

VILLAGE OF ESTERO, FLORIDA

RESOLUTION NO. 2016 - 31

**A RESOLUTION OF THE VILLAGE COUNCIL OF THE
VILLAGE OF ESTERO, FLORIDA, ADOPTING A FUND
BALANCE POLICY; AND PROVIDING AN EFFECTIVE
DATE.**

WHEREAS, in accordance with sound financial planning principles and recommended best practices of the Government Finance Officers Association (GFOA), local governments should adopt a policy regarding adequate levels of fund balance. It is essential for the Village of Estero to maintain sufficient levels of fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and

WHEREAS, Fund Balance is defined as the net resources of a government and an approximate measure of liquidity. Managing an appropriate level is a vital and prudent step in the financial planning process. The adoption of a Fund Balance Policy by the Village of Estero will assist in ensuring the fiscal well-being of the Village by establishing a minimum level at which fund balance is to be maintained, which is critical to the continued operation of services.

NOW, THEREFORE, be it resolved by the Village Council of the Village of Estero, Florida:

Section 1. The Fund Balance Policy is hereby adopted as outlined on Attachment A.

Section 2. This Resolution shall be adopted retroactively and reflected in the fiscal year end September 30, 2016 Audited Financial Statements of the Village.

ADOPTED BY THE VILLAGE COUNCIL of the Village of Estero, Florida this 19th day of October, 2016.

Attest:

VILLAGE OF ESTERO, FLORIDA

By: Kathy Hall
Kathy Hall, MMC, Village Clerk

By: Nicholas Batos
Nicholas Batos, Mayor

Reviewed for legal sufficiency:

By: Burt H. Saunders
Burt Saunders, Esq., Village Attorney

**ATTACHMENT A TO RESOLUTION 2016- 31
VILLAGE OF ESTERO
FUND BALANCE POLICY**

A. PURPOSE

The Village hereby establishes and will maintain a Fund Balance Policy, as defined herein, in accordance with Governmental Accounting and Financial Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund Balance shall be composed of restricted, committed, assigned, non-spendable, and unassigned amounts.

A Fund Balance Policy is adopted in order to secure and maintain investment-grade credit ratings, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures and/or revenue shortfalls. Fund balance information is used to identify the available resources to fund or expand existing programs, add new governmental programs, enhance the financial position or repay long-term debt of the Village, in accordance with policies established by the Council.

This Fund Balance Policy establishes:

- a) Fund balance policy for the general fund;
- b) Reservations of fund balance for the general fund;
- c) The method of budgeting the amount of estimated fund balance (also known as estimated beginning fund balance) available for appropriation during the annual budget adoption process (prior to the actual, audited fund balance being known) and what actions may need to be taken if the actual fund balance is significantly different than the budgeted fund balance; and
- d) Establish the spending order of fund balances.

B. FUND BALANCE POLICY (GENERAL FUND)

1. RESTRICTED FUND BALANCE

Restricted fund balances may be maintained in the General Fund via the use of sub-funds until expended for their intended purpose. Restricted fund balances are amounts that can be spent only for specific purposes stipulated by external resource providers such as grantors, constitutional provisions, enabling legislation or creditors (by debt covenants). It is the preference of the Village to report restricted amounts in a special revenue fund, debt service funds or capital project funds if GASB 54 governmental fund type definitions criteria is satisfied.

2. COMMITTED FUND BALANCE

Commitment of fund balance are amounts that can be used only for the specific purposes determined by an Ordinance which is the Village's highest level of decision making authority. Commitments may be changed or lifted only by the Council taking the same formal action that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometime are reported in this category.

3. ASSIGNED FUND BALANCE

Assignment of fund balance may be (a) made for a specific purpose that is narrower than the general purposes of the government itself; (b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues; (c) establishing operating and disasters reserves.

Assigned fund balance shall reflect management's intended use of resources as set forth in the annual budget (and any amendments thereto). Assigned fund balance may or may not be appropriated for expenditure in the subsequent year depending on the timing of the project/reserve for which it was assigned.

