

FUND BALANCE POLICY

Cheyenne Downtown Development Authority



Policy Summary

The Fund Balance Policy was developed in accordance with Government Accounting Standards Board (GASB) Statement 54. The policy establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

I. Purpose

The Cheyenne Downtown Development Authority (DDA) is enacting this policy to mitigate current and future risks, including maintaining a prudent level of financial resources to protect against the need to reduce service levels due to unanticipated expenditures, revenue shortfalls, and economic downturns. Having an adequate unassigned fund balance also provides necessary liquidity and enhances the DDA's creditworthiness.

Unassigned fund balance is an important measure of a government's financial stability. The terms reserves and fund balance are often used interchangeably but have different meanings. Reserves is a budgetary policy term that describes additional, available liquid resources such as cash and investments to be used if appropriated funds are insufficient for the Board of Director's spending plan. In comparison, fund balance is an accounting term used to describe the difference between a fund's assets and liabilities.

II. Fund Balance Categories

Fund balance is defined as the cumulative difference of all revenues and expenditures since a government's formation. Thus, the DDA's fund balance is the result of the accumulated financial decisions made by the DDA's Board of Directors over time.

The DDA's fund balance may consist of the five categories defined below. The term "unrestricted fund balance" refers collectively to the three categories of committed, assigned and unassigned.

- 1. Non-spendable.** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.

- 2. Restricted.** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.
- 3. Committed.** Resources that are constrained to specific purposes by a formal action of the Board of Directors, which is the DDA's highest level of decision-making authority, such as motion approved at a board meeting and recorded in the minutes. The constraint remains binding unless removed in the same formal manner. Board action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- 4. Assigned.** Resources that are constrained by the DDA's intent to be used for specific purposes, but that are neither restricted nor committed. Assignment of fund balance is a less formal action than required for committed funds and the action may be taken after the end of the fiscal year. To assign fund balance, the Cheyenne Downtown Development Authority Board of Directors designates the Executive Director to do so in an amount not to exceed \$20,000 in total.
- 5. Unassigned.** Fund balance resources that are available for any purpose and which represent any residual funds available for spending after the funds earmarked for specified purposes have been otherwise classified.

III. Policy Statement

Minimum Unassigned Fund Balance

The DDA's General Fund will maintain an unrestricted fund balance equal to or exceeding sixty days (60) days of operating expenditures of the current annual budget.

If the unrestricted fund balance falls below 60 days of budgeted operating expenditures due to unforeseen revenue fluctuations, unanticipated expenditures, or any similar circumstances, the DDA Board of Directors and Executive Director will immediately develop a restoration plan to replenish the unassigned fund balance to the established minimum level within two fiscal years.

Compliance with the provisions of this policy shall be reviewed by the City Treasurer monthly.

Order of Expenditure of Funds

The City will spend the most restricted dollars before less restricted in the following order:

1. Non-spendable (if appropriate as funds become spendable)
2. Restricted
3. Committed
4. Assigned
5. Unassigned