



**SUBJECT:** Fund Balance and Net Position Policy    **EFFECTIVE:** May 04, 2021

**PREPARED BY:** Finance Department

**SUPERSEDES:** Fund Balance Policy,  
**effective September 19, 2017**

**APPROVED BY:** Governing Body

**APPLICABLE TO:** City Employees &  
Elected Officials

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## 1.0 **PURPOSE**

The City of Lawrence is committed to wise stewardship of all public funds entrusted to its care. The City's Fund Balance is the accumulated difference between assets and liabilities within governmental funds. The City's net position is the accumulated difference between assets and liabilities within business-type activity (Enterprise) funds. This responsibility includes the establishment and maintenance of adequate cash balances and reserves. A sufficient fund balance/net position allows the City to:

- Meet its contractual obligations.
- Provide funds for new and existing programs established City Commission.
- Mitigate negative revenue implications of federal or state budget actions.
- Mitigate economic downturns, fund disaster or emergency costs.
- Provide funds for cash flow timing discrepancies.
- Fund non-recurring expenses identified as necessary by the Governing Body; and,
- Maintain its creditworthiness.

## 2.0 **GOVERNMENTAL FUND BALANCE TYPE DEFINITIONS**

The following classifications, defined by governmental accounting standards, serve to enhance the usefulness of fund balance information:

**Non-spendable** - Assets legally or contractually required to be maintained, or assets not in spendable form, such as inventory or prepaid items. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.

**Restricted** – Assets with externally imposed constraints, such as those mandated by creditors, grantors or contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, law, or regulations. All Special Revenue Funds are considered Restricted because the source revenues can only be used for one purpose.

**Committed** – Assets with a purpose formally imposed by resolution or Ordinance of the Governing Body of the City, binding unless modified or rescinded by the Governing Body.

**Assigned** – Assets constrained by the express intent of the Governing Body or City Manager. Encumbrances shall be assigned, unless they specifically meet the requirements to be committed or restricted. From time to time, the Commission may deem it appropriate to assign a portion of fund balance for a future capital project as identified in the Capital Improvement Plan..

**Unassigned** – All amounts not included in other fund balance classifications. The unassigned fund balance serves as a measure of expendable available financial resources. This category is only in the General Fund.

### **3.0 FUND BALANCE MINIMUMS**

The City's policy is to accumulate adequate reserves to protect the City during economic downturns or large-scale emergencies. The City also maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies.

The Government Finance Officers Association (GFOA) is a professional association of global finance officers whose members are dedicated to the sound management of government financial resources. The GFOA recommends that each government determine the appropriate level of unassigned fund balance while considering several factors:

- The predictability of revenues and the volatility of expenditures
- Perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
- Potential drain upon general fund resources from other funds, as well as the availability of resources in other funds
- Potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds

For purposes of this policy, "operational expenditures" shall be defined as all expenditure categories used to pay for personnel services, contractual services, commodities, debt service, capital expenditures, operating transfers, and internal services. For Enterprise Funds, transfers to reserve funds and depreciation expenses shall be excluded.

#### **General fund unassigned fund balance**

The GFOA recommended, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular General Fund operating expenditures (16.6%).

The City receives much of its General Fund revenue through taxes which provides it with a moderate risk of instability in the collection of those revenues. Sales tax revenues are more prone to fluctuations with the economy. Property taxes are levied in one fiscal year to fund the operations of the following fiscal year.

Were a natural disaster or other extreme event to strike, the City would likely require a large draw on its reserves. In addition, the level of reserve available to the City plays a

part in the credit rating of the City. The rating agencies assign higher ratings in part for those communities that show ability to access funds in emergency situations. The way a community shows ability to do so is to have a history and forecast of liquidity and fund balances for unforeseen events. A higher credit rating often translates to lower interest rates, which impacts the taxpayer directly, particularly in the case of debt supported tax levies.

### **Policy**

It is the policy of the City to achieve and maintain an unassigned fund balance in the General Fund equal to 90 days of operating expenditures. Proposed budgets, or budget revisions, will maintain this level of reserve. However, if the unassigned fund balance falls below 60 days of operating expenditures due to unforeseen revenue or expenditure fluctuations, the City will develop a restoration plan in accordance with this policy.

