

FUND BALANCE POLICY

I. PURPOSE AND NEED FOR POLICY

The City of Rocky Ford understands it has a responsibility to adhere to prudent financial principles to ensure stable operations for the benefit of the City's residents and customers. Fund balance reserves are an important component in ensuring the overall financial health of a community, by giving the City a cushion to meet contingency or cash-flow timing needs. It is recommended that at year-end, local governments maintain an unreserved fund balance of approximately 10% to 25% of fund operating revenues, or no less than three (3) months of operating expenditures. While the bond rating agencies do not have recommended fund balance levels, the agencies look favorably on larger fund balances, which protect against contingencies and cash flow needs.

II. BACKGROUND

Fund balance – the difference between assets and liabilities in governmental fund financial statements are among the most widely and frequently used information in local government financial reports. The Governmental Accounting Standards Board (GASB) developed Statement 54 to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standards established a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

As determined by Statement 54, fund balance amounts will be reported in the following classifications (in order of most to least binding):

- *Restricted* – amounts constrained by external parties, constitutional provision or enabling legislation (i.e. TABOR reserves);
- *Committed* – amounts constrained by a government using its highest level of decision-making authority (i.e. future capital projects);
- *Assigned* – amounts a government intends to use for a particular purpose (i.e. property acquisitions, contingencies, match money); and
- *Unassigned* – amounts that are not constrained at all.

III. POLICY

Therefore, the City Council of the City of Rocky Ford adopts the following to use as guidelines:

- Provide and maintain an TABOR reserve balance of 3% in the General Fund as well as all other funds, as appropriate;
- Provide and maintain an unreserved (unassigned) fund balance of at least 10%, but not more than 25% of budgeted operating expenditures in the City's General Fund;
- Provide and maintain a Contingency reserve balance in all enterprise funds of at least 10% to 25% in order to address possible revenue offsets;

- Commit 5.00 monthly from the facility fee for future capital improvements to any and all parts of the City’s water system and for the capital cost of expanding or adding to the water system;
- Commit revenues received each fiscal year for ambulance services to be held in reserve for the future purchase of ambulance-related equipment;
- The annual budget shall include adequate reserves, as possible, as a “savings” account for future projects, acquisitions, etc.; and
- Each annual proposed budget shall include this benchmark policy.
- The Council shall review the amounts in fund balance in conjunction with the annual budget approval, and make adjustments as necessary to meet expected cash-flow needs; and
- The Council may consider appropriating (for authorized purposes) a fund balance in excess of the policy level. An example of preferred use of excess fund balance would be for one-time expenditures such as capital expenditures

IV. PROCEDURES

- The City shall maintain necessary funds in accordance with City policy;
- Annual financial statements shall be prepared in accordance with generally accepted accounting principles establishing the fund balance at the end of each year;
- The Council shall review fund balance and cash-flow needs during the budget process in accordance with this policy; and
- Staff and the Council should review the policy periodically, especially if the composition or timing of revenue receipts change.

V. RESPONSIBILITY AND AUTHORITY

Administrative implementation of policies is the responsibility of staff and the Council.