

FUND BALANCE POLICIES

Purpose – To provide a stable financial environment for the City of Chatfield’s operations that allows the City to provide quality services to its residents in a fiscally responsible manner to keep services and taxes as consistent as possible over time. This fund balance policy is meant to serve as the framework upon which consistent operations may be built and sustained.

Definitions & Policies

Fund Balance - Describes the difference between assets and liabilities in the governmental funds (general fund, special revenue funds, capital project funds, debt service funds and permanent funds).

This policy covers the general funds and special revenue funds unreserved fund balances.

In accordance with Government Accounting Standards Board 54, governmental fund balances are classified as follows:

- **NONSPENDABLE**

Definition – The nonspendable fund balance consists of amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints, such as prepaid items.

Policy - At the end of each fiscal year, the City will report the portion of the fund balance that is not available for spending.

- **RESTRICTED**

Definition - The amount is restricted by external creditors, grantors, contributors, laws, or regulations of other governments. (e.g., encumbrances for goods or services with outside parties-creditors, grantors outstanding at the end of the year, or restricted by state statutes or grant requirements placed on the use for specific purposes).

Policy - At the end of each fiscal year, the City will maintain a restricted fund balance equal to the amounts required to accommodate; prepaid expenditures, encumbrances or funds restricted by enabling legislation.

- **COMMITTED**

Definition - The fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action. (for example, an ordinance or resolution passed by a city council).

Policy - At the end of each fiscal year, the City will maintain a committed fund balance for long-term loan receivables such as advances to other funds or otherwise constrained for specific purposes by City Council.

- **ASSIGNED**

Definition - The assigned fund balance includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The council also delegates the power to assign fund balances to the City Administrator. This is the portion of the fund balance that reflects funds intended to be used by the government for specific purposes assigned by more informal operational plans (e.g. capital goods replacement - the constraint on use is not imposed by external parties or by formal council action). In governmental funds other

than the general fund (special revenue funds, capital project funds, debt service funds and permanent funds), assigned fund balance represents the amount that is not restricted or committed.

Policy –

Capital Goods Replacement - At the end of each fiscal year, the City will maintain an assigned fund balances for equipment replacement according to the City’s Capital Improvement Plans. This includes funds; 801 for the general fund departments, 212 for the library, 221 for the fire department, 231 for the ambulance, 615 for CCTV as well as balances in 601 for the water department and 602 for the wastewater department.

Special Revenue Funds Cash Flow - At the end of each fiscal year, the City will maintain an assigned portion of the fund balance for cash flow in a range equal to 20 – 40% of the following year’s budgeted revenues.

- **UNASSIGNED**

Definition – The unassigned fund balance is the residual classification for the positive fund balance within the General Fund which has not been classified within the above-mentioned categories as well as the negative fund balances in other governmental funds. This is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications and, therefore, not subject to any constraints. Unassigned amounts are available for any purpose. These are the current resources available for which there are no government self-imposed limitations or set spending plan. Although there is generally no set spending plan for the undesignated portion, there is a need to maintain a certain funding level. Undesignated fund balance is commonly used for emergency expenditures not previously considered. In addition, the resources classified as undesignated can be used to cover expenditures for revenues not yet received.

Policy -

Cash Flow - At the end of each fiscal year, the City will maintain an unassigned portion of the fund balance for cash flow in a range equal to 40 – 60% of the following year’s budgeted tax revenue (Tax Levy, Local Government Aid & Market Value Credit). In addition to cash flow needs this accommodates compensated absence liability and emergency contingency concerns.

In the event that amounts designated for cash flow fall above or below the desired range, the City Administrator shall report such amounts to the City Council as soon as practical after the end of the fiscal year. Should the actual amount designated for Cash Flow fall below the desired range, the City shall create a plan to restore the appropriate levels. Should the actual amount designated for cash flow rise above the desired range, any excess funds will remain undesignated pending the Council’s final decision concerning transfer to another fund. It is the policy of the City that, to the extent possible, such excess funds will be transferred to the Special Projects Fund.

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