

EXHIBIT A

Sec. 2-352. Fund balance and reserve policy.

- (a) *Purpose.* The city hereby establishes and will maintain classifications of fund balance, as defined herein, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions.
- (b) *Definitions.*
- (1) *Fund balance* is the difference between fund assets and fund liabilities on the governmental funds' balance sheets. The fund balance consists of five categories: nonspendable, restricted, committed, assigned, and unassigned.
 - a. *Nonspendable fund balance* consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.
 - b. *Restricted fund balance* consists of funds that can be spent only for specific purposes stipulated by external resource providers (such as grantors, creditors), or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers.
 - c. *Committed fund balance* consists of funds that are set-aside for a specific purpose by the city's highest level of decision-making authority (city commission). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
 - d. *Assigned fund balance* consists of funds that are set aside with the intent to be used for a specific purpose as determined by the city manager. Assignments of funds cannot cause a deficit in unassigned fund balance. Assigned fund balance also includes all remaining amounts (except negative balances) that are reported in governmental funds other than the general fund that are not classified as nonspendable and are neither restricted nor committed. Fund balance used as a source to balance the budget shall be recorded as assigned fund balance.
 - e. *Unassigned fund balance* is the residual classification for the general fund that consists of excess funds in the general fund that have not been classified in the previous four categories of funds. All funds in this category are considered spendable resources. This category represents the portion of fund balance which is not obligated or specifically designated and is available for general purposes. Unassigned fund balance would also include deficit residual balances for any governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes. Deficit amounts cannot be reported for restricted, committed, or assigned fund balances in any fund.
 - (2) *General fund.* Used to account for and report all financial resources not accounted for and reported in another fund.
 - (3) *Special revenue funds.* Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. For this purpose the city defines substantial portion as more than 50 percent of the inflows. In the event that the government no longer expects that a substantial portion of the inflows will derive from the restricted or committed revenue sources, the city will discontinue reporting a special revenue fund and instead report the fund's remaining resources in the general fund or another appropriate fund.

- (4) *Capital projects funds.* Used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those 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.
 - (5) *Debt service funds.* Used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.
 - (6) *Permanent funds.* Used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.
- (c) *Order of use of restricted and unrestricted funds.* When both restricted and unrestricted funds are available for expenditure, restricted funds will be used first. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.
- (d) *Procedures to constrain amounts.* The process through which amounts are committed or assigned is as follows:
- (1) *Committed.* The city commission has the authority to set aside funds for a specific purpose. Any funds set aside as committed fund balance required the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to September 30 of the applicable fiscal year but the amount can be determined at a later date. A resolution would also be required to modify or rescind the specific use or amount.
 - (2) *Assigned.* The city manager has the authority to set aside funds for the intended use of a specific purpose. This act would be as part of the annual budget process or in the form of a written request to the finance director. Any modifications or rescission would be in a written notification to the finance director.
- (e) *Stabilization accounts.* Stabilization accounts are useful for sound financial management and fiscal accountability. The city commission has the authority to establish stabilization accounts that will have restricted or committed fund balance, as applicable. Stabilization accounts may be created in the city's general fund.
- (f) *Annual review.* Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process, and the amounts to be assigned from available fund balance may be determined during this process. The following reserve policies will be calculated and applied during the each fiscal year closing process.
- (g) *General fund reserve policy.*
- (1) A 25 percent reserve requirement will be applied to the sum of the city's total operating expense and debt service budgets. The total operating expense budget includes the operating expense budgets of all budgeted funds for the fiscal year following the fiscal year that is being closed, i.e., general fund, trolley/transportation fund, enterprise funds and the portion of the pension system fund appropriated for administrative purposes. The debt service budget includes all principal and interest payments, in all funds, that are required to maintain the annual amortization of long and short term debt. This general fund reserve shall be recorded as the unassigned fund balance.
 - (2) This reserve will be maintained with general fund dollars only, thereby freeing fund balances in the debt service, capital improvement and enterprise funds to be available as needed for major capital improvement, beautification projects and other projects.
 - (3) During the closing process of each fiscal year, staff will determine the budgeted surplus that will be used to bring the general fund reserve in alignment with 25 percent of the new fiscal year's total

operating and debt service budgets. Any surpluses above that need should be considered for redirection for capital improvement, beautification projects and other projects as needed.

- (4) The general fund reserve shall represent the emergency resources available for one-time unanticipated needs or for the carrying out of essential city services following a catastrophic event.
 - (5) Except for funds authorized to be spent pursuant to the emergency powers of the mayor, city commission, and/or city manager, as authorized in the Charter, city Code, a declaration of emergency, or other applicable law, the general fund reserve can only be spent upon adoption of a resolution of the city commission approved by a four-fifths vote.
 - (6) This general fund reserve policy may only be amended by an ordinance of the city commission approved by a four-fifths vote and any amendment to the 25 percent reserve requirement shall require approval of the electors.
- (h) *Insurance fund-general liability reserve policy.*
- (1) The city will maintain a general liability insurance reserve at a minimum of a 75 percent confidence level. However, to continue toward the city's goal of conservative budgeting practices, staff will strive to maintain the general liability reserve at a 90 percent confidence level.
 - (2) In addition, the city will maintain an emergency reserve of \$3,000,000.00 in the insurance fund in case of an unforeseen settlement.
 - (3) This insurance fund general liability reserve policy may only be amended by an ordinance of the city commission approved by a four-fifths vote.

(Ord. No. 2025-05, § 2, 5-20-2025)