

## **MUNICIPAL ORDER 2-2019**

### **A MUNICIPAL ORDER ADOPTING A FUND BALANCE (RESERVES) POLICY TO MAINTAIN A STABLE FINANCIAL BASE FOR THE CITY OF OWENSBORO.**

**WHEREAS**, the City of Owensboro recognizes that sound financial management principles require that sufficient funds be retained by the City in order to provide a stable financial base at all times; and

**WHEREAS**, the City needs a policy that establishes goals and provides guidance concerning the fund balance (reserves) that should be maintained by the City to mitigate financial risk that can occur from unanticipated expenditures and/or revenue shortfalls and the disparity in timing between federal/state aid payments; and

**WHEREAS**, the City desires to formally adopt said Fund Balance Policy in order to maintain sufficient financial reserves.

**NOW, THEREFORE, BE IT ORDERED BY THE CITY OF OWENSBORO, KENTUCKY, AS FOLLOWS:**

**Section 1.** The City of Owensboro Fund Balance Policy is hereby adopted and shall be used by the City of Owensboro, through the Finance Department, to implement procedures and practices to maintain financial reserves. A copy of the *City of Owensboro, Kentucky Fund Balance Policy* is attached hereto.

**Section 2.** The Board of Commissioners hereby authorizes the Mayor, City Manager and Director of Finance & Support Services to sign any and all other documents which are deemed necessary to the furtherance of the authority outlined herein.

**INTRODUCED, PUBLICLY READ, AND FINALLY APPROVED ON ONE READING**, this the 15th day of January, 2019.

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Thomas H. Watson, Mayor

ATTEST:

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Beth Cecil, City Clerk

# City of Owensboro, Kentucky

## Fund Balance Policy

### Purpose

The Commission of the City of Owensboro, Kentucky recognizes that sound financial management principles require that sufficient funds be retained by the City in order to provide a stable financial base at all times. This policy establishes goals and provides guidance concerning the fund balance (reserves) that should be maintained by the City to mitigate financial risk that can occur from unanticipated expenditures and/or revenue shortfalls and the disparity in timing between federal/state aid payments and expenditures. Specifically, the City desires to maintain adequate fund balance in the City's various funds to:

- ❖ Provide sufficient cash flow for operations
- ❖ Provide for fluctuations in expenditures from capital and project spending
- ❖ Secure and maintain investment-grade bond ratings
- ❖ Ensure long-term fiscal sustainability

### Definitions and Classifications

**Fund Balance** – The measurement of available financial resources, the difference between assets and liabilities, resulting from the cumulative difference over time of all revenues and expenditures.

**Classifications within Fund Balance.** GASB Statement 54 distinguishes fund balance classifications 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 categories:

#### Restricted Fund Balance Components:

- 1) **Nonspendable** – amounts that are not in a spendable form (such as inventory, prepaid assets, and long-term receivables) or are legally or contractually required to be maintained intact (such as the nonspendable corpus of an endowment).
- 2) **Restricted** – amounts that can be spent only for the specific purposes stipulated by external parties; such as creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

#### Unrestricted Fund Balance Components:

- 3) **Committed** – amounts that can be used only for the specific purposes determined by a formal action of the City Commission. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

- 4) **Assigned** – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the City Commission or by a designee to whom the governing body delegates the authority. (In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed but by definition, being accounted for in a separate fund, are intended to be used for the purpose of that fund).
- 5) **Unassigned** – all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

## **Policy on Committing Funds**

The responsibility for designating funds to specific classifications shall be as follows:

**Committed Fund Balance** – Fund balance amounts will be reported as “Committed” only after formal action and approval by the City Commission.

The City Commission, as the City’s highest level of decision-making authority, shall establish, modify, or rescind a fund balance commitment by ordinance.

## **Minimum Fund Balance**

It is the goal of the City Commission to achieve and maintain an Unassigned Fund Balance in the General Fund of not less than 17% of general fund expenditures. If the Unassigned Fund Balance falls below its goal, the City shall develop a corrective action plan and take actionable steps.

## **Spending Order of Fund Balance**

Where appropriate, the City will typically use Restricted, Committed, and/or Assigned Fund Balance, in that order, prior to using Unassigned resources, but it reserves the right to deviate from this general strategy. For any expenditure incurred for purposes for which multiple fund balance categories can be used, the City will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned as they are needed.