

## CITY OF ROCHELLE

**CATEGORY: FINANCE**

**PAGE 1 of 3**

**TITLE: FUND BALANCE POLICY**

EFFECTIVE: October 10, 2017

SUPERCEDES: 4/9/2012

### **I. Purpose & Scope**

The purpose of the Fund Balance is defined as the excess of assets over liabilities in a Governmental Fund. This Fund Balance Policy establishes a minimum level (target range) at which the projected and end-of-year fund balance should be maintained to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to emergencies with fiscal strength.

The purpose of this policy is to establish fund balance classifications that establish a hierarchy based on the extent to which the City must observe constraints imposed upon the use of the resources that are reported by the governmental funds. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of the resources.

The fund balance will be composed of three primary categories: 1) Non-spendable Fund Balance, 2) Restricted Fund Balance, and 3) Unrestricted Fund Balance.

### **II. Definitions**

1. Governmental Funds – are used to account for all or most of the City’s general activities, including the collection and disbursement of restricted or committed monies (Special Revenue Funds), the funds committed, restricted, or assigned for the acquisition or construction of general capital assets (Capital Project Funds), and the funds committed, restricted, or assigned for the servicing of general long-term debt (Debt Service Funds). The General Fund is used to account for all activities of the City not accounted for in some other fund.
2. Fund Balance – the difference between assets and liabilities in a Governmental Fund.
3. Non-spendable Fund Balance – the portion of the Governmental Fund’s net assets that are not available to be spent, either short-term or long-term, in either form or through legal restrictions (e.g., prepaid items).
4. Restricted Fund Balance – the portion of the Governmental Fund’s net assets that are subject to external enforceable legal restrictions (e.g., property tax levies) or through enabling legislation adopted by the City (e.g. utility taxes).
5. Unrestricted Fund Balance – is made up of three components:
  - a. Committed Fund Balance – the portion of the Governmental Fund’s fund balances with self-imposed constraints or limitations that have been placed at the highest level of decision making via formal action.

- b. Assigned Fund Balance – the portion of the Governmental Fund’s fund balances to denote an intended use or earmarking of resources.
- c. Unassigned Fund Balance – available expendable financial resources in a Governmental Fund that are not the object of a tentative management plan (i.e., assignment). Positive unassigned fund balance can only be reported in the General Fund. Any residual fund balance in all other governmental funds is assumed at a minimum to be assigned for the purpose of the fund.

### **III. Minimum Unrestricted Fund Balance Levels**

This policy applies to the City’s Governmental Funds as follows:

1. General Fund – The General Fund is a major fund and the general operating fund of the City. It is used to account for all financial resources except those that are accounted for in another fund. Each year a portion of the spendable fund balance will be determined as follows:
  - a. Restricted – A portion of the fund balance may be restricted through external legal requirements or through enabling legislation adopted by the City.
  - b. Committed – A portion of the fund balance may be committed through formal action of the City Council through a resolution or ordinance adopted before the end of the fiscal year.
  - c. Assigned – A portion of the fund balance may be committed by action of the City Manager and Finance Manager. The amount will represent the funds the City intends to use for a specific purpose. This will be adjusted annually.
  - d. Unassigned – The unassigned fund balance will be reviewed annually during the budget process. This unassigned fund balance will be maintained at a target level of 10% - 40% of annual budgeted expenditures. Balances in excess of 40% of annual budgeted expenditures may be transferred to the Capital Improvement Fund to support future capital projects. Cash and investments within the unassigned fund balance will be maintained at a minimum level of 15% of annual budgeted expenditures. If this minimum is not achieved, a three year plan to increase the balance of cash and investments to the minimum will be created.
2. Special Revenue Funds – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purpose other than debt services or capital projects. Financing for most Special Revenue Funds is provided by a specific annual property tax levy (e.g., IMRF, Social Security, and Audit). Proceeds from the motor fuel tax imposed by the State of Illinois are restricted for expenses for the highways and streets throughout the City.
3. Debt Service Fund – This fund is established to account for financial resources that are restricted, committed, or assigned to payment of principal and interest owed on debt. The Debt Service Fund’s fund balance is 100% restricted for debt service unless derived from unrestricted interest income or other unrestricted sources.

4. Capital Project Funds – These funds are established to account for and report the financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets, excluding those types of capital related outflows financed by proprietary funds. The Capital Project Funds fund balance will be considered restricted, committed, or assigned depending on the intended source/use of the funds.

#### **IV. Flow Assumptions**

Some projects (funds) are funded by a variety of resources, including both restricted and unrestricted (committed, assigned, and unassigned). When restricted funds exist, those funds are used first, then unrestricted. For unrestricted funds, committed funds are used first, then assigned, and then unassigned.

#### **V. Authority**

1. Committed Fund Balance – A self-imposed constraint of spending the fund balance must be approved by ordinance or resolution of the City Council. Any modifications or removal of the self-imposed constraint must use the same action used to commit the fund balance. Formal action to commit fund balance must occur before the end of the fiscal year. The dollar amount of the commitment can be determined after year-end.
2. Assigned Fund Balance – A self-imposed constraint on spending the fund balance based on the City’s intent to use fund balance for a specific purpose. The authority may be delegated to the City Manager and Finance Manager.

#### **VI. Minimum Targets**

Management will monitor major revenue collections and the amount of cash available by reviewing the monthly financial reports. During the year, if revenue projections suggest that revenue will not meet expectations and the fund targets will not be met by the end of the year, the City Manager will take the following actions to reach goals established in the adopted budget:

- Review expenses with management,
- Reduce capital asset expenditures,
- Reduce operational expenditures, where appropriate, while maintaining the adopted budget goals,
- Present to the City Council other expenditure control options, including those that might modify the goals established in the adopted budget.