

GASB Statement No. 54 Fund Balance Policy

I. PURPOSE:

This Fund Balance Policy establishes the procedures for reporting both restricted and unrestricted fund balance in the financial statements. Fund balance will be required to be reported using five major classifications based on the extent to which the City is bound by the constraint on resources reported in the funds. The policy also authorizes and directs the Finance Director to prepare financial reports showing fund balances classification as required by Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

II. PROCEDURES:

Fund balance is basically the difference between the assets and liabilities reported in a governmental fund. GASB Statement No. 54 eliminates the current use of the terms “reserved” and “designated” in the reporting of fund balance, and replaces those terms with five new categories for classifying fund balance. Following are the new categories and related definitions to be used for describing the components of the fund balance:

NONSPENDABLE Fund Balance — Includes amounts either not in spendable form, or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

RESTRICTED Fund Balance — Reflects the same definition as restricted net assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds, debt service funds, and program funds funded with federal program dollars.

COMMITTED Fund Balance — Includes amounts that are committed for specific purposes by formal action of the City Council. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the city council removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. Action to constrain resources must occur prior to year end; however, the amount can be determined in the subsequent period.

ASSIGNED Fund Balance — Amounts that are intended by the city to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Finance Director for the purpose of reporting these amounts in the annual financial statements

Assigned fund balance includes:

- a) For the General Fund, these are the amounts assigned by the Finance Director intended to be used for specific purposes. The amounts reported as assigned should not result in a deficit in unassigned fund balance.
- b) For all governmental funds (other than General Fund), these are all remaining positive amounts (except for negative balances) that are not classified as nonspendable and are neither restricted nor committed. However, if there is a negative balance after classifying amounts as nonspendable, restricted or committed, the fund would report a negative amount as Unassigned and zero to be reported as Assigned.

UNASSIGNED Fund Balance — includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated" unless formally committed or assigned.

For the General Fund, these are amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would be required to report a positive amount in unassigned fund balance.

For all other governmental funds except the General Fund, these are the amounts expended in excess of resources that are nonspendable, restricted, committed or assigned (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.

No funds should report a negative amount for restricted, committed or assigned fund balance

Fund Balance Spending Order

Unless legal requirements disallow it, the City will spend the most restricted dollars before less restricted in the following order:

1. Nonspendable – if the funds become spendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

Minimum Fund Balance Policy for the General Fund

It is the goal of the City to achieve and maintain an unrestricted fund balance in the General Fund equal to 16.67% of regular operating expenditures. The unrestricted fund balance may only be reduced below the goal level for non-routine circumstances, such as severe economic downturns or other unanticipated budget shortfalls. In the event that the unrestricted General Fund fund balance becomes less than the policy goal, the City shall plan to adjust budget resources in the subsequent years to restore the balance.

This policy is in place to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.