### **Special Revenue Fund Balance**

For purposes of this policy, Major Funds are defined as any Special Revenue Fund, excluding grant funds, economic development funds, Library Fund, and the Farmland Trust Fund with total expenditures of \$500,000 or more.

The City receives much of its Major Special Revenue Fund revenue through taxes, which provides it with a risk of instability in the collection of those revenues. Sales tax revenues are more prone to fluctuations with the economy. Property taxes are levied in one fiscal year to fund the operations of the following fiscal year.

### **Policy**

It is the policy of the City to achieve and maintain restricted fund balance in each of the major special revenue funds equal to 60 days of operating expenditures. Proposed budgets, or budget revisions, will maintain this level of reserve. However, if the balance in any of the major special revenue funds fall below 30 days of operating expenditures due to unforeseen revenue or expenditure fluctuations, the City will develop a restoration plan in accordance with this policy.

## **4.0 UNRESTRICTED NET POSITION**

Enterprise Funds do not use the term “Fund Balance”. They use the term “Net Position”. The following classifications, defined by governmental accounting standards, serve to enhance the usefulness of net position information:

**Net investment in capital assets** – represents the net amount invested in capital assets (original costs, net of accumulated depreciation and net of capital-related debt).

**Restricted** – represents the amount of net position for which limitations have been placed by creditors, grantors, contributors, laws, and regulations. Internal actions through enabling legislation (which is legally enforceable) and constitutional provisions may also lead to restricted net position. From time to time, the Commission

may deem it appropriate to restrict a portion of net position for a future capital project as identified in the Capital Improvement Plan.

**Unrestricted** – represents the amount of net position that is not restricted or invested in capital assets, net of related debt.

### **Enterprise Fund unrestricted net position**

The City receives much of its enterprise fund revenues through user fees tied to monthly fixed charges and consumption-based fees. The fixed fees are static and have little predictability risk. However, the consumption-based charges have a high risk of fluctuation based on weather, or other factors. In addition, the solid waste operations rely heavily on trucks that must be replaced immediately. Because of this, it is prudent to have larger unrestricted net position for unknown equipment failures.

The level of reserves available to the City plays a part in the credit rating of the City. The rating agencies assign higher ratings in part for those communities that show ability to access funds in emergency situations. The way a community shows ability to do so is to have a history and forecast of liquidity and fund balances for unforeseen events. A higher credit rating often translates to lower interest rates, which impacts the user directly, particularly in the case of debt supported by user fees.

### **Policy**

It is the policy of the City to achieve and maintain an unrestricted net position in the Water/Sewer Fund equal to 250 days of operating expenditures. Proposed budgets, or budget revisions, will maintain this level of reserve. Reserves in excess of 250 days shall be transferred to the cash funded capital project fund. However, if the unrestricted net position falls below 220 days of operating expenditures due to unforeseen revenue or expenditure fluctuations, the City will develop a restoration plan in accordance with this policy.

It is the policy of the City to achieve and maintain an unrestricted net position in the Solid Waste Fund equal to 120 days of operating expenditures. Proposed budgets, or budget revisions, will maintain this level of reserve. However, if the unrestricted net position falls below 90 days of operating expenditures due to unforeseen revenue or expenditure fluctuations, the City will develop a restoration plan in accordance with this policy.

It is the policy of the City to achieve and maintain an unrestricted net position in the Storm Water Fund, and the Parking Fund equal to 60 days of operating expenditures. Proposed budgets, or budget revisions, will maintain this level of reserve. However, if the unrestricted net position falls below 30 days of operating expenditures in either Fund due to unforeseen revenue or expenditure fluctuations, the City will develop a restoration plan in accordance with this policy.

## **5.0 Restoration Plan**

If it is anticipated at the completion of any fiscal year that the projected amount of Unrestricted Fund Balance (or Net Position) will be less than the minimum established target, the City shall develop a restoration plan as soon as practical to restore the balance

within a five-year period. The plan should be designed to restore the minimum established target as quickly as possible.

**6.0 Order of expenditure of funds**

When multiple categories of fund balance (or net position) are available for an expenditure, the City will start with the most restricted category and spend those funds first before moving to the next category with available funds. The order in the use of funds would therefore be Restricted, Committed, Assigned, and Unassigned (or Unrestricted) to the extent each category is available and eligible for that expenditure.