



OFFICE OF THE CLERK/CHIEF ADMINISTRATIVE OFFICER

Key Controls – Fund Balance

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Financial Management Overview:

1.

The primary purpose of this policy is to establish a target level of unassigned fund balance for the General Fund and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This policy shall also establish a process for reaching and maintaining the targeted level of unassigned fund balance, and the priority for the use of amounts in excess of the target. Finally, this policy shall provide a mechanism for monitoring and reporting the City of Burlington's (City) general fund unassigned fund balance. This policy applies only to the General Fund. Other funds shall be fully self-supporting to the extent that the fund balance of each fund shall be zero or greater. A target for other funds shall be a minimum of 5% to a maximum of 15% of operational costs.

The following financial policies adopted by the Burlington City Council on xxxx, establish the framework for the City's overall fiscal planning and management. It is the intent of the City that these policies demonstrate to residents, the credit rating industry, municipal bond investors, auditors, and the State that the City is committed to sound financial management and fiscal integrity.

The goals of the City of Burlington's financial policies are:

- I. To support sustainable municipal services
- II. To have a capital improvement program that adequately maintains and enhances the public's assets over their useful life
- III. To provide cost-effective services to citizens and visitors
- IV. To provide financial and other service information to enable citizens to assess the costs and results of City Services
- V. To follow prudent and professional financial management practices to assure residents of the City of Burlington and the financial community that our City

government is well managed and in sound fiscal condition

General Financial Policy:

I. Fund Accounting

A fund is a separate, self-balancing set of accounts used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions or limitations.

The separation of the City's activities into funds allows the City to maintain the appropriate (required) controls over expenditures for each activity and to report on specific activities to interested citizens.

Fund Types: All funds are classified into six (6) fund types. These fund types, and the purpose of each are:

- a. General Fund – to account for the administrative, police and fire protection, parks, recreation, community development, infrastructure, and technology functions of the City. Principal sources of revenue consist of property taxes, franchise, Payment In Lieu of Taxes (PILOT), and occupancy taxes, sales and use taxes, licenses and permits, grants; charges for services, intergovernmental revenue, interest earnings, and operating transfers from other funds. Major expenditures are for personnel costs, materials and supplies, purchased services, capital outlay, and transfers to other funds.
- b. Special Revenue Funds – to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for defined purposes other than debt service or capital projects. One or more specific restricted or committed revenues should comprise a substantial portion of the fund's resources but may also include other restricted, committed, and assigned resources.
- c. Capital Projects Fund – to account for and report 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. Outflows financed by proprietary funds and assets held in trust are excluded.
- d. Debt Service and Reserve Fund – to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest payments.
- e. Enterprise Funds (also called business or Proprietary Funds) – to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user determination of revenues earned, expenses incurred, and/or net income as appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- f. Fiduciary Funds – to account for resources received and held by the City in a fiduciary capacity. Disbursements from these funds are made in accordance with the trust or other agreements or conditions of the trust for the particular source of funds.

II. Accounting and Auditing Policies

The City maintains a system for financial monitoring, control and reporting for all operations, funds and agencies in order to provide effective means to ensure that overall City goals and objectives are met and to instill confidence in the City's partners and investors whom the City is well-managed and fiscally sound.

The City maintains its accounting records and reports on its financial condition and results of operations in accordance with state and federal law and regulations and generally accepted accounting principles in the United States (GAAP), which is set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). Annually, an independent firm of certified public accountants performs a financial and compliance audit of the City's financial statements.

Fund Balance Policy

I. Overview

The City's Fund Balance is the accumulated difference between assets and liabilities within General Fund. A sufficient fund balance allows the City to meet its contractual obligations, provide funds for new and existing programs established by City Council, mitigate negative revenue implications of federal or state budget actions, mitigate economic downturns, fund disaster or emergency costs, provide funds for cash flow timing discrepancies and fund non-recurring expenses identified as necessary by City Council.

