

CITY OF DREAMS, MINNESOTA

FUND BALANCE POLICY IN ACCORDANCE WITH GASB #54

Background

In February 2009, the Governmental Accounting Standards Board (GASB) issued *GASB #54 Fund Balance Reporting and Governmental Fund Type Definitions*. The statement substantially changes how fund balances are categorized. It clarifies/modifies how some of the governmental funds are presented and classified.

This policy will provide a cross reference between the Pre-GASB #54 Fund Balance Classifications and the Post-GASB #54 Fund Balance Classifications.

Fund Balance Classifications: Current and GASB #54

Pre-GASB #54 Classifications of Fund Balance

Post-GASB #54 Classifications of Fund Balance

<i>Reserved</i> Non-spendable	<i>Not available for appropriation</i> Not available for spending, either now or in the future, because of (e.g., debt retirement)	
<i>Designated</i> Restricted	<i>Available for appropriation but intended for a specific use.</i> Constraints on spending that are legally enforceable by outside parties.	
Unrestricted	<i>Designated</i> Committed	<i>Not available for appropriation.</i> Constraints on spending that the government imposes upon itself by highest-level formal action prior to the close of the period.
	<i>Undesignated</i> Assigned	<i>Available for appropriation.</i> Resources intended for spending for a purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board.
	Unassigned	Residual (general fund only)

Purpose

To provide a stable financial environment for the City of Dream's operations that allows the City to provide quality services to its residents in a fiscally responsible manner designed to keep services and taxes as consistent as possible over time. This fund balance policy is meant to serve as the framework upon which consistent operations may be built and sustained.

Definitions & Policies

Fund Balance

Fund Balance is the difference between assets and liabilities in governmental funds (i.e. general fund, special revenue funds, capital project funds, debt service funds and permanent funds).

Non-spendable Fund Balance

Describes the amount of a fund balance that cannot be spent because it is either not in spendable form or there is a legal or contractual requirement for the funds to be remain intact.

Policy -

At the end of each fiscal year, the City will report the portion of the fund balance that is not in spendable form as Non-spendable Fund Balance on the financial statements.

Spendable Fund Balance (Overview) -

Describes the amount of fund balance that is available for appropriation based on the constraints that control how specific amounts can be spent. Typically, a significant portion of a government's spendable resources can be spent only for specified purposes. The following categories define the revenue source and the level of force of the constraint on spending.

Categories should be supported by actual plans approved by either the governing body, an appropriate officer, grant providers or enabling legislation.

Restricted Fund Balance

The restricted fund balance category includes the portion of the *spendable fund balance* that reflects constraints on spending because of legal restrictions stipulated by *outside parties* (e.g., encumbrances for goods or services with outside parties-creditors, grantors outstanding at the end of the year), Also, any legal restrictions based on state statutes or grant requirements placed on the use for specific purposes.

Policy -

At the end of each fiscal year, the City will report "restricted" fund balance for amounts that have applicable legal restrictions per GASB #54. In addition, encumbrances or funds restricted by enabling legislation will be reported as "restricted".

Committed Fund Balance

The committed fund balance classification includes the portion of the *spendable fund balance* that reflects constraints that the city has *imposed upon itself* by a *formal action* of the *city council* (for example, an ordinance or resolution passed by a city council). This constraint must be imposed prior to year end but the amount can be determined at a later date.

Policy -

Prior to the end of each fiscal year, the City will report "committed" fund balance for long-term loan receivables such as advances to other funds and similar accounts.

Assigned Fund Balance

The assigned fund balance is the portion of the *spendable fund balance* that reflects funds intended to be used by the government for specific purposes assigned by more informal operational plans (e.g. capital goods replacement - the constraint on use is not imposed by external parties or by formal council action). In governmental funds other than the general fund (special revenue funds, capital project funds, debt service funds and permanent funds), assigned fund balance represents the amount that is not restricted or limited. The authority to “assign” fund balance is delegated to the City Finance Director.

Policy -

Capital Goods Replacement

At the end of each fiscal year, the City will report “Assigned” fund balance for equipment replacement according to the City’s Capital Improvement Plan.

Special Revenue Funds Cash Flow

At the end of each fiscal year, The City will maintain Spendable – Assigned portion of the fund balance for cash flow in a range equal to 20 – 40% of the subsequent year’s budgeted revenues.

Unassigned

This is the residual classification for the government’s **General Fund** and includes all spendable amounts not contained in the other classifications and, therefore, not subject to any constraints. Unassigned amounts are available for any purpose. These are the current resources available for which there are no government self-imposed limitations or set spending plan. Although there is generally no set spending plan for the undesignated portion, there is a need to maintain a certain funding level. Undesignated fund balance is commonly used for emergency expenditures not previously considered. In addition, the resources classified as undesignated can be used to cover expenditures for revenues not yet received.

Policy -

Cash Flow

At the end of each fiscal year, the City will maintain Spendable – Unassigned portions of the fund balance for Cash Flow in a range equal to 35 – 50% of the General Fund operating expenditures. In addition to cash flow needs this accommodates emergency contingency concerns.

In the event that amounts designated for cash flow fall above or below the desired range, the City Administrator shall report such amounts to the City Council as soon as practical after the end of the fiscal year. Should the actual amount designated for Cash Flow fall below the desired range, the City shall create a plan to restore the appropriate levels. Should the actual amount designated for cash flow rise above the desired range, any excess funds will remain undesignated pending the Council’s final decision concerning transfer to another fund. It is the policy of the City that such excess funds will be, by council action, to be reported in the spendable limited category of this policy.

Adopted by the _____ City Council on this 18th day of May, _____.

City Administrator