

## **City of Sault Ste. Marie**

### **Fund Balance Policy**

Approved by City Commission on **December 2, 2013**

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### **Fund Balance Policy in Accordance with GASB Statement No. 54**

#### Purpose

The following policy has been adopted by the City Commission in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance

#### Reporting and Governmental Fund Definitions

The 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. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenue shortfalls, and
- d. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the City's fund balance and reserve policies.

#### 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 – Non-spendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- a) The City will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the City)
- b) The City will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance)
- c) The City will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact
- d) The City will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale

#### Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

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#### Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority (i.e., the City Commission).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the City Commission. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

#### Assigned fund balance

Definition – includes amounts intended to be used by 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 Commission accepts full authority 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 for which amounts had been restricted, committed, or assigned.

#### Unrestricted fund balance

Definition – consists of the total of the committed fund balance, assigned fund balance, and unassigned as defined above. This will include an amount for accrued compensated absences, which is included in General Fund committed fund balance in the audited financials for the first time at June 30, 2012, and is also reflected in reserves of the City's General Fund budget for the first time in the 2013-14 fiscal year.

### **Operational guidelines**

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

1) Minimum unrestricted fund balance

The City will maintain a minimum unrestricted fund balance in its **General Fund** ranging from **15** percent to **20** percent of the current fiscal year's operational expenditures and routine and recurring outgoing transfers.

2) Minimum unassigned fund balance plus accrued compensated absences

The City shall maintain a minimum unassigned fund balance plus accrued compensated absences at **8** percent or higher. Both minimum fund balances are to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

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#### 3) Replenishing deficiencies

When fund balance falls below the minimum thresholds as outlined in paragraph #1 above, the City will replenish shortages/deficiencies using the budget strategies and timeframes described below.

- a) The City will reduce recurring expenditures to eliminate any structural deficit or,
- b) The City will increase revenues or pursue other funding sources, or,
- c) Some combination of the two options above

Minimum fund balance deficiencies shall be replenished within the following time periods:

- a) Deficiency resulting in an unrestricted fund balance between **12.5** percent and **15** percent shall be replenished over a period not to exceed one year
- b) Deficiency resulting in an unrestricted fund balance between **10** percent and **12.5** percent shall be replenished over a period not to exceed three years
- c) Deficiency resulting in an unrestricted fund balance of less than **10** percent shall be replenished over a period not to exceed five years
- d) Deficiency in unassigned fund balance plus accrued compensated absences shall be replenished in one year if the unrestricted fund balance is **15** percent or higher

#### Surplus fund balance

Should unassigned fund balance of the General Fund ever exceed the maximum **20** percent range, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

#### Implementation and review

Upon adoption of this policy the City Commission authorizes the City Manager to establish any standards and procedures which may be necessary for its implementation. The Finance Director shall review this policy in December of each year, and make any recommendations to the City Manager for changes to be brought before the City Commission. Calculations of General Fund unassigned fund balance and unassigned fund balance plus accrued compensated absences, including audited, estimated, and proposed budgeted, shall be presented annually by the City Manager as a part of the budget process.