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**CITY OF CENTENNIAL, COLORADO**  
13133 East Arapahoe Road, Centennial, Colorado 80112

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**ADMINISTRATIVE POLICY**  
**No. 2010-AP-06**  
**1<sup>st</sup> REVISION**

**FUND BALANCE & RESERVE POLICY**

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**I. AUTHORITY:**

City Ordinance No. 2010-O-06, an ordinance amending Article 2 of Chapter 2 of the City's Municipal Code, provides authority to the City Manager to develop City financial policies. Section 2-2-130(b)(6) of Ordinance No. 2010-O-06 describes the responsibilities and duties of the City Manager concerning financial policies and states the City Manager shall be authorized to promulgate administrative policies, including financial policies, consistent with all federal, state and local laws subject to ratification of such policies by the City Council.

**II. PURPOSE OF POLICY:**

The Fund Balance and Reserve policy of the City provides the framework for the overall fiscal management of the City. Revenue projections are conservative and authorized Expenditures are closely monitored. In stable economic times, the combination of these two strategies leads to Revenue collections higher than actual Expenditures. The accumulation of these Reserves protects the City from uncontrollable increases in Expenditures or unforeseen reductions in Revenue, or a combination of the two. This allows for the prudent financing of capital construction and replacement projects.

**III. SCOPE:**

This policy applies to all City Fund Balances and Reserves.

**IV. DEFINITIONS:**

Appropriation – A specific amount of money authorized by the City Council for an approved Expenditure.

Expenditure – The actual spending of funds set aside by Appropriation for identified goods and/or services.

Fund – A set of inter-related accounts to record Revenues and Expenditures associated with a specific purpose.

Fund Balance – The amount of financial resources available for use, derived from unencumbered resources available in a Fund from the prior/current year after payment of the prior/current year Expenditures.

Reappropriation – A specific amount of money authorized by City Council for an approved expenditure during a previous period and carried forward to the subsequent year; also known as a carryover expenditure.

Reserve – An account which sets aside a portion of a Fund's balance for some future use. These Funds are not available for Appropriation or Expenditure except when qualifying events occur.

Revenue – Funds received from the collection of taxes, fees, permits, licenses, interest, and grants during the fiscal year.

## V. POLICY:

### Overview

Fund Balance is the amount of financial resources available for use, and represents accumulated Revenues over Expenditures that may be appropriated by City Council. All Fund Balance amounts are re-appropriated annually within each Fund to allow for budgetary flexibility, with the exception of the General Fund. In addition, specific Reserves are set aside within each Fund; these funds are not available for Appropriation or Expenditure except when certain events occur.

The methodology and reporting of Reserves within each Fund may change from year to year, based either upon requirements of the Governmental Accounting Standards Board (GASB) or by City Council. The overall City Council Fund Balance level shall be in addition to, or in consideration of, legal and regulatory requirements.

### Fund Balances

The overall Fund Balance of the General Fund shall equal no less than twenty-five percent (25%) of annual Expenditures, including transfers. Included in the total Fund Balance are amounts that are either Nonspendable, Restricted, Committed, Assigned, or Unassigned. These classifications comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints for the specific purposes amounts in those funds can be spent.

#### **Nonspendable Fund Balance**

Nonspendable amounts are those that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. Examples are items that are not expected to be converted to cash, including inventories and prepaids.

#### **Restricted Fund Balance**

Restricted amounts are those that are restricted for specific purpose. The spending constraints placed on the use of fund balance amounts are externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation that are legally enforceable. For example, the Fund Balances of the

Open Space and Conservation Trust Funds are reported as Restricted for parks and open space, as the use of fund resources is restricted for specific uses as defined by Arapahoe County and the State of Colorado, respectively.

Fund Balances Restricted for TABOR emergencies constitute fiscal year spending as defined by a 1992 amendment to the State Constitution, Article X, Section 20, which has several limitations, including Revenue raising, spending abilities, and other specific requirements of state and local governments. TABOR requires local governments to establish emergency Reserves to be used for declared emergencies only and, if used, to be repaid within one year. Emergencies, as defined by TABOR, exclude economic conditions, Revenue shortfalls, or salary/fringe benefit increases. These Reserves are required to be three percent (3%) or more of fiscal year spending (as defined by TABOR); these Reserves are included in the Fund Balance in the category "Restricted". The use of this Reserve is restricted to the purpose for which it was established and can be used solely for declared emergencies.

Revenue limits under TABOR are determined based on prior year Revenues (as defined under TABOR) adjusted for inflation and annual local growth. Revenues collected in excess of these limits must be refunded in the next fiscal year unless voters approve retention of such Revenue.

#### **Committed Fund Balance**

Committed amounts are those that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council either by resolution or ordinance. The committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of formal action it employed to previously commit those amounts. This classification also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Amounts included as Committed shall equal at least ten percent (10%) of fiscal year spending for operating Reserves in the General Fund. Fiscal year spending shall include total Expenditures, including transfers.

#### **Assigned Fund Balance**

Assigned amounts are those that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by City Council through an informal action or Council can delegate the authority to express intent to a committee, the City Manager or other City official on a case by case basis.

All uses of Assigned Funds must be approved by City Council, except in the case of an emergency or immediate public necessity as determined by the City Manager. Funds held as Assigned may be appropriated during the budget year and may also be used for ensuing budget years if additional Expenditures are required to maintain appropriate levels of service and exceed projected Revenues.

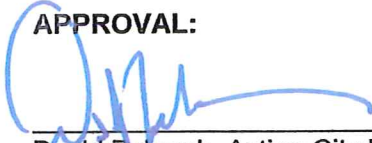
**Unassigned Fund Balance**

Unassigned amounts represent the remaining fund balance after amounts are set aside for other classifications. The General Fund is the only City Fund that can have an Unassigned Fund Balance.

**VI. EFFECTIVE DATE:**

This policy shall be effective upon signature.

**VII. APPROVAL:**



David Zelenok, Acting City Manager

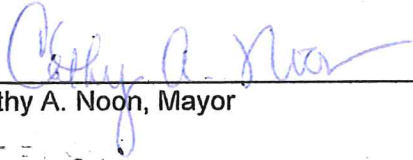
8/26/11

Date

**VIII. RATIFICATION:**

RESOLUTION NO.

2011-R-73



Cathy A. Noon, Mayor

9-8-11

Date

ATTEST:



City Clerk or Deputy City Clerk

