

	CITY OF HENDERSONVILLE	Finance Department Policy Number:	
		Adopted by Resolution Number:	
Policy Name:	Unassigned Fund Balance Policy	Date Adopted by Council :	June 4 th , 2015

SECTION 1. Purpose

The Hendersonville City Council passed a resolution to adopt an Unassigned Fund Balance Policy for the purpose of improving and maintaining fiscal responsibility as required under the Local Government Budget and Fiscal Control Act, NC General Statute Chapter 150 on June 4, 2015. This policy defines the level of Unassigned Fund Balance and establishes guidelines for preserving an adequate fund balance in each of the City of Hendersonville (City) operating funds in order to sustain financial stability and to provide prudent management of the City’s financial reserves.

SECTION 2. Government Accounting Standards Board (GASB) Definitions

- 2.1 Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

- 2.2 An accounting distinction is made between the portions of governmental fund balance that is spendable and nonspendable. GASB Statement 54 distinguishes fund balance classified 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 five categories:
 - a. **Nonspendable** fund balance – includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid items.

 - b. **Restricted** fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and debt proceeds.

 - c. **Committed** fund balance – includes amounts that can be used only for specific purposes determined by a formal action of the City’s highest level of decision making authority which is the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the commitment originally.

- d. **Assigned** fund balance – comprises amounts intended to be used by the City for specific purposes. Intent can be expressed by the City Council by the approval of a budget appropriation. 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 example includes funds assigned by City Council for specific capital projects.
 - e. **Unassigned** fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. The City often uses the term available fund balance when referring to unassigned fund balance. Unassigned fund balance is the amount that is available for appropriation for public purposes.
- 2.3 Enterprise funds are used to account for utility operations. The city's Water and Sewer Fund is an enterprise fund. Enterprise funds are also known as proprietary funds and business-type funds. Enterprise funds have separate terminology for fund balance or retained earnings which is termed as net position in financial reports, however the City commonly uses the term fund balance for these funds as well. The fund balance or retained earnings of each enterprise fund is to be used for the operating purpose of the fund.

SECTION 3. Objectives

- 3.1 The Cities management and Council recognize that it is essential to maintain adequate unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.
- 3.2 The fund balance also provides cash flow liquidity for the City's operations and increases the potential for investment income.
- 3.3 Ample fund balance enhances short term and long term financial credit by helping to achieve the highest credit and bond ratings possible to provide the city the ability to borrow at the lowest possible rate.
- 3.4 A fund balance policy promotes long-term financial stability by establishing clear and consistent guidelines.
- 3.5 Adequate unassigned fund balance will provide funding flexibility during unanticipated emergencies and natural disasters.

SECTION 4. Guidelines

- 4.1 The North Carolina Local Government Commission is charged with overseeing the fiscal health of North Carolina cities and counties and recommends that a minimum of at least eight percent (8%) of annual budgeted expenditures be maintained for unassigned fund balance. Higher levels may be set based on the current operating needs of the City and the individual fund and future funding needs.
- 4.2 The City commits to maintaining reserves required by law, ordinance, and/or bond covenants.
- 4.3 The City Council hereby establishes a goal for unassigned fund balance for the General Fund in the range of twenty five to thirty five percent (25%-35%) of budgeted expenditures and establishes a goal for the Water and Sewer Fund of between fifty to seventy-five percent (50%-75%) of budgeted expenditures. This range sets the goal at a minimum of approximately four months of the next fiscal year's annual budgeted expenditures. The City will adjust this goal as appropriate based upon the recommendation from the NC Local Government Commission and any change in the City's financial outlook.
- 4.4 The Finance Director is authorized by City Council to credit all revenue in excess of expenditures realized at the end of any given fiscal year for the General Fund that is not nonspendable, assigned or required to be restricted, or committed to unassigned fund balance until the maximum in the range goal thirty-five percent (35%) is realized.
- 4.5 All expenditures drawn from fund balance will require City Council approval unless previously authorized by the City Council for expenditure within the City's annual budget.
- 4.6 If fund balance falls below the goal levels, the City Manager shall implement a plan to restore fund balance within thirty-six (36) months and include within annual budget the plan to restore fund balance to required levels.
- 4.7 The City Council may, from time to time, appropriate fund balances that will reduce unassigned fund balance below the minimum twenty-five percent (25%) goal in the General Fund or below the minimum of fifty (50%) for the Water and Sewer Fund for the purpose of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City. In such circumstances, the City Council will adopt a plan to restore the unassigned fund balance to the policy level within thirty-six (36) months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the City Council will establish a different but appropriate time period.

SECTION 5. Capital Reserves

- 5.1 Under North Carolina General Statute 159-18 the City is authorized to establish and maintain a capital reserve for any purpose for which bonds may be issued. The City of Hendersonville created a Capital Reserve Fund by resolution on May 4, 1995 to provide funds for capital improvements. The City Council has hereby amended Section 5 of that resolution on this date, June 4th, 2015, replacing the term "undesignated fund balance" with the GASB term of "Unassigned Fund Balance" and amended the stated goal of forty-five percent (45%) to the goal range of twenty-five to thirty-five percent (25-35%) and also amended Section 6 of that resolution, replacing the sentence "The City Manager is directed to recommend that all undesignated fund balance exceeding forty-five percent (45%)" with the sentence "The City Manager may transfer any Unassigned Fund Balance in excess of thirty-five percent (35%) be transferred to the Capital Reserve Fund."
- 5.2 Once the maximum in the goal range of thirty-five percent (35%) of unassigned fund balance is realized in the General Fund, the City Manager, at his discretion, is authorized by City Council to transfer all remaining fund balance that is not restricted, committed or assigned to the General Capital Reserve Fund as originally established by formal resolution of the City Council on May 4, 1995. The City Manager will report to City Council all transfers of fund balance.
- 5.3 Once the maximum in the goal range of seventy-five percent (75%) retained earnings is realized in the Water and Sewer Fund, the Finance Director is authorized by City Council to transfer all revenue in excess of expenses realized at the end of any given fiscal year over seventy five (75%) to the Water and Sewer Capital Reserve fund.
- 5.4 The City Manager is charged to annually monitor and report to City Council during the preparation of the annual operating budget regarding the status of unassigned fund balance and or retained earnings and compliance with the stated range goals.

SECTION 6. Order of Expenditure of Funds

- 6.1 When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.