

RESOLUTION NO. 2015-80

ADOPT POLICY ON FUND BALANCE RESERVES

WHEREAS, the Governmental Accounting Standard Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions; and

WHEREAS, for financial statement reporting purposes, the GASB Statement defines non-spendable amounts as those that are not in a spendable form or are required to be maintained intact; and

WHEREAS, for financial statement reporting purposes, the GASB Statement defines committed amounts as those constrained to specific purposes by the government itself; and

WHEREAS, for financial statement reporting purposes, the GASB Statement defines assigned amounts as those the government intends to use for a specific purpose; and

WHEREAS, the City Commission's policy is created to include the City Commission's policy for committing and assigning fund balance for financial statement reporting purposes, and the City Commission's policy for the order in which classified fund balance is spent when amounts in more than one classification are available for a particular purpose.

NOW, THEREFORE, BE IT RESOLVED, by the governing body, the City Commission of the City of Lovington, New Mexico that a Fund Balance Reserve Policy for compliance with GASB Statement No. 54 is approved and adopted by the City Commission and attached hereto for reference.

APPROVED THIS 14TH DAY OF SEPTEMBER, 2015.

ATTEST:

SCOTTY GANDY, MAYOR

CAROL ANN HOGUE, CITY CLERK

FUND BALANCE RESERVE POLICY

POLICY:

The City utilizes a variety of accounting funds for accounting and budgeting for revenues and expenditures of the City. Appropriations lapse at each fiscal year-end. The City Commission authorizes continued appropriations for certain incomplete capital projects, other one-time projects and services that have not been billed. Remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the City. It is appropriate that reserve policies for the City be established for each of the various funds, that the purpose of these reserves be designated, and that dollars available in excess of the reserve amounts be appropriately and effectively utilized. This policy governs the City's reserves as follows:

A. General Fund

The City will maintain a minimum fund balance of at least forty (40) percent of annual operating expenditures in the General Fund. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Cash flow requirements.

B. Economic Development Fund

Project spending in Economic Development fund fluctuates year-to-year depending upon the specific projects approved by the board many of which are grant funded. This being the case, it is recommended the City maintain \$100,000 available to cover matching funds.

C. Enterprise Funds

The City will maintain a minimum fund balance of at least 25% of annual operating expenditures.

D. Special Revenue

The City will maintain a minimum fund balance of at least 8% of annual operating expenditures.

Reserve levels will be reviewed annually during the budget process. Any recommended adjustments to reserve levels will be presented to City Commission for its consideration during the annual budget process.

COMMITMENTS AND ASSIGNMENTS OF FUND BALANCE:

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides the City with a method to self-classify fund balance for financial statement reporting purposes.

A. Committed Fund Balance

Fund balance may be committed to specific purposes using its highest level of decision-making authority, the City Commission. It is the City Commission's policy that commitments of fund balance for a fiscal year must be adopted by resolution prior to fiscal year end. Amounts that have been committed by the City Commission cannot be used for any other purpose unless the City Commission adopts another resolution to remove or change the constraint.

B. Assigned Fund Balance

The General Fund balance may be assigned for amounts the City Commission intends to use for a specific purpose. It is the City Commission's policy that assignments of fund balance for a fiscal year must be approved by minute-order of the City Commission prior to the fiscal year end. Any changes to assignments must also be made by minute-order of the City Commission.

It is the City Commission's policy to spend fund balance in the following order when amounts in more than one classification are available for a particular purpose:

1. Restricted Fund Balance – amounts constrained to specific purpose by their providers through constitutional provisions or enabling legislation. Examples include grants, bond proceeds and pass-through revenue from other levels of government.
2. Committed Fund Balance – amounts constrained to specific purpose by resolution of the City Commission.
3. Assigned Fund Balance – amounts in the General Fund that are intended to be used for a specific purpose, expressed by minute-order of the City Commission.
4. Unassigned Fund Balance - amounts available for any purpose in the General Fund.

BACKGROUND:

Reserves, rainy-day funds, or contingency funds are a prudent fiscal policy and an important credit factor in the analysis of financial analysis and management. Local governments have experienced much volatility in their financial stability due to the economy, natural disasters, terrorist attacks, and actions taken by state government that includes taking revenues from local governments to resolve state budget problems. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to: cash flow requirements, economic uncertainties including

downturns in the local, state or national economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, tax refunds, future capital projects, vehicle and equipment replacement, and capital asset and infrastructure repair and replacement. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of the City.