

# City of Grandview – Financial Policy

## Fund Balance Policy

### *Purpose*

The purpose of this policy is to establish a key element of the financial stability of the City of Grandview by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. 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 similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations.

### *Definitions*

*Fund Balance* – Fund Balance is generally the difference between its assets and its liabilities. An accounting distinction is made between the portions of fund balance that spendable and nonspendable. These are broken up into five categories:

- 1) **Non-spendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) **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 and court bonds.
- 3) **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.
- 4) **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.
- 5) **Unassigned fund balance** – 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.

## ***Policy***

### ***Committed Fund Balance***

The Board of Aldermen 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 Board of Aldermen. 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 Board of Aldermen designates the City Administrator as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

### ***Minimum Unassigned Fund Balance***

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to 30% of operational expenditures. The City considers a balance of less than 30% to be cause for concern, barring unusual or deliberate circumstances. Proposed budgets, or budget revisions, will maintain an ending fund balance of at least 30% of the Fund's operational expenditures. If unassigned fund balance falls below the goal due to unforeseen revenue fluctuations, unanticipated expenditures, or any similar circumstances, the City will immediately develop a restoration plan to re-build and maintain the minimum 30% fund balance requirement.

### ***Order of Expenditure of Funds***

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving to the next category with available funds. The order in the use of funds would therefore be Restricted, Committed, Assigned, and Unassigned to the extent each category is available and eligible.