

# **UCA ADMINISTRATIVE POLICY STATEMENT**

## **SUBJECT: *FUND BALANCE POLICY***

1. Purpose:
  - a. The Authority desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. In addition, this policy is intended to document the appropriate Reserve level to protect the Authority's credit worthiness. The Reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities.
2. Applicability and Scope:
  - a. This policy shall apply to the General Fund.
3. Definitions and Acronyms:
  - a. Capital Improvement Plan (CIP) - A plan that describes the capital projects and associated funding sources the Authority intends to undertake in the current year plus five additional future years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.
  - b. Debt Services – A set of payments actually made to satisfy a debt obligation, including principal, interest, trustee fees, and any late payment fees.
  - c. Fund Balance - Fund Balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund.
  - d. Non-Recurring Item - An expenditure that has not occurred in the previous year and is not expected to occur in the following year.
  - e. Operating Expenditures – Regular, ongoing expenditures of the Authority, including transfers out, but excluding significant Non-Recurring Items.
  - f. Reserve - Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.
  - g. Unassigned Fund Balance - The difference between the total Fund Balance in a governmental fund and its non-spendable, restricted, committed, and assigned components.
4. Policy:
  - a. Reserve Levels - The Authority will maintain a minimum level of Unassigned Fund Balance equivalent to two months of Operating Expenditures. The Authority will measure its compliance with this policy as of June 30 each year, as soon as practical after final year-end account information becomes available.
  - b. If the minimum level of Reserves is not being met or is likely to not be met at some point within a five-year time horizon, a plan to replenish the Reserve would be established based on the requirements outlined in this policy.
  - c. Funding the Reserve - Funding of Reserve targets will generally come from excess revenues over expenditures, or one-time revenues.
  - d. Conditions for Use of Reserves - The Authority intends to limit the use of Reserves to address unanticipated, Non-Recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures. Reserves may, however, be used to allow time for the Authority to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in the context of an adopted long-

term plan.

- e. Authority over Reserves - The Governing Board may authorize the use of Reserves. The Executive Director will regularly report both current and projected Reserve levels to the Governing Board.
- f. Replenishment of Reserves - In the event that Reserves are used resulting in a balance below the minimum reserve balance, a plan will be developed and included in the formulation of the five-year forecast presented during the annual budget process.
- g. In the event a reserve exceeds 35 percent of the next year's budgeted expenditures, the excess reserve may be used in the following ways:
  - i. To fund the Authority's approved five-year capital projects plan as directed and approved within the annual budget resolution;
  - ii. To fund accrued liabilities, including but not limited to debt service, pension, and other post-employment benefits, as directed and approved within the annual budget resolution; or
  - iii. For one-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues.
- h. Periodic Review of the Targets - At a minimum, during the budget process the Executive Director shall review the current and five-year projected Reserves to ensure that they are appropriate given the economic and financial risk factors the Authority is subject to.