

TOWN OF INDIAN TRAIL

FUND BALANCE POLICY

PURPOSE:

The purpose of this policy is to establish a fund balance/retained earnings policy tailored to the needs of the Town of Indian Trail to insure against unanticipated events that would adversely affect the financial condition of the Town and jeopardize the continuation of necessary public services. This policy will ensure the Town maintains adequate fund balance/retained earnings and reserves in the Town's various operating funds to provide the capacity to:

- (1) Provide sufficient cash flow for daily financial needs,
- (2) Secure and maintain investment grade bond ratings,
- (3) Offset significant economic downturns or revenue shortfalls, and
- (4) Provide funds for unforeseen expenditures related to emergencies.

POLICY:

The Town will establish and maintain reservations of Fund Balance/Retained Earnings in each of the various governmental and proprietary fund type funds of the Town as required and defined by State Statutes and previous Town Council designations which have been authorized. For purpose of initially establishing the balance and maintaining hereafter, the Town shall retain at least the minimum unreserved undesignated requirement established for each fund below.

FUND BALANCE GOALS

- A. **GENERAL FUND** – In the General Fund, there shall be maintained an Unreserved Undesignated Fund Balance equivalent to a minimum of thirty (30%) percent of the next year's budgeted operating expenditures (less capital outlay and transfers out budgeted for the fund). For purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance for the subsequent fiscal year. This reserve shall be in addition to all other required reserves or designation of fund balance.
- B. **SPECIAL REVENUE FUNDS** – Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. No specific reservation of Fund Balance is created by virtue of enactment of this policy. The amount of any reservation of Fund Balance shall be governed by the legal authority underlying the creation of the individual funds.
- C. **DEBT SERVICE FUND** – Debt service funds are typically subjected to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. This policy does not create any specific reservation of Fund Balance within any Debt

Service Fund. Reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.

- D. **CAPITAL PROJECTS FUND** – The Capital Projects Fund is created to account for resources designated to construct or acquire general fixed assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the Capital Projects Fund. However, at a minimum, the fiscal year end Reserved Fund Balance, and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.
- E. **ENTERPRISE FUNDS** – For each enterprise fund (Stormwater, etc) there shall be created a reservation of Retained Earnings equal to 180 days of operating costs for that fund. For the purposes of this calculation, the costs/expenditures shall be the budget as originally adopted by ordinance for the subsequent fiscal year. This reserve shall be in addition to all other required reserves of retained earnings including, but not limited to, amounts reserved for debt service and/or amounts reserved for renewal and replacement of long lived assets.

MINIMUM RESERVE REQUIREMENTS

In the event funds are not available to initially establish minimum required balances, the Unreserved Undesignated Fund Balance target shall be achieved by adding a designated amount to the budget to cover the deficiency over a period not to exceed five (5) fiscal years.

The Town Council may, from time-to-time, utilize fund balances that will reduce fund balance below the requirements indicated above but in no case below 15% except in extreme emergency for the purposes of providing for

- (1) A revenue shortfall
- (2) Dealing with a natural disaster or other event that threatens the health or safety of the residents
- (3) Taking advantage of an unforeseen significant opportunity that may be otherwise lost to the community
- (4) To protect the long-term fiscal security of the Town of Indian Trail
- (5) For major Town projects that are to the overall benefit of the Town after proper due diligence and an opportunity for public comments
- (6) Funds needed as a part of a matching grant for a major project

UTILIZATION OF MINIMUM RESERVES

Appropriation from the minimum Unreserved Undesignated Fund Balance shall require the approval of the Town Council and shall be only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designated to sustain the expenditures is simultaneously adopted.

REPLENISHMENT OF MINIMUM RESERVE DEFICITS

If it is anticipated at the completion of any fiscal year that the projected or estimated amount of Unreserved Undesignated Fund Balance, will be less than the minimum requirement, the Town Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and /or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period as required in the Minimum Reserve Requirements section above.

UTILIZATION OF SURPLUS RESERVES

In the event that the Unreserved Undesignated Fund Balance exceeds the minimum requirements, the excess may be utilized for:

- (1) Any lawful purpose approved by Town Council,
- (2) Priority will be given to utilizing the excess within the fund in which it was generated,
- (3) Shall be appropriated to fund one time expenditures or expenses which do not result in recurring operating costs
- (4) Shall be appropriated for onetime costs including the establishment of or increase in legitimate reservation or designation of fund balance or reservations of retained earnings in other funds

ANNUAL REVIEW

Compliance with the provision of this policy shall be reviewed as part of the annual budget adoption process.