

# The City of Clarkston

## Fund Balance Policy – May 11, 2015

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The City of Clarkston recognizes that sound financial management is essential to maintaining fiscal responsibility, therefore the City believes that sufficient funds should be retained to provide a stable financial base at all times. In order to do so, the City needs to maintain a fund balance sufficient to fund cash flows, to provide for financial reserves for unanticipated one-time expenditures, revenue shortfalls, and/or emergency needs.

### ***Purpose***

The purpose of this policy is to specify the size and composition of the City’s desired fund balance and to identify certain requirements for classifying fund balance in accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

### ***Definitions***

The following chart defines the five categories in which Fund balance is reported:

<b>Classification</b>		<b>Definition</b>	<b>Examples</b>
<b>Nonspendable</b>		“Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.” <sup>1</sup>	<ul style="list-style-type: none"> <li>• Inventories,</li> <li>• Prepaid items,</li> <li>• Long-term receivables</li> <li>• Permanent Endowments</li> </ul>
<b>Restricted</b>		“Fund balance should be reported as restricted when constraints placed on the use of resources are either: <ul style="list-style-type: none"> <li>a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or</li> <li>b. Imposed by law through constitutional provisions or enabling legislation.”<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Restricted by state statute,</li> <li>• Unspent bond proceeds,</li> <li>• Grants earned but not spent,</li> <li>• Debt covenants,</li> <li>• Taxes dedicated to a specific purpose, and</li> <li>• Revenues restricted by enabling legislation.</li> </ul>
<b>Unrestricted</b>	<b>Committed</b>	“Used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority” <sup>3</sup>	<ul style="list-style-type: none"> <li>• Amounts City Council sets aside by resolution.</li> </ul>
	<b>Assigned</b>	“Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed” <sup>4</sup>	<ul style="list-style-type: none"> <li>• City Council delegates the authority to assign fund balance to the Chief Financial Officer.</li> <li>• City Council has appropriated fund balance during the budget process- this is titled “subsequent year’s expenditures”</li> </ul>
	<b>Unassigned</b>	Unassigned fund balance is the residual classification for the General Fund. This is fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned. <sup>5</sup>	

<sup>1</sup> GASB Statement No. 54, ¶ 6

<sup>2</sup> GASB Statement No. 54, ¶ 8

<sup>3</sup> GASB Statement No. 54, ¶10

<sup>4</sup> GASB Statement No. 54, ¶13

<sup>5</sup> GASB Statement No. 54, ¶17

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### *Policy*

#### 1. ***Minimum Level of Fund Balance***

The City will establish and maintain minimum levels of fund balance in the following funds:

- a. **General Fund-** In the General Fund, there shall be a minimum unrestricted balance (committed, assigned and unassigned fund balance) of 16.7% or no less than two months of regular operating expenditures. For purposes of this calculation, the expenditures should be the budget as originally adopted in June of each year. Non-recurring revenues may be a source of accumulating fund balance and should not be relied upon for operational needs. The General Fund should seek to have recurring surpluses sufficient to fund the historic level of non-recurring expenditures. Fund balance may be higher than this minimum to save for large planned expenditures (i.e. capital projects, restructuring charges, etc.), credit rating agency concerns, liquidity, and/or to address volatility in economic conditions.
- b. **Capital Projects Fund-** The Capital project fund was created to account for resources set aside to construct or acquire fixed assets or improvements. These projects may extend beyond one fiscal year. No specific reserve is required. However, the fund must ensure enough reserve exists to cover existing construction commitments for the oncoming year. Project funds will remain open until all claims on the project are settled.

#### 2. ***Replenishment of the General Fund Minimum Requirements***

Should the minimum unrestricted balance (committed, assigned and unassigned fund balance as a percentage of operating expenditures) fall below the 16.7% threshold for the General Fund, the City Council must approve and adopt a plan to restore this balance to the target level within a specific period of time. When developing a restoration plan, the following items should be considered in establishing the appropriate time horizon:

- a. The budgetary reasons behind the fund balance targets
- b. Recovery from an extreme event
- c. Financial planning time horizon
- d. Long-term forecasts and economic conditions
- e. Milestones for gradual replenishment
- f. External financing expectations

#### 3. ***Order of Resource Use***

In general, restricted funds are used first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. In addition, for unrestricted fund balance, the order of use of fund balance shall generally be: 1) committed; 2) assigned; and 3) unassigned.