assignments cannot be negative balances in any fund, nor can commitments or assignments cause a negative unassigned fund balance. Any negative fund balance should be recorded in the unassigned category.

Reserve Balances – Types, Target Levels & Allowable Uses

The City will maintain reserves for the General Fund. The Board of Aldermen may approve the use of annual reserves in the case of emergency events, or conditions that result in unanticipated expenditure requirements or revenue fluctuations within a fiscal year, or to take advantage of an extraordinary opportunity. Should the reserve fall below the reserve level, the City Administrator and Director of Finance will bring forward a plan as part of the subsequent fiscal year's budget to the Council to replenish said reserve in a reasonable time frame.

- **General Fund** - At the end of the year, the City will have an unassigned fund balance no less than 50% of combined unassigned expenditures, capital outlays and debt service.
- **Capital Fund** - At the end of the year, the City will have a fund balance no less than 30% of annual capital sales tax revenue.
- **Special Revenue Funds** - At the end of the year, the City will have zero or greater fund balance.

Authority

All uses of fund balance reserves below the above limits must be approved by the City Administrator, with final approval from the Board of Aldermen. Requests to use reserve amounts must include a replenishment plan and be consistent with approved uses as stated in this policy.

Review and Reserve Deficiencies

All reserve balances will be reviewed and assessed at the close of each fiscal year. Any deficiencies, including a replenishment plan will be reported to the City Administrator and Board of Aldermen for review and approval. Interim balance reviews may also be done as part of the annual budget process.

In addition, the policy target levels will be reviewed periodically for reasonableness and adequacy as compared to historical revenue/expense activity, historical use of reserves and expected future cash flows. Any changes to policy target amounts will be approved by the Board of Aldermen.