

The City of Kirksville, Missouri (the City) maintains its financial operations in a manner consistent with sound financial management principles, which require that sufficient funds be retained by the City to provide a stable financial base at all times. An adequate fund balance level is an essential element in both short-term and long-term financial planning. It serves to mitigate current and future risks, sustain operations during economic downturns, provides cash flow liquidity for the City's general operations and enhances creditworthiness. Maintenance of sufficient levels of fund balance enables the City to stabilize funding for operations, stabilize taxes and fees and realize cost savings in issuing debt. While adequate levels of fund balance are important, the City strives to maintain an appropriate amount that is neither too high nor low.

### I. Purpose

The City has enacted the following policy in an effort to ensure financial security through the maintenance of a healthy reserve fund that guides the creation, maintenance and use of resources for financial stabilization purposes. The City's primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The City also seeks to maintain the highest possible credit ratings which are dependent, in part, on the City's maintenance of a healthy fund balance.

### II. Fund Balance Categories

The fund balance, which is the excess of assets over liabilities in a governmental fund, may consist of any or all of the five categories defined below. The term "unrestricted fund balance" refers collectively to the three categories of committed, assigned and unassigned.

**Non-spendable.** Fund balance resources that are not in a spendable form (such as pre-pays or inventory), are required to be maintained intact (such as the corpus or principal of a permanent fund or capital of a revolving loan fund) or those that will not convert to cash soon enough to affect the current period (long-term portion of receivables and nonfinancial assets held for resale, such as land).

**Restricted.** Fund balance resources constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through externally enforceable legal restrictions either by constitutional provisions or by enabling legislation. Also included are amounts collected from the long-term portion of receivables or from other long-term assets held for resale which are limited externally in how they can be spent.

**Committed.** Fund balance resources constrained to specific purposes by the City Council or amounts collected from the long-term portion of receivables or other long-term assets held for sale which are limited internally. The commitment must be made by formal action (resolution) and the action must be taken before the end of the fiscal year. In order to be reported as committed, amounts cannot be used for any other purpose unless action through resolution to remove or change the constraint is taken.

**Assigned.** Fund balance resources a government intends to use for a specific purpose that do not have to be committed through resolution. Assignment of fund balance is a less formal action than required for committed funds and the action may be taken after the end of the fiscal year.

Amounts in excess of non-spendable, restricted and committed fund balances in funds other than the General Fund are automatically reported in this category. Amounts in this category can never cause the unassigned fund balance to be a deficit. This is the category used to reflect the portion of existing fund balance that is planned to be used to eliminate a projected deficit in the subsequent year's budget. In order to assign fund balance, the City Council designates the City Manager, or designee, as the authority to assign fund balance and determine the amount to be assigned for capital asset replacement.

**Unassigned.** Fund balance resources that are available for any purpose and which represent any funds available for spending after the funds earmarked for specified purposes have been otherwise classified. The General Fund is the only fund that will record a positive unassigned fund balance. The nature of other fund types automatically makes their resources restricted, committed or assigned. The only situation where other types of funds report amounts in the unassigned fund balance category is if the balance is negative, which might occur if the fund spends more resources than it has available in restricted, committed or assigned fund balances.

### III. **Policy Statement**

Fund balance is defined as the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources for governmental funds (General Fund, Special Revenue Funds, Capital Project Funds, and Permanent Funds). Working capital is defined as the difference between current assets and current liabilities for proprietary funds (Utility Fund and Internal Service Funds). For the purpose of this policy, fund balance and working capital are considered synonymous.

The fund balances of the City are to be maintained at a level to provide stability and flexibility to respond to unexpected adversity and/or opportunities. Establishing a minimum unrestricted fund balance for major funds based on annual operating expenditures of the current operating annual budget solidifies the City's ability for the continuance of operations.

In the event the fund balances drop below the established minimum level, the City will develop a plan to replenish the fund balance to the established minimum level within two fiscal years.

The City's basic goal is to contain annual expenditure increases to an acceptable growth rate and to limit expenditures to anticipated revenue in order to maintain a balanced budget. The decision to maintain unrestricted fund balance levels is due to the following:

- The Government Finance Officers Association (GFOA) recommends that a minimum fund balance for major funds should be no less than what will meet the average cash flow needs to cover regular operating expenditures;
- To provide the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collections, utility revenue collections, and other similar inflows; and
- To provide the liquidity to respond to contingent liabilities.

**General Fund.** This fund will maintain an unrestricted fund balance of not less than 17% of the annual operating expenditures of the current annual budget. This will meet the GFOA recommendation for the general fund balance of two (2) months of regular operating expenditures.

**Capital Improvement Sales Tax Fund.** This fund will maintain a minimum of \$100,000 in its restricted fund balance to be held in reserve for future capital improvement projects.

**Tourism Fund.** This fund will maintain a minimum restricted fund balance of not less than the current fiscal year of annual operating and capital expenditures to be held in reserve for future tourism operations.

**Enterprise Fund (Utility Fund).** This fund will maintain an unrestricted fund balance of not less than 15% of the annual operating expenditures of the current annual budget. This will meet the GFOA recommendation for the utility fund balance of forty-five (45) days of regular operating expenditures.

**Insurance Fund.** This fund will maintain an unrestricted fund balance minimum of \$750,000 or not less than 25% of annual claims and operating expenditures plus 100% of the specific stop-loss amount of the current annual budget if such amount exceeds \$750,000. The City is legally responsible to pay claims based on its insurance coverage documents, regardless of the amount of reserves held in the fund. The use of excess reserves will be determined during the annual budget adoption process.

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process and amounts of the minimum level of unrestricted fund balance in the funds shall be determined during this process. This policy may be amended upon City Council approval.

**Order of Spending Resources.** The City will spend the most restricted dollars before less restricted in the following order:

- A. Non-spendable (if appropriate as funds become spendable)
- B. Restricted
- C. Committed
- D. Assigned
- E. Unassigned

**Encumbrances.** Amounts encumbered for a specific purpose that have not been previously restricted should be classified as either committed or assigned based on the criteria for each.