II. Governmental Fund Balance Type Definitions

The Governmental Accounting Standards Board (GASB) issued Statement Number 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" effective for periods after June 15, 2010. The objective of this Statement was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes limitations on the purposes for which Fund Balance can be used.

- a. *Non-spendable Fund Balance* – some assets reported in governmental funds may be inherently non-spendable from the vantage point of the current period.
 - Assets that will never convert to cash such as prepaid items or inventories,
 - Assets that will not convert to cash soon enough to affect the current period such as non-financial assets held for resale,
 - Resources that must be maintained intact pursuant to legal or contractual requirements such as capital of a revolving loan fund.

- b. Restricted Fund Balance – this represents the portion of fund balance that is subject to externally enforceable legal restrictions. Such restrictions are typically imposed by parties altogether outside the City such as creditors, grantors, contributors or other governments. Restrictions can also arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose.
- c. Committed Fund Balance – this represents the portion of fund balance whose use is constrained by limitations that the City imposes on itself by City Council (highest decision making level) and remains binding unless removed in the same manner. The City does not use committed funds in its normal course of business.
 - It requires action by City Council to commit fund balance.
 - Formal City Council action is necessary to impose, remove or modify a constraint reflected in the committed fund balance.
- d. Assigned Fund Balance – this describes the portion of fund balance that reflects the City’s intended use of resources. This authority rests with the Mayor and is delegated to staff through the use of encumbrances.
- e. General Fund Unassigned Fund Balance - resources that include all other spendable amounts. The General Fund is the only fund that reports a positive *unassigned* fund balance amount. Other governmental funds besides the General Fund can only report a negative *unassigned* fund balance amount

III POLICY

In Fiscal Year 13 the City had a General Fund negative unassigned fund balance of \$2.1 million. In FY 14 the City had a General Fund positive unassigned balance of approximately \$72,000. It is the intent of the City to achieve a minimum General Fund positive unassigned balance of 5% of the previous year’s General Fund (Fund 101) actual operating expenditures as identified in the City’s General Ledger. The targeted balance is 10%, and the maximum balance is not to exceed 15%. Any amount in excess of 15% is to be appropriated as assigned fund balance, or to be used to reduce property taxes, or other fund balance categories as outlined below. The City Council may either appropriate within a fiscal year positive “fund balance” to address unanticipated costs, or budget for the next fiscal year. In either determination the City can reduce the balance below 15%, but, no action shall be made that would reduce the balance to less than 5%, unless the Board of Finance and City Council approve a reduction below the 5% minimum due to a financial emergency or a situation that would create a financial hardship for the City without such a reduction. In the event that the fund balance drops below the minimum level, the City will develop a plan, implemented through the annual budgetary process, to bring the balance to the targeted level of 10% over a period of no more than three (3) years. It is the intent of this policy that starting in FY 16 the City increase the General Fund unassigned fund balance each year, and achieve the 5% minimum target by no later than the end of fiscal year 2019.

IV. TRANSFERRING OF EXCESS FUND BALANCE

The City Council may transfer the excess, above 15%, fund balance to other General Fund fund balance categories or funds, or for one-time property tax relief. Generally, excess fund balance should not be used to fund reoccurring, general or routine operating expenses of the City. It should be used to fund foreseeable projects or goals, unforeseen emergencies, one-time property tax relief and to provide financial stability to the City.

POLICY ADMINISTRATION

At the completion of the annual audit, the Chief Administrative Officer (CAO) shall submit to the City Council a report of the City's fund balance and the classifications of its various components in accordance with GAAP and this policy. In addition, the CAO in accordance with GAAP, shall report fund balance in the appropriate classifications and make the appropriate disclosures in the City's financial statements. Annually, the CAO shall review this policy and the considerations used in establishing the unassigned fund balance target. The CAO shall report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unassigned fund balance. It is the responsibility of the Chief Administrative Office to initiate a formal review of this Policy by the Board of Finance and the City Council prior to the conclusion of Fiscal Year 2017.