



FUND BALANCE AND RESERVE POLICY

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1.0 Purpose

The purpose of this policy is to establish guidelines for fund balances - a key element contributing to the financial stability of the City of North Richland Hills (the City). It is essential that the City maintain adequate levels of reserve balances to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Standard & Poor's Global Rating Services, Moody's Ratings, and the Government Finance Officers Association (GFOA) recommend the establishment of a formal fund balance policy to facilitate adequate municipal reserve levels that provide structural balance of operations. This policy exceeds best practice recommendations from GFOA.

This policy will ensure that the City maintains an adequate fund balance for the purposes of:

1. Providing sufficient cash flow liquidity for the City's general governmental operations,
2. Securing and maintaining investment grade bond ratings,
3. Mitigating significant economic downturns or revenue shortfalls
4. Providing funds for unforeseen expenditures related to emergencies, and
5. Articulation of long-term financial planning objectives.

2.0 Definitions

The Governmental Accounting Standards Board ("GASB") issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions ("GASB-54"). One objective of this standard was to improve the understandability of fund balance information by providing clear fund balance classifications. GASB-54 established the following five classifications:

- A. Non-spendable - includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid expenses. This classification is not included in the City's definition of fund balance.
- B. Restricted - includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors, or contributors; or amounts constrained due to regulations of other governments. Examples include grant awards and bond proceeds. This classification is included in the City's definition of fund balance for special revenue funds.

- C. Committed - Includes amounts that are limited to specific purposes that are internally imposed by the City through formal action of the City Council. Commitments may be changed or removed only by formal action of the City Council. This includes balances formally approved by the City Council during the budget adoption and amendment process. The formal action must be approved by the City Council prior to the end of the fiscal year in which the commitment will be reflected on the financial statements. This classification is not included in the City's definition of fund balance.
- D. Assigned - includes amounts that are intended for specific purposes that are considered neither restricted nor committed. Intent can be expressed by the City Council, or by an official to which the City Council delegates authority. Assignment of fund balance are less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. This classification is not included in the City's definition of fund balance.
- E. Unassigned - the residual classification of amounts in the General Fund which includes all amounts not classified in other fund balance categories. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification. This classification is included in the City's definition of fund balance for the General Fund.

This policy also applies to enterprise funds, which are non-governmental funds not addressed by GASB-54. For the purposes of those enterprise funds, this policy refers to unrestricted funds when discussing budgetary fund balance.

For the purposes of this policy, budgetary fund balance is defined as the sum of net cash position and short-term receivables/payables, focusing on readily available financial resources. This calculation also deducts unearned (deferred) revenue. This approach offers a more immediate view of available resources for financial planning and cash flow management, whereas GAAP fund balance provides a comprehensive picture of a government's overall financial position.

3.0 Policy/Practices

1. Minimum budgetary fund balance for City operating funds shall be based on fiscal year budgeted expenditures as follows:
 - a. General - 33%
 - b. Utility - 33%
 - c. Economic Development - 25%
 - d. Parks Development - 25%
 - e. Crime Control District - 25%
 - f. Aquatic Park - 10%
 - g. Golf Course - 10%
 - h. NRH Centre - 15%
 - i. Drainage - 25%
 - j. Self-Insurance - 50%
2. For all other funds, expenses shall not exceed total funds available (sufficient resources must exist to cover assignments and commitments).
3. Capital transfers and planned contributions to fund balance will be excluded from budgeted expenditures when calculating fund balance requirements for City operating funds.
4. If budgetary fund balance falls below required levels, or if it is anticipated that at the completion of any fiscal year the projected budgetary fund balance will be less than the minimum requirement, the replenishment is to occur within 12 months. Should calculations reveal that the minimum reserve balance will be replenished through normal activity within the next 12 months no action is necessary. Depending on the severity of the reduction of the minimum reserve the following measures will be taken to replenish the reserve fund balance:
 - a. Reduction of expenditures
 - b. Delay of capital purchases
 - c. Increase in fees and/or taxes
 - d. Salary freeze
 - e. Hiring freeze

5. The City Council may appropriate reserve balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.
6. The Director of Finance and the Budget Director are responsible for monitoring and reporting the City's fund balances. The Finance Department manages the operating fund balance, while the Budget Office oversees the capital project fund balances. Fund balance information is incorporated into the budget development process. The City Manager is responsible for recommending any use of reserve funds to the Council, either during the annual budget process or as needed throughout the fiscal year.