

# **CITY OF BOSCOBEL POLICY STATEMENT**

**Approved: March 5, 2012**

## **FUND BALANCE POLICY**

### **PURPOSE**

Provide a policy to be adopted by the City of Boscobel ("City") in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions.

### **BACKGROUND**

This policy is created in consideration of unanticipated events that could adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure that the City maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Offset significant economic downturns and revenue shortfalls, and
- c. Provide funds for unforeseen expenditures related to emergencies.

### **STATEMENT OF POLICY**

This document summarizes policies and procedures to prepare financial statements which accurately categorize and maintain a fund balance.

### **FUND BALANCE REPORTING IN GOVERNMENTAL FUNDS**

Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

#### **Nonspendable fund balance**

Definition-includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Classification-Nonspendable amounts will be determined before all other classifications. It is the responsibility of the City Clerk/Treasurer to report all Nonspendable Funds appropriately in the City's financial statements.

Examples of Nonspendable Fund balance are: Inventory and prepaid expenditures.

### **Restricted fund balance**

Definition- Fund balance should be classified as restricted when constraints are placed on the use of resources 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.

### **Committed fund balance**

Definition-includes amounts that can be used only for specific purposes determined by a formal action of the City's highest level of decision-making authority (i.e. City Council). Authority to Commit-Commitments will only be used for specific purposes pursuant to a formal action of the City Council. A majority vote is required to approve a commitment and must take place within the fiscal reporting period, no later than December 31<sup>st</sup>; however, the amount can be determined subsequent to the release of the financial statements. A majority vote will be required to remove or change the specific use of a commitment

### **Assigned fund balance**

Definition-includes amounts intended to be used the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign-The City Council delegates the City Clerk/Treasurer to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

### **Unassigned fund balance**

Definition-includes the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes from which amounts had been restricted, committed, or assigned.

## **Operational guidelines**

The following guidelines address the classification and use of fund balance in governmental funds:

### **Classifying fund balance amounts**

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

### **Prioritization of fund balance**

Use unrestricted (committed, assigned, or unassigned) amounts are available; it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

### **Minimum unassigned fund balance**

The City will maintain a minimum unassigned fund balance in its General Fund ranging from 15 percent to 25 percent of the subsequent year's budgeted expenditures (including other financing uses). This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

### **Replenishing deficiencies**

When fund balance falls below the minimum 15 percent range, the City Administration will develop a budgetary plan to replenish the fund balance to the established minimum level within five years.

## **Implementation and review**

Upon adoption of this policy the City Council authorizes City Administration to establish standards and procedures which may be necessary for its implementation. The City Administration shall review this policy at least annually and make any recommendations for changes to the City Council.