

City of Foley, Alabama
Fund Balance Policy
Adopted September, 2015, via Resolution 15-2296
Revised August, 2021, via Resolution _____

The following policy combines, revises, and replaces the policies adopted by Resolutions 3649-09 (Establishing an Undesignated Fund Balance Goal for the General Fund) and 4648-11 (Adoption of a Fund Balance Policy in Accordance with GASB Statement No. 54) and supersedes all previous regulations regarding the City's fund balance.

August 2, 2021, revisions: Increase the minimum fund balance goal calculation percentage from 25% to 35% in response to the amount required to self-fund Hurricane Sally costs (approximately \$14m) for an extended period of time. The amount of reserve related to self-insured expense will be notated separately in the calculation each year and made available to pay the cost of catastrophic claims not covered by reinsurance as needed.

Purpose: The purpose of this policy is to establish a key element of the financial stability of the City of Foley, Alabama, by setting guidelines for a fund balance in accordance with the standards established by the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*.

An unassigned fund balance is an important measure of economic stability and it is essential that the City maintain adequate levels of unassigned fund balance to lessen financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, **catastrophic self-insured claims**, and other similar circumstances. This policy will ensure the City maintains adequate fund balances to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls, and
4. Maintain funds needed in the event of unforeseen expenditures related to emergencies caused by natural or other disasters, **and**
5. **Maintain funds needed in the event of catastrophic self-insured claims.**

Governmental fund definitions: The following definitions are used to report activity in governmental funds. Fund types may or may not be reported in any given reporting period based on actual circumstances of the City and its Component Units.

The General Fund is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The general funds of blended component units are also reported as special revenue funds.

Debt Service Funds are used to account for all financial resources that are restricted, committed or assigned to expenditure for principal and interest.

Capital Projects Funds are used to account for all financial resources restricted, committed or assigned to expenditure for capital outlays, including the acquisition of capital facilities and other capital assets.

Fund balance reporting: Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund. GASB Statement 54 distinguishes fund balance classifications based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

Nonspendable Fund Balance - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Inventories, prepaid expenses and long-term receivables are examples of nonspendable fund balance.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation. The VFD Ad Valorem Fund, the Court and Jail Corrections funds, and resources from other granting agencies are examples of restricted fund balance.

Committed Fund Balance - includes amounts that can be used only for the specific purposes determined by a formal action of the highest level of decision-making authority (the City Council or a Board of Directors). Resolutions approving spending for capital improvements, potential claims and judgments, and certain contracts are examples of committed fund balance. Commitments will only be used for specific purposes pursuant to a formal action of the Council or Board. A majority vote is required to approve a commitment or to alter or remove a commitment.

Assigned Fund Balance - includes amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, assigned fund balance represents the remaining 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. Savings reserve accounts and the Library Fund are examples of assigned fund balance. The City Council, a Board of Directors or the City Treasurer has the authority to assign amounts that are intended to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The City Treasurer or their designee upon assignment, removal or change in assignment, will inform Council or Board members of the action by placing an informational item in the packet of the next scheduled meeting.

Unassigned Fund Balance - includes the residual classification for the City's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditures is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

General Fund minimum unassigned fund balance goal – As a safeguard against financial demands such as major natural disasters, economic distress, **catastrophic self-insured claims**, or other unforeseen events, the general fund minimum fund balance goal shall equal ~~25%~~ 35% of the originally budgeted operational expense and debt service.

Definitions:

1. *Operational expenditures* are normal operating expenses, including annual repair and replacement.
2. *Debt service* includes payments for the retirement of bonds, leases (including leases with City Boards or Authorities), and bank/other loans and notes.
3. *Exclusions* are determined by management and generally include the following:
 - o A budgeted capital item(s) that is a new addition and/or costs in excess of \$500,000 individually or collectively and other one-time expenditures that are material in nature.
 - o Operational expense that is offset by transfers in and/or other financing sources.
4. The amount reserved for self-insured expense will be notated in the calculation and made available if needed to pay catastrophic claims not covered by reinsurance.

Deficiencies:

If it is determined during the budget process that the unassigned fund balance will fall below the minimum, or if draws are made against the self-insured reserve to cover catastrophic claims, deficiencies will be replenished using the budget strategies and timeframes described below:

Budgetary strategies

- a. Recurring expenditures will be reduced to eliminate structural deficits, or
- b. Revenues will be increased or other funding sources pursued, or
- c. Some combination of a. and b.
- d. The amount of reinsurance for self-insured claims and other factors related to employee insurance will be analyzed.

Fund balance replenishing time periods

- a. Deficiency resulting in a minimum fund balance or self-insured fund balance between 23.5 percent and 25 percent shall be replenished over a period not to exceed one year.
- b. Deficiency resulting in a minimum fund balance or self-insured fund balance between 20 percent and 23.5 percent shall be replenished over a period not to exceed three years.
- c. Deficiency resulting in a minimum fund balance or self-insured fund balance of less than 20 percent shall be replenished over a period not to exceed five years.

It is the responsibility of the City Administrator and the City Treasurer to prepare multiple year cash flows to validate that repayment will occur within the established time periods, barring unforeseen events.

Implementation and review. Upon adoption of this revised policy, City Officials ~~and Board Members~~ authorize management to establish additional standards and procedures necessary to carry out the policy as it is intended. The City Treasurer, along with the City Administrator, shall review this policy at least annually and make any recommendation to Officials ~~and Board Members~~ should the intent of the policy require modification.