

City of Gladstone **GLADSTONE**



Fund Balance Policy Compliant With GASB 54

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Gladstone ("the City") by setting guidelines for fund balance. The unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate the financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations.

Background

Fund balance refers to the difference between assets and liabilities in the governmental fund's balance sheet. This information is one of the most widely used elements of state and local government financial statements for analysis.

One central importance of the credit reviews performed by municipal bond analysts; fund balance information also is used by oversight bodies, federal, state, county and local legislators to assess the financial health of an organization. Additionally, financial statement users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, reduce property taxes, add new educational programs, expand existing ones, or enhance the financial position of the City.

GASB has found that its usefulness and the value of fund balance information provided is significantly reduced by misunderstandings regarding the message that it conveys, and the inconsistent treatment and financial reporting practices of governments.

In March 2009, in order to improve how fund balance information is reported and enhance its decision-usefulness, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Definitions:

Fund Equity - A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance - An accounting distinction is made between the portions of fund equity that spendable and nonspendable. These are broken up into five categories:

- 1) **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 such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned). This also includes amounts that are legally or contractually required to be maintained intact (principal balance of endowments and permanent funds).

- 2) **Restricted fund balance** - Reflects the same definition as restricted net assets on the government-wide Statement of 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.
- 3) **Committed fund balance** - Includes amounts that are committed for specific purposes by formal action of the board/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 board/Commission removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. The action to commit fund balances must occur prior to year-end; however, actual amounts can be determined in the subsequent period.
- 4) **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. Intent should be expressed by the board/Commission itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the board/council. This would include ANY activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above definitions. The City is not allowed to assign balances that result in a residual deficit.
- 5) **Unassigned fund balance** - includes any remaining amounts after applying the above definitions (amounts not classified as nonspendable, restricted, committed or assigned). 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. Special rules exist for using this classification in funds other than the General Fund. In funds other than the General Fund unassigned only used if the balance is negative, therefore, the General Fund is the only fund that will report a positive unassigned balance.

Policy

Committed Fund Balance - The Commission is the highest level of decision-making authority for the City. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Commission a Commission meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance -The Commission of the City is the authorized to assign fund balance to a specific purpose as approved by this fund balance policy. Designated fund balances will be assigned using the process outlined in the Capital Improvement Ordinance.

Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain an unassigned fund balance in the General Fund equal to 20 to 30% of expenditures. The City considers a balance of less than 20% to be cause for concern, barring unusual or deliberate circumstances.

If unassigned fund balance falls below the goal or has a deficiency, the City will attempt to replenish the General Fund to the above range of percentages.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Approved: 10-23-2017