The use (appropriation) of assigned fund balances will be considered in conjunction with the annual budget adoption process or by budget amendment approved by the Council during the fiscal year.

4. NON-SPENDABLE FUND BALANCE

Non-spendable fund balance is established to report items that are not expected to be converted to cash such as inventory and prepaid items; items not currently in cash form such as the long-term amount of loans and notes receivable as well as property acquired for resale; and, items legally or contractually required to be maintained intact such as the corpus (or principal) of a permanent fund.

5. UNASSIGNED FUND BALANCE

Unassigned fund balance is the residual classification for the general fund and represents fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

6. MINIMUM LEVEL OF FUND BALANCE

If, after the annual audit, the unassigned fund balance falls below 4 months of general fund operating expenditures, the Village Manager will so advise the Council in order for the necessary action to be taken to restore the unassigned fund balance to 4 months of the General Fund operating expenditures.

The Village Manager will prepare and submit a plan for committed and/or assigned fund balance reduction, expenditure reductions and/or revenue increases to the Council. The Council shall take action necessary to restore the unassigned fund balance to acceptable levels within no more than two years.

C. RESERVATIONS OF FUND BALANCE (GENERAL FUND)

Reservations of the Fund Balance in the General Fund will be considered in conjunction with the annual budget adoption process or by budget amendment approved by the Council during the fiscal year.

D. BUDGETING

1. APPROPRIATION OF FUND BALANCE

The actual amount of fund balance (total of committed fund balance, assigned fund balance and unassigned fund balance) is not known until the completion of the annual audit which takes place between three to six months after the end of the fiscal year being audited. However, an estimate of fund balance (also called estimated beginning fund balance) must be made during the annual budget adoption process (July through September) which is prior to the end of the fiscal year, September 30th.

2. ESTIMATED BEGINNING FUND BALANCE FOR THE YEAR BEING BUDGETED

In order to achieve the most accurate estimate possible, the Village Manager or designee shall project both Sources of Funds (revenues, prior years fund balances carried forward and other financing sources) and Uses of Funds (operating and non-operating expenditures and other financing uses), including accruals, for each department or cost center in each governmental fund, if applicable, through September 30th of the then current fiscal year. The difference between the current fiscal year estimated actual sources and funds and estimated actual uses of funds is the calculated estimated beginning fund balance for the year being budgeted (subsequent) fiscal year. If planned for use in the subsequent fiscal year, committed and assigned fund balance may be included in the estimated beginning fund balance.

3. ESTIMATED ENDING FUND BALANCE FOR THE YEAR BEING BUDGETED

For the year being budgeted, a calculation of estimated ending fund balance shall also be made. This calculation shall be the difference between the budgeted sources of funds and the budgeted uses of funds as described above for the year being budgeted.

Since the uses of funds are restricted, committed or assigned in all other governmental fund types, there is no policy for the amount of ending fund balance unless the project is completed and the fund should be closed. In this situation, a residual equity transfer will be made to zero-out any remaining fund balance.

If, after the annual audit, the actual fund balances are greater than the budgeted amounts, the excess may be used in one or a combination of the following ways:

- a) Left in the general fund to earn interest and roll forward into the subsequent year's beginning fund balance; or
- b) Appropriated by resolution of the Village Council;

E. SPENDING ORDER OF FUND BALANCES

The Village uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the Village would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. ANNUAL REVIEW AND DETERMINATION OF FUND BALANCE POLICY

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process, and the amounts of restricted, committed, assigned, non-spendable and the minimum level of unassigned fund balance shall be determined during this process.

G. ADDITIONAL INFORMATION, REQUIREMENTS/RESPONSIBILITIES

It will be the responsibility of the Village Manager to keep this policy current.

H. EFFECTIVE DATE

This Policy shall be adopted retroactively and reflected in the fiscal year end September 30, 2016 Audited Financial Statements of the Village.