

CITY OF GAINESVILLE

GENERAL FUND RESERVE POLICY

BACKGROUND

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement #54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB #54) which governs how governmental funds are presented and classified.

PURPOSE

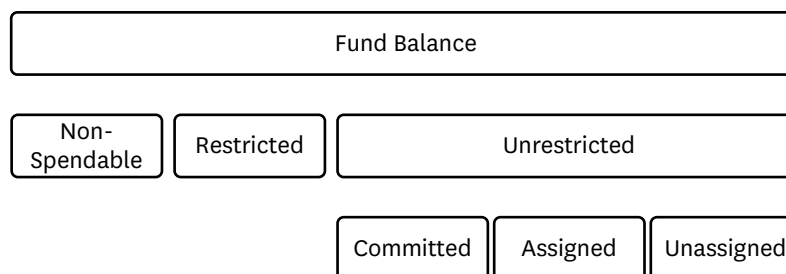
It is considered prudent for the City of Gainesville to implement a Fund Balance Policy consistent with GASB #54. This Fund Balance Policy provides for a stable financial environment that allows the City to provide quality services to its neighbors in a fiscally responsible manner. This policy also provides a measure of financial protection against unanticipated events that would adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. No other policy or procedure supersedes the authority and provisions of this policy.

This policy is adopted to ensure the City maintains adequate fund balance and reserves to provide the capacity to:

- 1) Provide sufficient cash flow for daily financial needs
- 2) Secure and maintain investment grade bond ratings
- 3) Offset significant economic downturns and revenue shortfalls
- 4) Provide funds for unforeseen expenditures related to emergencies

FUND BALANCE COMPONENT DEFINITIONS

Fund Balance – The cumulative difference of all revenues and expenditures. It can also be considered the difference between assets and liabilities in the reported governmental fund. GASB #54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. Fund Balance is comprised of non-spendable, restricted and unrestricted amounts. Unrestricted amounts are comprised of committed, assigned and unassigned amounts. The following table provides a graphical representation of the fund balance components.



Non-Spendable Fund Balance - Non-spendable fund balance is established to report items that are not expected to be converted to cash such as inventory and prepaid items; items not currently in cash form such as the long-term amount

of loans and notes receivable as well as property acquired for resale; and, items legally or contractually required to be maintained intact such as the corpus (or principal) of a permanent fund.

Restricted Fund Balance -Restricted fund balance means amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation will be budgeted and reported in special revenue funds, capital project funds or debt service funds.

Unrestricted Fund Balance - As previously defined, the unrestricted fund balances is the total of the committed fund balance, the assigned fund balance and the unassigned fund balance.

Committed Fund Balance - Commitment of fund balance may be made from time-to-time by motion of the City Commission. Commitments may be changed or lifted only by the City Commission taking the same formal action that imposed the constraint originally. The use (appropriation) of committed fund balances will be considered in conjunction with the annual budget adoption process or by budget amendment approved by the City Commission during the fiscal year.

Assigned Fund Balance - Assignment of fund balance may be a) made for a specific purpose that is narrower than the general purposes of the government itself; and/or b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

Assigned fund balance shall reflect management's intended use of resources as set forth in the annual budget (and any amendments thereto). Assigned fund balance may or may not be appropriated for expenditure in the subsequent year depending on the timing of the project/reserve for which it was assigned.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the general fund and represents fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

REQUIREMENTS

This section establishes the procedures for reporting, within the annual financial statements, fund balance within the City's General Fund. The General Fund is used to account and report all financial resources that are not required to be reflected in another fund.

Emergency Reserve: In order to establish a minimum cash threshold for emergencies, an emergency reserve shall be maintained at 0.15% of the taxable value of all property in the City on January 1st of that fiscal year.

General Fund: As recommended by the Government Finance Officers' Association, the City's fund balance policy provides for the maintenance of an unassigned fund balance for the General Fund of a minimum of two (2) months or 16.7% of and a maximum of three (3) months or 25% of the following year's budgeted expenditures and transfers. This target is not inclusive of any non-spendable, restricted, committed, or assigned, reserve amounts.

SPENDING ORDER OF FUND BALANCES

The City establishes the policy to spend restricted amounts first when both restricted and unrestricted fund balance is available unless there are local documents/contracts that prohibit doing this, such as in grant agreements that require 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 or which amounts in any of the spendable fund balance classifications could be used. Fund Balance reserves should generally not be used to solve recurring revenue shortfalls or expenses.

Excess unassigned fund balance reserves defined as above the 25% level shall be used for one-time expenditures.

In those unanticipated emergency situations which demand immediate government action in the interest of public safety and welfare, the City Manager is authorized by the City Commission to spend up to a maximum of 20% of the minimum required level of General Fund undesignated, unreserved fund balance in accordance with procedures provided in the City of Gainesville Purchasing Policies. A financial accounting related to such emergency expenditures will be submitted to the City Commission by the City Manager as expeditiously as possible after the end of the emergency.

MINIMUM RESERVE REQUIREMENT

This section establishes the minimum reserve requirements and provides direction on how to maintain the required levels.

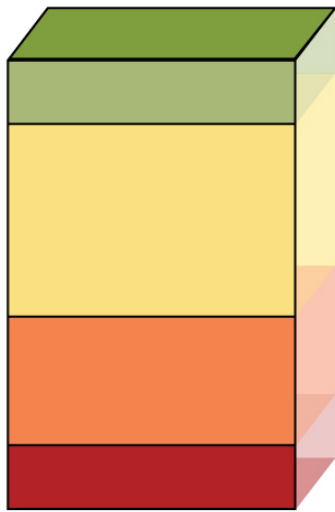
Emergency Reserve: During the budget development process, the required level of Emergency Reserves shall be calculated based on the taxable value of all property in the City on January 1st of that fiscal year. If the Emergency Reserve falls below the minimum level, the shortfall shall be budgeted in its entirety in the succeeding budget year. The additional amount required each year shall be included as a line item appropriation in the General Fund Uses section of the budget.

General Fund: Upon completion of the annual audited financial statements, the Finance Director will review the final year-end fund balance results. If the General Fund unassigned fund balance falls below the minimum emergency level, the shortfall, if less than five percent, will be budgeted in its entirety in the succeeding budget year. In the case of an event that creates a differential between the minimum General Fund unassigned fund balance requirement and available funds of more than five percent, a funding plan will be developed to meet the requirements of this General Fund Balance Policy within three fiscal years of the event.

During the budget development process, the required level of General Fund unassigned fund balance shall be calculated based on the Adopted General Fund Expense and Transfer budget. The additional amount required each year shall be included as a line item appropriation in the General Fund Uses section of the budget.

It is the policy of the City of Gainesville that any excess General Fund undesignated, unreserved fund balance remaining after meeting the maximum financial reserve requirements must be appropriated to finance any one-time expenses, as determined by the City Commission.

Fund Balance Components



Maximum Fund Balance (25% of operating)

Minimum Fund Balance (16.7% of operating)

If the Fund Balance drops to this range, a funding plan to get to the minimum Fund Balance must be adopted by the City Commission.

Emergency Fund Level (0.15% of TAV)

If the Fund Balance drops to this range, the Fund Balance must be replenished by the next fiscal year.

FORMAL REVIEW

A review of this Fund Balance policy will be completed by the City Manager or designee annually and recommendations for changes, if appropriate, will be submitted to the City Commission.

Compliance with the provisions of this policy shall be reviewed as part of the annual audit process, and the amount of restricted, committed, assigned, and non-spendable and the minimum level of spendable fund balance shall be determined during this process.

It is the responsibility of the Budget and Finance Department to keep this policy current.

THIS POLICY TO CONTROL

This policy supersedes and replaces all previous General Fund reserve policies for General Government, which are hereby rescinded.

LAST REVISED: SEPTEMBER 2020