

Purpose

To establish a policy that will maintain reservations of Fund Balance as defined herein in accordance with the Governmental Accounting and Financial Standards Board (GASB) Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions and to establish a level of funding that protects against unanticipated events that would adversely affect the financial condition of the City.

This policy will ensure the City maintains adequate fund balance and reserves in the City's governmental funds to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2) secure and maintain investment grade bond ratings, (3) offset significant economic downturns or revenue shortfalls and (4) provide funds for unforeseen expenditures related to emergencies. Fund Balance represents the difference between assets and fund liabilities in the governmental funds balance sheet and is commonly referred to as fund equity.

The fund balance policy addresses the following components: (1) clearly defined classifications that make the nature and extent of the constraints placed on the various fund balances more transparent; (2) providing a better understanding of fund balances by clarifying the definitions of governmental fund types; (3) reservations of the City's General Fund and all governmental funds; (4) minimum level of unassigned fund balance; and (5) the City's order of spending regarding restricted and unrestricted fund balance and the order of spending for committed, assigned and unassigned fund balance.

Scope of Policy

This Policy shall apply to the City's General Fund and all governmental funds. This policy does not apply to Proprietary, Fiduciary and Internal Service Funds.

Classifications of Fund Balances

Under GASB Statement No. 54, fund balances are classified as non-spendable, restricted, committed, assigned or unassigned amounts.

Non-spendable – includes amounts that are (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, prepaid amounts, and long-term notes receivable).

Restricted – includes amounts that are (a) externally restricted by creditors, grantors, contributors, or laws or regulations of other governments, or (b) restricted by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed – includes amounts that are constrained to be used for the specific purposes determined by a formal action of the City's highest level of decision making authority, the Board of Mayor and Aldermen (BMA) or the Board of Education (BOE) as it relates to School Funds. Amounts classified as committed are not subject to legal enforceability as restricted resources and the commitment may be changed or lifted only by the City's BMA or BOE taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

Assigned – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as non-spendable, restricted, or committed. The intent to assign fund balance shall be expressed by action of the BMA or BOE or a designee to which the BMA or BOE delegates that authority.

Unassigned – is a residual classification for the general fund and includes all spendable amounts available for any purpose (amounts that are not restricted, committed or assigned). It is also used for any negative fund balances in other funds.

Governmental Fund Type Definitions

The City of Kingsport's governmental fund types as defined by GASB No. 54 are as follows:

1. The General Fund is used to account for financial resources not accounted for and reported in other funds.
2. Special Revenue Funds is used to account for the proceeds from dedicated revenue sources that are required to be segregated from the General Fund and used for specific allowable expenditures. Special Revenue funds are categorized by the function they serve: education, public safety, transportation, culture and recreation, community development, and other projects. The most significant special revenue funds are the General Purpose School Fund, School Nutrition Fund, State Street Aid Fund, Federal Transit Administration Fund, and Regional Sales Tax Fund.
3. The Capital Projects Fund is used to account for and report 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 related to the general operation of the City (excluding 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). Assets purchased by the proprietary funds such as the Water and Sewer Fund are not included in this fund.
4. The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term general obligation debt other than that payable from enterprise funds. This fund may also accumulate additional resources to make future debt service payments.
5. Permanent Funds are used to report resources that benefit the City, where only the earnings of the fund may be used for City related purposes, the principal must remain intact. The Allandale Trust fund is a permanent fund used to account for and report restricted, non-expendable assets left to the City by the late Harvey Brooks, consisting of his home (Allandale Mansion) and other tangible and intangible assets.

Prioritization of Fund Balance Use (Spending Policy)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to use the restricted amounts first as permitted under the law. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City to use the committed amounts first, followed by the assigned amounts and then unassigned amounts.

Minimum Level of Unassigned General Fund Balance.

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance shall be maintained in the General Fund in order to cover unexpected expenditure and revenue shortfalls. Such fund balance shall serve cash flow needs, protect against unforeseen emergencies and enhance the credit worthiness of the City.

The Fund Balance policy establishes a minimum General Fund Unassigned fund balance equal to 15% of General Fund Expenditures. The City will strive toward maintaining the General Fund Unassigned fund balance, at a range between fifteen (15%) and twenty (20%) percent of the following year's budgeted expenditures as an appropriate level of unassigned fund balance in order to cover unexpected expenditures and revenue. The Fund Balance Policy will be reviewed as part of the annual budget process and the City Manager may amend the policy at that time and submit it to the BMA for approval.

Replenishment of Reserve Deficits

If, at the end of any fiscal year, the actual amount of unassigned fund balance falls below the minimum required fund balance level set forth herein, the City Manager shall prepare and submit a plan to replenish the fund balance to the established minimum level.

Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process and subsequent closing of the financial books at year-end (June 30) and the amounts of restricted, committed, assigned and non-spendable fund balance will be determined. Any residual general fund balance amounts will be classified as unassigned.