

CITY OF KEY WEST FUND BALANCE POLICY

PURPOSE

The City hereby establishes and will maintain classifications of Fund Balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The policy also establishes definitions and reporting standards for Proprietary Fund types. The policy establishes guidelines for preserving adequate fund balance and/or net assets in order to sustain financial stability and to provide prudent management of the city's financial resources.

GOVERNMENTAL FUNDS

DEFINITIONS

Fund Balance - is the difference between assets and liabilities on the governmental funds balance sheets. Fund balance consists of five categories: Nonspendable, Restricted, Committed, Assigned and Unassigned (in order from most to least restrictive).

- **Nonspendable Fund Balance** – Fund balance amounts that are not in a spendable form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.
- **Restricted Fund Balance** - Fund balance amounts constrained to specific purposes by their providers, through constitutional provisions (grantors, creditors) or by enabling legislation. Effectively, restrictions may be only changed or lifted, with the consent of resource providers and when they are legally enforceable.
- **Committed Fund Balance** - Fund balance amounts constrained to specific purpose by the City Commission through Ordinance. Commitments can only be removed or changed by taking the same actions that originally established the commitment. Committed Fund Balance remains binding unless removed in the same manner in which it was established. The action to impose the limitation on resources need to occur prior to the close of the fiscal year, although the exact amount may be determined subsequently. Contractual obligations should be incorporated to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations. Encumbrances may be reported as committed.

- **Assigned Fund Balance** – Fund balance amounts the city intends to use for a specific purpose, that are neither restricted nor committed, as determined by the City Commission or City Manager. 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. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year’s budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. Encumbrances resulting from issuing purchase orders as a result of normal purchasing activities approved by appropriate officials may be reported as assigned.
- **Unassigned Fund Balance** – consists of funds that have not been classified above.

SPENDING ORDER OF FUND BALANCE

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Open encumbrances at the end of the fiscal year may only be classified as committed or assigned, depending on at what level of authorization originally established them.

FUND BALANCE GOALS

- **General Fund**
 - The City shall maintain a **Unassigned Fund Balance** ranging from twenty (20%) to twenty five (25%) of the current fiscal year expenditures, less capital outlay and other reserves. For the purpose of this calculation, the expenditures shall be the budget as adopted in September for the subsequent year. This reserve shall be in addition to all other required restrictions, commitments or assignments of fund balance.

- **Special Revenue Funds**

- Special revenue funds are created to account for the proceeds of specific revenue sources that are legally **restricted or committed** to expenditure for specified purposes. The amount of any restriction or commitment of Fund Balance shall be governed by the legal authority underlying the creation of the individual funds.

- **Debt Service Fund**

- Debt service funds are typically subjected to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. Reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution **restricting or committing** their usage.

- **Capital Projects Fund**

- The Capital Projects Fund is used to account for and report financial resources that are **restricted, committed, or assigned** to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUNDS

DEFINITIONS

Net Assets - is the difference between assets and liabilities on the proprietary funds statements of net assets. Net assets consist of three categories: Invested in capital assets, net of related debt, Restricted, and Unrestricted.

- **Invested in capital assets, net of related debt**, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any related debt that is attributable to the acquisition, construction or improvement of capital assets of the government.
- **Restricted net assets** – restricted net assets reduced by the amounts repayable from those assets, excluding capital related debt.
- **Unrestricted net assets** – the portion of net assets that is neither restricted nor invested in capital assets.

NET ASSET GOALS

- **Enterprise Funds**

For each enterprise fund, the City shall maintain Unrestricted Net Assets ranging from twenty (20%) to twenty five (25%) of the current fiscal year expenditures, less capital outlay and other reserves for that fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as adopted by resolution in September for the subsequent fiscal year. This requirement shall be in addition to all other required restrictions of Net Assets.

Policy for the Sanitary Sewer System, Stormwater and Solid Waste Fund should provide for Commission Approved exceptions. There are times when short term drops in Unrestricted Net Assets are part of a sound rate making policy (10 year outlook).

An exception to the Enterprise Funds policy is the Transit Fund. This fund operates annually on a break even basis primarily supported through State and Federal funded grants, with an annual subsidy from other City fund(s) necessary to meet the operating and capital requirements of the Transit Fund. While this policy does not dictate the necessity of an operating reserve, it is recommended the Transit Fund strives to maintain an Unrestricted Net Assets level ranging from five (5%) to ten (10%), as defined above.

- **Internal Service Funds**

These funds are generally intended to operate on a "break-even" basis. In any fiscal year when it is projected that the actual amount of unrestricted net assets will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both. These funds are exempt from a minimum unrestricted net assets policy.

UTILIZATION OF MINIMUM RESERVES

Appropriation below the minimum Unassigned Fund Balance/ Unrestricted Net Assets shall require the approval of the City Commission.

REPLENISHMENT OF MINIMUM RESERVE DEFICITS

When it is anticipated at the completion of any fiscal year that the projected or estimated amount of Unassigned Fund Balance / Unrestricted Net Assets, will be less than the minimum requirement, then the City Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period.

UTILIZATION OF SURPLUS RESERVES

In the event that the Unassigned Fund Balance/ Unrestricted Net Assets exceed the maximum requirements, the surplus may be utilized for any lawful purpose as approved by City Commission. It is recommended that the first priority be given to utilizing the surplus within the fund in which it was generated. In order to minimize the long term effect of such use, the surplus shall first be appropriated to fund one time expenditures or expenses which do not result in recurring operating costs.

ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.

EFFECTIVE DATE

This Policy shall take effect immediately upon adoption of the City's Fiscal Year 2013-2014 Budget.