



CITY COUNCIL AGENDA ITEM

Date: April 10, 2014

To: Brian Kischnick, City Manager

From: Thomas Darling
Director of Financial Services

Subject: General Fund Balance Policy (***Introduced by: Thomas Darling, Director of Financial Services***)

History

The Troy City Council has expressed an interest in setting guidelines and policy related to General Fund Balance. A special study session was conducted on Monday April 7, 2014 to discuss related issues and to gain further insight and recommendations in developing a General Fund Policy. The attached policy reflects consensus from that study session.

Financial

The attached General Fund Balance Policy has been formatted and designed using references from the Governmental Accounting Standards Board (GASB) Statement Number 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

In addition, the General Fund Balance policy was developed using the recent best practice recommendations from the Michigan Governmental Finance Officers Association.

Recommendation

It is recommended that the General Fund Balance Policy be adopted as submitted.

City of Troy

Financial Policies

Fund Balance Policy

(Modified 042-2014)

Purpose

The City of Troy believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain a fund balance in the General Fund that is sufficient to fund all cash flows, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls, have a means of liquidity in emergencies and natural disasters, and to provide funds for all existing encumbrances.

The purpose of this policy is to establish a key element of the financial stability of the City of Troy by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that the City of Troy maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the general operations of the City of Troy.

In addition, this policy addresses the City of Troy's requirements under GASB 54 surrounding the composition of fund balance, including the establishment and use of the various components of fund balance.

Definitions

Fund Balance – A governmental fund's fund balance is the difference between its assets, deferred outflows and its liabilities and deferred inflows.

Fund Balance Components – An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. Under GASB 54, these are broken up into five categories:

- 1) Nonspendable fund balance – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- 2) Restricted fund balance –Amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and dedicated millages.
- 3) Committed fund balance - Amounts constrained to specific purposes as ratified by resolution of the City Council; to be reported as committed, amounts cannot be used for any other purpose unless the City Council ratifies by resolution to remove or change the constraint.
- 4) Assigned fund balance –Amounts *intended* to be used by the City for specific purposes. Intent is expressed by the City Manager or by an official or body to which the City Council delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Policies

Minimum Unassigned Fund Balance

The fund balance of the City of Troy's General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

Management should strive to attain an Unassigned Fund Balance in the range of 20% to 30% of expenditures. The use of fund balance is appropriate as part of an overall financial plan.

If unassigned fund balance falls below or grows above the established policy range, the City Manager will present a Financial Plan to address the deficiency or surplus of unassigned fund balance. This plan will typically be developed and submitted to City Council as part of the fiscal budgeting process

Committed Fund Balance

The City Council is the City of Troy's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

The City Council has authorized the City Manager of the City of Troy as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds (Spending Prioritization)

When multiple components of fund balance are available for the same expenditure (for example, a project has non-spendable, restricted, committed, assigned and unassigned funds available for it), spending will occur in this order – non-spendable, restricted, committed, assigned and unassigned.