

CITY OF RIVER FALLS

FUND BALANCE POLICY



Last Updated: December 14, 2021

Policy Statement:

The objective of the Fund Balance Policy is to set guidelines for the control and reporting of all of the City's fund balance assignments. An adequate fund balance level is an essential element in both short-term and long-term financial planning. Maintenance of sufficient levels of fund balance enables the City to stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt.

Reason for Policy:

The City's Fund Balance Policy establishes guidelines for preserving an adequate fund balance in order to sustain financial stability and to provide prudent management of the City's financial reserves. It is essential that the City maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen emergencies.

Definitions:

Fund Balance: The difference between assets and liabilities in a governmental fund.

Working Capital: Current assets less current liabilities.

Fund balance is categorized in five classifications, depicting the relative strength of the spending constraints placed on the purposes for which the resources can be used.

Nonspendable: This classification represents funds that are inherently nonspendable. Resources that must be maintained intact pursuant to legal or contractual requirements are nonspendable, such as advances to other funds. This can also include assets that will never convert to cash, such as inventory, or will not convert to cash within the current fiscal year, such as the long term portion of accounts receivable.

Restricted: These funds are limited by externally enforceable limitations on use. This includes limitations from the entity providing the money, such as grantors. Also, this classification includes funds with limitations placed by law or enabling legislation, such as charter or state law. Examples include refuse, environmental fee, impact fees, and tax increment funds.

Committed: Funds in this classification are those with limitations the government places on itself. The purpose of these funds is decided by Council action and also requires Council action to change the purpose. An example includes the park acquisition fund.

Assigned: Assigned fund balance has limitations based on the intended use of the funds. The assigned use can be established by the Council. Generally, the assigned balance will be used in the subsequent year's budget.

Unassigned: Residual net resources, or the balance after restricted, committed and assigned, are classified as unassigned fund balance. This is the amount of fund balance that is available to

address emergencies and provide fiscal stability.

The following are the overarching funds for which financial statements are prepared.

Governmental Funds: All funds except for the proprietary funds. There are five types of governmental funds:

General Fund: A government's primary operating activities. Used to account for day-to-day operations of the City, including: Mayor and Council, Administrative and Financial services, Human Resources, Community Development, Public Works, Engineering, Police, Fire, and non-departmental services unaccounted for in other funds.

Special Revenue Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Examples include Media Services, Environmental Fee, Solid Waste, Library, Revolving Loan, Business Development and Tourism, Library Trust, Taxi, Housing Reserve, Park Impact Fee, Library Impact Fee, Fire Impact Fee, and all of the Tax Increment Districts.

Debt Service Funds: Account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds: Account for all financial resources used for the acquisition of capital equipment or construction of major capital facilities primarily funded through bond issues, or special revenue sources.

Permanent Funds: Account for resources that cannot be expended, but must be held in perpetuity. Generally, these resources are invested and a government may spend the earnings, often for a purpose specified by the provider of the resources.

Proprietary Funds: Reports on activities financed primarily by revenues generate by the activities themselves, such as a municipal utility. There are two types of proprietary funds:

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and is self-supporting in nature. The City's Enterprise Funds are used to account for the operations of the Electric, Water, Sewer, and Stormwater Utilities and the River Falls Ambulance Service.

Internal Service Funds: Accounts for the financing of goods and services provided by one department to another department on a cost-reimbursement basis. Examples include City Hall building maintenance, motor pool, and information technology (IT).

Fund Balance Policy:

General Fund

The City will establish a contingency expenditure appropriation in the annual General Fund operating budget to provide for unanticipated expenditures of non-recurring nature. This contingency will be equal to 0.5 percent of the General Fund budget. This appropriation, if unused, will be considered part of the City's unreserved, unassigned fund balance. The City wishes to minimize its dependence on revenues not controlled by the City; therefore, a long-term goal is to increase General Fund revenues from City Controlled sources.

The City will also maintain a working capital reserve (current assets less current liabilities) of 50 percent of the General Fund operating budget to provide funds for reasonable cash flow needs. This reserve will also be used when the City encounters unforeseen emergencies such as storms, floods, severe unexpected increases in service costs or decrease in revenue, or other situations that are determined to be an emergency by the City Council.

Unassigned General Fund Balance

The City Council has established a General Fund unassigned fund balance minimum of 40 percent and a goal of 50 percent of total annual General Fund expenditures. Any projected surplus over 50 percent will be available for use by the City as determined in the budget process, generally for one time projects or debt reduction.

Total General Fund Cash and Investments/Liabilities

The goal of the City is to keep sufficient cash and short-term investments available to meet short-term liabilities. The ratio of 2 to 1 is preferred.

Implementation

The 2 to 1 ratio will fluctuate during the year; however, it is the goal of the City to maintain a 2 to 1 ratio as an average. This will be measured by the Finance Department as of December 31 of each year. Cash and liquid investments, including those available within 30 days, will be used, as well as the liabilities payable less deferred revenues within 30 days of the end of the year.

Maintenance

Once the annual audit of the City is complete, the unassigned General Fund balance will be annually calculated by the Finance Director, or designee. In the event that the unassigned General Fund balance is calculated to be less than the policy anticipates, the City shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances the unassigned General Fund balance should not be used to fund any portion of the ongoing year-to-year operating expenditures of the City. It should be used primarily to insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability. Whenever General Fund balance funds are used, the reserve will be replenished as soon as possible.

Debt Service Funds

The City currently holds a rating of Aa2 from Moody's Investors Service for general obligation debt issued by the City. Water and sewer revenue debt are rated A1, and electric revenue debt is rated A2.

Debt Service Reserves

Debt Service reserves shall be restricted for the debt payments of the specific debt issuance that was established. Residual amounts within the fund when the debt is paid in full shall be transferred to the General Fund.

Proprietary Funds

Enterprise Funds

The appropriate net position of Enterprise Funds will be maintained to ensure adequate maintenance reserves and to ensure that cash flow balancing requirements and legal restrictions are met.

Reserves

The City will maintain a minimum level of Working Capital (current assets minus current liabilities) of its Enterprise Funds equal to three months of regular, on-going operating expenses including transfers out. In the event that the reserves are used resulting in a balance below the three month minimum, the Finance Director, or designee, will develop a plan to be presented during the annual budget process.

The Finance Department will also ensure that net operating revenues of the Enterprise Funds that hold revenue debt constitute a minimum of 1.5 times the annual Debt Service requirements. The Finance Department will review the Enterprise Fund Reserves once the annual audit of the City is complete.

Rate Structure

Each Enterprise Fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves, and any other cost deemed necessary. Enterprise Fund rate structures will be reviewed by the Finance Department at least the annually.

Internal Service Funds

The appropriate net position of Internal Service Funds will be maintained to ensure adequate maintenance reserves and to ensure that cash flow balancing requirements and legal restrictions are met.

Reserves

The City will maintain a minimum level of net position (total assets minus liabilities) in its Internal Service Funds equal to one month of operating expenses. The Finance

department will review the Internal Service Fund Reserves annually once the annual audit of the City is complete.

Reserves for all other Funds

Reserves in other funds will be maintained at levels to cover annual operating costs, or to provide for future capital costs. Deficit balances due to unforeseen circumstances will be addressed during the budget process.

Administrative Responsibilities

The Finance Director is responsible for monitoring and reporting the City's various Fund Balance assignments. The City Administrator and Finance Director will both make recommendations to the City Council on the use of the various funds during the annual budget process and when the need may arise.