

RESOLUTION NO. 44-11-11

A RESOLUTION OF THE TOWN COMMISSION OF THE TOWN OF LAKE PARK, FLORIDA AUTHORIZING ESTABLISHING THE FUND BALANCE POLICY AS SET FORTH AND ATTACHED HERETO AS EXHIBIT "A" AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Governmental Accounting Standards issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in order to clarify the meaning of fund balance on financial statements; and

WHEREAS, the Town desires to establish a Fund Balance Policy consistent with the Governmental Accounting Standards Board Statement No. 54; and

WHEREAS, such a policy has been prepared and a copy thereof is attached as Exhibit "A"; and

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COMMISSION OF THE TOWN OF LAKE PARK:

Section 1. The whereas clauses are hereby incorporated herein as true and correct.

Section 2: The Town Commission of the Town of Lake Park hereby adopts the "Town of Lake Park Fund Balance Policy", attached hereto and incorporated herein and directs the Town Manager to implement said policy.


Section 3: This Resolution shall take effect immediately upon adoption.

The foregoing Resolution was offered by Commissioner Longtin who moved its adoption. The motion was seconded by Commissioner Stevens and upon being put to a roll call vote, the vote was as follows:

	AYE	NAY
MAYOR JAMES DUBOIS	<u>/</u>	—
VICE-MAYOR KENDALL RUMSEY	<u>/</u>	—
COMMISSIONER STEVEN HOCKMAN	<u>/</u>	—
COMMISSIONER JEANINE LONGTIN	<u>/</u>	—
COMMISSIONER TIM STEVENS	<u>/</u>	—

The Town Commission thereupon declared the foregoing Resolution NO. 44-11-11 duly passed and adopted this 16 day of November, 2011.

TOWN OF LAKE PARK, FLORIDA

BY: 
JAMES DUBOIS
MAYOR

ATTEST:


VIVIAN LEMLEY
TOWN CLERK



Approved as to form and legal sufficiency:

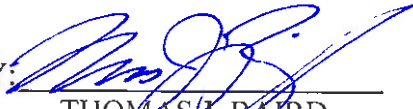
BY: 
THOMAS J. BAIRD
TOWN ATTORNEY

EXHIBIT A

Fund Balance Policy in Accordance with GASB Statement No. 54

Purpose:

The following policy has been adopted by the Town of Lake Park, Florida in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance Reporting and Government Fund Definitions. This policy and the procedures promulgated under it supersede all previous regulations regarding the Town's fund balance and reserve policies.

Fund type definitions:

The following definitions will be used in reporting activity in governmental funds across the Town. The Town may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The general fund is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other fund, for example) also may be reported in the fund if those resources are restricted, committed or assigned to the specified purpose of the fund.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditures for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs – that is, for the benefit of the Town or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the Town is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Fund balance reporting in governmental funds:

Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact

Restricted fund balance includes amounts that are restricted to specific purposes when constraints placed on the use of resources are either:

- (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- (b) Imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payment or resources (from external resource providers) and includes a *legally enforceable* requirement that those resources be used only for the specific purposes stipulated in the legislation. *Legal enforceability* means the government can be compelled by an external party – such as citizens, public interest groups, or the judiciary – to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by an ordinance, the Town's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action (an ordinance) it employed to previously commit those amounts. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Amounts in the committed fund balance classification may be redeployed for other purposes pursuant to an ordinance. Constraints

imposed on the use of committed amounts are imposed by the Town, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the Town that commit amounts to specific purposes is not considered to be legally enforceable. An ordinance that commits fund balance to a specific purpose should be adopted prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Assigned fund balance includes amounts intended to be used by the Town for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Town Commission or the Town Manager to which the Town Commission has delegated authority to assign amounts to be used for specific purposes. The authority for making an assignment is not required to be the Town's highest level of decision-making authority. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

In governmental funds other than the general fund, assigned fund balance includes all remaining amounts (except for negative balances) that are not classified as nonspendable and are neither restricted nor committed. In the general fund, assigned fund balance includes all amounts that are intended to be used for specific purposes in accordance with the Town's expressed intent, but are neither restricted nor committed. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the Town has assigned those amounts to the purpose of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the government itself. An assignment for an amount to a specific purpose should not be reported if the assignment would result in a deficit in unassigned fund balance.

An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

Unassigned fund balance includes the residual classification for the general fund. This classification represents 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. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Operational guidelines:

The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting - Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use - When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Town to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, it shall be the policy of the Town that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Implementation and review:

Upon adoption of this policy the Town authorizes the Town Manager to establish and review any standards and procedures which may be necessary for its implementation. The Town Manager shall review this policy at least annually and make any recommendations for changes to the Town Commission.



BEST PRACTICE

Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.¹ In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.² The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.³ Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and

¹ For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

² These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which must be implemented for financial statements for periods ended June 30, 2011 and later.

³ Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.⁴

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.⁵ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.⁶ Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);⁷
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Approved by the GFOA's Executive Board, October, 2009.

⁴ See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

⁵ In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

⁶ In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

⁷ However, except as discussed in footnote 4, not to a level below the recommended minimum.