

CITY OF WHITE SETTLEMENT



FUND BALANCE POLICY

ORIGINALLY ADOPTED BY CITY COUNCIL: SEPTEMBER 13, 2011

PREFACE

The purpose of this policy is to establish guidelines for fund balance levels within each of City of White Settlement's funds. It is essential that the City maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, or adverse circumstances. The fund balance level is also designed to provide an appropriate amount of working capital for the City's general operations. In general, the City of White Settlement should strive to avoid appropriating fund balance for recurring expenses. However, in the event that fund balance is used to support recurring expenses, the budget should clearly identify the uses of fund balance and provide an explanation of the circumstances requiring the use of fund balance. In addition, the budget should also address the future potential uses of fund balance for operating expenditures.

REVIEW & COUNCIL APPROVAL

SEPTEMBER 13, 2011

April 6, 2021

I. BACKGROUND

The Governmental Accounting Standards Board (GASB) has adopted Statement 54 (GASB 54), a new standard for governmental fund balance reporting and governmental fund type definitions that became effective in governmental fiscal years starting after June 15, 2010.

The City of White Settlement elected to implement GASB 54 requirements, and to apply such requirements to its financial statements beginning with the current October 1, 2010 – September 30, 2011 fiscal year.

II. DEFINITIONS & CATEGORIES

Fund Balance is defined as the difference between a fund's assets and liabilities. According to the Governmental Accounting Standards Board (GASB) statement number 54, fund balance must be allocated into one the following five categories:

Non-Spendable Fund Balance - Includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact. Examples include inventory or endowments.

Restricted Fund Balance - Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants, hotel occupancy taxes, bondholders, higher levels of government.

Committed Fund Balance - Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally (City Council Ordinance or Resolution).

Assigned Fund Balance - Comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned Fund Balance - Is the residual classification of the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

Note: The above fund balance categories only apply to governmental funds.

III. 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 an ordinance adopted by the City Council. The ordinance 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.

Assigned Fund Balance

The City Council authorizes the City Manager, Finance Director or their designee as the official authorized person to assign fund balance to a specific purpose approved by this fund balance policy.

Order of Expenditure of Fund Balance

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 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.

Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund and all operating funds equal to forty percent (40%) with a goal of sixty percent (60%) of budgeted expenditures for unanticipated expenditures, unforeseen revenue fluctuations, or other adverse circumstances. The fund balance level, however, may be reduced to the equivalent of twenty-five percent (25%) of budgeted expenditures in unusual financial circumstances. However, if such a situation occurs, the City will implement necessary corrective action within a three-year plan to restore the unassigned fund balance to forty percent (40%) with a goal of sixty percent (60%) of budgeted expenditures.

As for the Debt Service Fund, it is the goal of the City to achieve and maintain an unassigned fund balance equal to eight and one-third percent (8.33%) with a goal of sixteen and two-thirds percent (16.67%). Should the fund balance level be reduced to five percent (5%) in unusual financial circumstances, the City will implement necessary corrective action within a five-year plan to restore the unassigned fund balance to eight and one-third percent (8.33%) with a goal of sixteen and two-thirds percent (16.67%) of budgeted expenditures. If restoring the General Fund Balance and Debt Service Fund balance are in conflict, restoring the General Fund Balance takes priority.

Non-Governmental Fund Balance

The fund balance categories discussed above do not apply to proprietary funds according to GASB 54. While not required by the GASB, the City recognizes the need to apply a minimum balance policy to the proprietary funds maintained by the City. Therefore, the City shall maintain a minimum ending working capital balance (current assets minus current liabilities) of forty percent (40%) with a goal of sixty percent (60%) of budgeted expenditures for the Water/Sewer Fund. If the working capital level should fall below the desired minimum, the City will implement necessary corrective action within a three-year plan to restore the working capital balance to forty percent (40%) with a goal of sixty percent (60%) of budgeted expenditures.