



City of Port Huron

Fund Balance Policy – Governmental Funds

I. PURPOSE

During February 2009 the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* which substantially altered the focus and terminology used for fund balance reporting. The purpose of this policy is to establish a policy for managing fund balance in the City's governmental funds in a manner consistent with GASB Statement No. 54.

II. DEFINITION

Fund balance is created from excess revenues over expenditures in a fund. It is a fund's net assets, mostly made up of cash and investments and, unless restricted, is available for spending.

III. CLASSIFICATIONS

GASB Statement No. 54 establishes five classifications of fund balance. They are:

1. Non-Spendable Fund Balance: This is the portion of fund balance that may not be spent because of its form, for example, inventory and non-financial assets, or because of legal or contractual requirements (~~te~~ e.g. the corpus of an endowment).
2. Restricted Fund Balance: This is the portion of fund balance the use of which ~~that~~ is restricted ~~to use~~ for a specific purpose by externally imposed requirements or enabling legislation. For example, