

POLICY # (X): FUND BALANCE

CONTENT

1 Scope

- 1.1 Citywide for all funds excluding:
 - 1.1.1 Permanent Fund
 - 1.1.2 Proprietary Funds (PVMC, PVCC)
 - 1.1.3 Internal Service Funds (Health Self-Insurance)
 - 1.1.4 Component Units (Valdez City Schools).

2 Purpose/Background

- 2.1 *Fund* and *fund balance* refer to terminology established by the Governmental Accounting Standards Board (GASB) in its Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. (see section 3. *Definitions*, below).
- 2.2 The Government Finance Officers Association (GFOA) recommends that general-purpose governments maintain an unrestricted fund balance in their General Fund of at least two months of operating revenues or expenditures.
- 2.3 The GFOA further recommends that a government establish a formal fund balance policy that reflects its own specific circumstances, Valdez City Council adopts this policy in recognition of the unusual nature of the City's financial structure and financial drivers.
- 2.4 Council also adopts this policy in furtherance of the following principles:
 - 2.4.1 Standardization: developing and incorporating citywide methodology
 - 2.4.2 Accuracy: reflecting the current-state of highest-level review
 - 2.4.3 Transparency: following appropriate public adoption-processes and documentation
 - 2.4.4 Accessibility: enabling layperson stakeholder audience to understand and scrutinize
 - 2.4.5 Accountability: incorporating a retrospective performance review and reconciliation
 - 2.4.6 Sustainability: ensuring continuity of obligations and priorities
- 2.5 This fund balance policy establishes processes for periodic review and revision.

3 Definitions

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|-----|----------------|------------------------------|
| 3.1 | Ad Valorem Tax | Property tax revenue |
| 3.2 | Appropriation | the legal authority to spend |

3.3	Assigned Fund Balance	Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed
3.4	Capital Projects Funds	financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets
3.5	Committed Fund Balance	Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority
3.6	Debt Service Funds	financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
3.7	Fund	A distinct unit or subsidiary within the organization, with a complete set of self-balancing accounts.
3.8	Fund Balance	the difference between a governmental fund's assets and liabilities. It essentially reflects the net financial resources available to a government.
3.9	General Fund	all financial resources not accounted for and reported in another fund.
3.10	Governmental Fund	used to account for core government activities typically supported by taxes, grants, and other revenue sources.
3.11	Nonspendable Fund Balance	amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
3.12	Permanent Fund Transfer-In	A portion of Permanent Fund earnings transferred annually to General Fund; currently 1.5% of the total value as of the Permanent Fund as reflected in the most-recent audited financial statements, per City Charter
3.13	Permanent Funds	resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—
3.14	Proprietary Funds	funds used to account for a government's business-type activities, internal services, and component units; currently the Providence Valdez Hospital and Counseling Center and the Health self-insurance fund.
3.15	Reserve Fund	A subset of a Governmental Fund whose appropriation does not expire at the end of the budget year. In Valdez, reserve funds are established for recurring major operational expenses, for one-time projects, or to mitigate identified risks.
3.16	Restricted Fund Balance	funds whose uses are constrained either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

- 3.17 Special Revenue Funds proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects; in Valdez, the Airport, Harbor, Port and Utility funds.
- 3.18 Unassigned Fund Balance General fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

4 Policy

- 4.1 **Fund Balances:** City Council shall set appropriations such that the City's year-end fund balances are targeted and maintained within the following parameters:

Fund(s)	Balance-Type	Minimum Balance	Maximum Balance
General	Unassigned	one-third of combined <i>Ad Valorem</i> tax revenue and <i>Permanent Fund Transfer-In</i> , as reflected in the most recent adopted budget	one-half of combined <i>Ad Valorem</i> tax revenue and <i>Permanent Fund Transfer-In</i> , as reflected in the most recent adopted budget
Special Revenue	Assigned	two months (17%) of budgeted annual revenue	twelve months (100%) of budgeted annual revenue
Reserve	Assigned	as determined by Council annually via the adopted budget	as determined by Council annually via the adopted budget
Capital Projects	Assigned	as determined by Council annually via the adopted budget	as determined by Council annually via the adopted budget
Debt Service	Assigned	zero	zero

- 4.2 **Reporting:** For all funds subject to this policy, the City Manager and/or his designee shall provide City Council with measures of budgeted and actual fund balances and their compliance with section 4.1 of fund balance policy. Updates shall be not less frequent than three times per year.
- 4.3 **Corrective Measures:** For any fund balance reported to fall outside of its allowable balance as specified in section 4.1 of this policy, City Council shall take one of the following actions:
- 4.3.1 adopt or amend appropriations such that the fund balance returns to within its allowable limits not later than the close of the following budget year
 - 4.3.2 authorize a temporary exception to fund balance policy
 - 4.3.3 revise the Fund Balance Policy

5 Procedures

- 5.1 Fund Balances: Pursuant to section 2.4 of this policy, the City Manager or his designee shall observe, at a minimum, the following recurring procedural milestones:
 - 5.1.1 March 31: Preliminary Year-end Financial Reporting (internal, unaudited)
 - 5.1.2 September 30: Final Prior Year-end Financial Reporting (independently audited):
 - 5.1.3 December 31: Adopted Budget
- 5.2 Reporting: For each reporting milestone identified in section 5.1, the City Manager or his designee shall, within two regular meetings of the milestone deadline, present a fund balance report to Council during a regular public Council meeting or public work session. Such reporting shall at a minimum include:
 - 5.2.1 Calculations and/or presentations of all fund balances for the reporting period
 - 5.2.2 Any/all resulting changes to fund balances as forecasted in the current adopted budget
 - 5.2.3 Any/all resulting changes to fund balance estimates in any draft budgets
 - 5.2.4 An attestation identifying each fund's adherence to fund balance policy, or for those funds not adhering to policy, explanatory notes and calculations for council consideration.
 - 5.2.5 a review of the fund balance policy and any recommended changes thereto for Council consideration.
- 5.3 Corrective Measures: For every fund identified in reports pursuant to section 5.2 as not adhering to policy, Council shall select a corrective measure from section 4.3, and shall provide direction thereof to the City Manager not later than two regular meetings following the report. Such corrective measure direction shall conform to the following deadlines and parameters:
 - 5.3.1 Adopted or amended appropriations: implemented not later than the following year's adopted budget, and correcting the fund balance not later than the close of the following budget year
 - 5.3.2 Exceptions to policy: detailed and authorized by Council within two regular meetings of the direction thereof to the City Manager, specifying the nature of the exception, objectives, revised fund balance targets, timelines, and any other pertinent details
 - 5.3.3 Revisions to policy: directed by council to be prepared for adoption not later than the next adopted budget

6 Limitations/Approvals/Responsibilities

- 6.1 The City's *Fund Balance Policy* is meant to be observed in perpetuity and periodically revised to reflect the City's current circumstances and needs.
- 6.2 The City Manager and/or his designee shall be responsible for regularly apprising City Council of the City's compliance with this policy, and for initiating the procedural steps identified herein.
- 6.3 City Council shall be the final arbiter of policy parameters, compliance therewith, and exceptions thereto.
- 6.4 Insofar as specific corrective measures entail formal appropriations, those measures will be articulated within the City's *Budget Policy*, and/or in Council's annual *Budget Priorities*.

ATTACHMENTS