RESOLUTION 2014-21

Agenda Item

TO: Mayor and City Council

FROM: Mark S. Gaugh, City Manager

DATE: June 16, 2014

RE: Resolution for Fund Balance Policy

Issues

In order for the City to comply with the Governmental Accounting Standards Board (GASB) Statement #54, the attached fund balance policy was developed. Five classifications were developed by the GASB, in order to give readers of the financial statements a better understanding of how funds are committed or available for use. A fund balance is not all "spendable," and readers need to be able to determine which funds are committed, whether it is through legal or internal means. Funds assigned for specific uses by Council or others can also be identified within the classifications. It is a fairly simple way of describing the various uses of reserve funds. Sometimes fund reserves are used to make large capital purchases. When this happens, it is important to make sure they are identified and committed so they are not inadvertently used for another purpose. It would also explain why a certain fund may have a large balance percentage.

Recommendation

Staff recommends that Council approve the attached Resolution to adopt the attached fund balance policy.

Resolution 2014-21

A RESOLUTION TO ESTABLISH A REVISED FUND BALANCE POLICY WITHIN THE CITY OF CAMERON, CLINTON AND DeKALB COUNTIES, MISSOURI

WHEREAS, the City of Cameron desires to establish guidelines for preserving an adequate unassigned fund balance in order to sustain financial stability of the City and to provide for prudent management of its financial reserves; and

WHEREAS, the Governmental Accounting Standards Board (GASB) issued Statement No. 54 to improve the understandability of the definition of fund types by providing five clear classifications for fund balances; and

WHEREAS, GASB 54 will be incorporated into the City's fund balance policy.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and City Council for the City of Cameron, Clinton and DeKalb Counties, Missouri that the new fund balance policy is adopted.

Passed and approved this 16th day of June 2014.

_____
Mayor Dennis M. Clark

Attest:

_____
City Clerk/Finance Clerk

FUND BALANCE POLICY

Purpose

The City of Cameron ("the City") desires to establish guidelines for preserving an adequate unassigned fund balance in order to sustain financial stability of the City and to provide for prudent management of the City's financial reserves.

Background

The Governmental Accounting Standards Board ("GASB") issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions ("GASB-54"). One objective of this standard was to improve, including the understandability, the usefulness of fund balance information by providing clear fund balance classifications. GASB-54 abandons the reserved and unreserved, and designated classifications of fund balance and replaced them with five classifications: non-spendable, restricted, committed, assigned, and unassigned.
GASB-54 requires local government to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The fund balance classifications indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints. The following five classifications serve to inform readers of the financial statements of the extent to which the City is bound to honor constraints on the specific purposes for which resources can be spent.

Definitions

Fund Balance – the cumulative difference of all revenues and expenditures. Where the term Fund Balance is utilized, the term Retained Earnings may be substituted for enterprise funds.

Fund Balance amounts will be classified as follows:

<u>Non-Spendable Fund Balance</u> – Legally or contractually required to be maintained. Not in spendable form, including but not limited to, inventory, prepaids, supplies, long-term receivables. Such constraint is binding until legal or contractual requirement repealed or amounts become spendable.

<u>Restricted Fund Balance</u> – Externally imposed constraints, including but not limited to, creditors, grantors, contributors. Constraints by laws and regulations. Such constraint is binding unless modified or rescinded by external body, laws or regulations.

<u>Committed Fund Balance</u> – The amounts can only be used for the specific purpose imposed by formal action of the City Council. Such constraint is binding unless modified or rescinded by the City Council.

Assigned Fund Balance - Constrained by City Council, City Committee or City Officials expressed intent. The purpose of the assignment must be narrower than the purpose of the General Fund. Additionally, this category is used to reflect the appropriation of a portion of existing fund balance to eliminate a projected deficit in the subsequent year's budget. Such constraint is binding unless modified or eliminated by the City Council, City Committee, or City Official.

Unassigned Fund Balance – Fund balance reported as "unassigned" represents the residual classification of fund balance and includes all spendable amounts not contained within other classifications.

COMPREHENSIVE FUND BALANCE POLICIES

Policy on committing funds

In accordance with GASB–54, it is the policy of the City of Cameron ("City") that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by City Council. The action to constrain amounts in such a manner must occur prior to year end; however, the actual dollar amount may be determined in the subsequent period.

For example, the City Council may approve a motion prior to year end to report within the year-end financial statements, if available, up to a specified dollar amount as Committed Fund balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the governing body approving this action before year-end.

It is the policy of the City that the City Council may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB-54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the City Council, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, in accordance with GASB-54, it is the policy of the City that funds can only be removed from the Committed Fund Balance category after motion and approval by the City Council.

Policy on assigning funds

In accordance with GASB–54, funds that are intended to be used for a specific purpose but have not received the formal approval action at the governing body level may be

recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the governing body.

GASB-54 states that resources can be assigned by the governing body or by another internal body or person whom the governing body gives the authority to do so, such as a committee or employee of the City.

Therefore, having considered the requirements to assign fund balance, it is the policy of the City that the City Manager will have the authority to assign fund balance of this organization based on intentions for use of fund balance communicated by the City Council.

Policy on Unassigned General Fund balance

It is the goal of the City to achieve and maintain an unassigned General Fund balance equal to 50% of budget expenditures. The City considers a balance of less than 30% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 55% as excessive. An amount in excess of 50% is to be considered for reservation to accumulate funding for capital projects and equipment, and/or to reduce the tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the unassigned General Fund balance is less than the policy anticipates, the City shall plan to adjust budget resources in the subsequent fiscal years to restore the balance.

Appropriation from unassigned General Fund balance shall require the approval of the City Council and shall be only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted.