
Town of Palm Beach, Florida

Exhibit A

Subject Policy: Fund Balance

Approved: August 9, 2011

Approved: July 12, 2012

Update: March 12, 2024

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

A Fund Balance Policy is adopted to establish a level of funding that protects against unanticipated events that would adversely affect the financial condition of the Town and jeopardize the continuation of necessary public services. The policy also is established to secure and maintain investment-grade credit ratings, meet seasonal shortfalls in cash flow, and guard against revenue shortfalls. Fund balance information is used to identify the available resources for tax stabilization or enhance the financial position of the Town, in accordance with policies established by the Town 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 unrestricted fund balance available for appropriation during the annual budget adoption process (prior to the actual, audited fund balance being known); and
- d) Establish a spending order of fund balances.

Fund Balance Policy:

1. Restricted Fund Balance –Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation will be budgeted and reported in special revenue funds, capital project funds or debt service funds. There is no restricted fund balance in the General Fund.
2. Committed Fund Balance – Commitment of fund balance may be made for such purposes including, but not limited to, a) major maintenance and repair projects; b) meeting future obligations resulting from a natural disaster; c) accumulating resources pursuant to stabilization arrangements; d) establishing reserves for disasters; and/or e) for setting aside amounts for specific projects or purposes.

Commitment of fund balance may be made from time-to-time by ordinance of the Town Council. Commitments may be changed or lifted only by the Town Council taking the same formal action that imposed the constraint originally (ordinance). The use of committed fund balances will be considered in conjunction with the annual budget adoption process or by budget amendment approved by Ordinance of the Town Council during the fiscal year.

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; and/or 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.

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.

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; and, items legally or contractually required to be maintained intact.
5. Minimum Level of 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. The Town will maintain a minimum level of 30% of general fund operating expenditures, including transfers to the Capital Improvement Fund and Coastal Fund.

If after the annual audit, prior committed or assigned fund balance causes the unassigned fund balance to fall below 30% of general fund operating expenditures, the Town Manager will so advise the Town Council in order for necessary action to be taken to restore the unassigned fund balance to 30% of General Fund operating expenditures.

The Town Manager will prepare and submit a plan to the Town Council, that may include expenditure reductions, revenue increases, use of non-recurring revenues, budget surpluses and excess resources in other funds to restore fund balance to the minimum level. The Town shall take action necessary to restore the unassigned fund balance to acceptable levels within two years.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the Town's policy to reduce restricted amounts first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund

balance classifications could be used, it is the Town's policy to reduce committed amounts first, followed by assigned amounts, then unassigned amounts.

Reservations of Fund Balance (General Fund)

Committed Fund Balance –Compensated Absence Reserve – To fund the value of accrued compensated absences. The reserve includes accrued vacation, sick time and compensatory time and related payroll tax liability. The reserve will be adjusted annually during the year-end process and will be funded at a rate of 100% of the fiscal year end accrued balance. The Town Council will annually give consideration to appropriate funds from this reserve based upon estimated pay-outs of eligible accrued vacation, sick and compensatory time and the related payroll tax liability.

Assigned Fund Balance

The Town Council hereby establishes the following assignment of fund balance in the General Fund:

- a) Assignment to Subsequent Year's Budget – The subsequent year's budget fund balance is assigned by the Town management as set forth in the annual budget (and any amendments thereto) to appropriate a portion of existing unassigned fund balance to eliminate projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

Budgeting

1. Appropriation of Unrestricted Fund Balance – The actual amount of unrestricted 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 within six months after the end of the fiscal year being audited. However, an estimate of unrestricted fund balance (also called estimated beginning fund balance) will be made and reported during the annual budget adoption process (June through September) which is prior to the end of the fiscal year, September 30th.
2. Estimated Beginning Fund Balance – In order to achieve the most accurate estimate possible, the Finance Department shall project both Sources of Funds (revenues, prior years unrestricted fund balances carried forward and other financing sources) and Uses of Funds (operating and non-operating expenditures), including accruals, for each governmental fund through September 30th of the current fiscal year. These projections will be shown for each fund in the proposed and final budget documents. The difference between the estimated actual sources of funds and estimated actual uses of funds is the calculated estimated beginning fund balance for the 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, a calculation of estimated ending fund balance shall be made. This calculation shall be the difference between the budgeted sources of funds and the budgeted uses of funds as described above.

If after the annual audit, the actual general fund unassigned fund balance is greater than 25% of operating expenditures in the general fund, 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;
- b) Appropriated by the Town Council for a one-time expenditure or opportunity that does not increase recurring operating costs; or
- c) Temporary revenue shortfalls or unpredicted one-time expenditures due to a severe economic downturn or other major event(s) affecting the General Fund.

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 estimated amounts of restricted, committed assigned, non-spendable and minimum level of unassigned fund balance shall be determined during this process. The Town Manager will report the preliminary status of fund balance in the annual budget.

Responsibility: It will be the responsibility of the Town Manager and the Finance Director to implement this policy.

Effective Date: This policy shall take effect immediately upon adoption and will be applied beginning with the preparation of the Town's September 30, 2024 Comprehensive Annual Financial Report and adoption of the Town's Fiscal Year 2024-2025 Budget.

Update: Update shall take effect immediately upon adoption and will be applied with the preparation of the Town's September 30, 2024 Comprehensive Annual Financial Report.

DEFINITIONS

Fund Balance – As defined by the Governmental Accounting, Auditing and Financial Reporting of the Government Finance Officers Association, fund balance is "The difference between assets and liabilities reported in a governmental fund."

Non-Spendable Fund Balance – Amounts that are (a) not in a spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-

term amount of loans and notes receivable, as well as property acquired for resale. The principal of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted Fund Balance – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations or other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Amounts that can be used only for the specific purposes determined by a formal action (ordinance ~~or resolution~~) of the Town Council. Commitments may be changed or lifted only by the Town Council taking the same formal action (ordinance ~~or resolution~~) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned Fund Balance – Includes spendable fund balance amounts established by management of the Town that are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the general fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Unrestricted Fund Balance – The total of committed fund balance, assigned fund balance and unassigned fund balance.

Reservations of Fund Balance – Reserves established by the Town Council or by Town Management.