

Resolution No. 2013- 83 R

A resolution approving and adopting a Fund Balance Policy for the City of Victoria in accordance with the Governmental Accounting and Standards Board (GASB) Statement No. 54; and declaring an effective date.

Whereas the Governmental Accounting and Standards Board (GASB) has issued Statement No. 54, which provides new fund balance classifications in the government funds and redefines governmental fund types;

Whereas the City will be implementing the new standards as part of the audit on the Fiscal Year ending September 30, 2013; and

Whereas this resolution would formally adopt a written Fund Balance Policy depicting the procedures that will be used for committing fund balance, assigning fund balance, how stabilization funds, if any, will be determined, order of spending the fund balance categories, minimum fund balance levels and use of governmental fund types;

Now therefore, be it resolved by the City Council of the City of Victoria, Texas:

1. A new Fund Balance Policy for the City of Victoria is approved and hereby adopted in accordance with the Governmental Accounting and Standards Board (GASB) Statement No. 54, substantially in the form attached hereto as Exhibit "A."

2. This resolution shall become effective immediately upon adoption.

Passed, this the 21st day of May, 2013

Ayes: 7

Nays: 0

Abstentions: 0

Approved and adopted, this the 21st day of May, 2013



Attest:

Scarlet Swoboda
Scarlet Swoboda, City Secretary

Paul Polasek

Handwritten signature of Paul Polasek in black ink.

~~Will Armstrong~~, Mayor of the
City of Victoria, Texas

Approved as to legal form:

Handwritten signature of Thomas A. Gwosdz in black ink.
Thomas A. Gwosdz, City Attorney

Distribution: Legal Department
Finance Department

Copies Sent: May 22, 2013

Exhibit “A”

City of Victoria Fund Balance Policy in Accordance with GASB Statement No. 54

Purpose: The following policy has been adopted by the City of Victoria City Council in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54; *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure that the City maintains adequate fund balances and reserves in order to:

- a) Provide sufficient cash flow for daily financial needs,
- b) Secure and maintain investment grade bond ratings,
- c) Offset significant economic downturns or revenue shortfalls, and
- d) Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the City's fund balance and reserve policies.

Fund Type Definitions: The following definitions will be used in reporting activity in governmental funds across the City. (Note: this only pertains to Governmental Fund types and not Proprietary Fund types (i.e. Enterprise funds, Internal Service funds, etc.).)

The General Fund is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted or committed* to expenditure for specific purposes other than debt service or capital projects.

Debt Service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital Projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes. An example would be a donation received from a third party but the City is only able to spend the earnings on the donation amount (i.e. interest and not principal) for the purposes of maintaining the City's infrastructure or whatever restriction is placed upon the donation.

Fund balance reporting in governmental fund: Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Non-spendable fund balance

Definition - includes amounts that cannot be spent, such as inventory or prepaid items, because they are either:

- a. Not in spendable form, or
- b. Legally or contractually required to be maintained in-tact

Classification - Non-spendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- a. The City will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the City),
- b. The City will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance),
- c. The City will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact, and
- d. The City will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

Restricted fund balance

Definition - includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation. An example would be debt reserve funds as established by debt covenant or other funds established by laws or legislation.

Committed fund balance

Definition - includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority (City Council). An example would be committing hotel / motel tax funds for future construction of a Visitor's Center.

Authority to Commit - Commitments will only be used for specific purposes pursuant to a formal action of the City Council. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A two-thirds majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Assigned fund balance

Definition - includes amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. An example would be encumbrances (i.e. Purchase Orders) for purchase of goods, supplies and/or construction services.

Authority to Assign - The City Council delegates the responsibility to assign funds not to exceed \$25,000 to the City Manager or their designee to be used for specific purposes. City Council shall have the authority to assign any amount of funds to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end.

Unassigned fund balance

Definition - includes the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. An example would be spendable funds not classified as non-spendable, restricted, committed or assigned.

Operational guidelines: The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts - Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, assigned, or any combination of those classifications. In addition, the General Fund may also include an unassigned amount.

Encumbrance reporting - Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use - When an expenditure is 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 consider restricted amounts to have been reduced first. 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 that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance - The City will maintain a minimum unassigned fund balance in its General Fund of 22.5 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Replenishing deficiencies - when fund balance falls below the 22.5% range, the City will replenish shortages/deficiencies.

Surplus fund balance - Should unassigned fund balance of the general fund ever exceed the maximum 22.5% range, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

Implementation and review - Upon adoption of this policy the City Council authorizes the City Manager to establish any standards and procedures which may be necessary for its implementation. The Director of Finance shall review this policy at least annually and make any recommendations for change to the City Manager and City Council.

Approved and adopted by the City of Victoria City Council on this the 21st day of May, 2013.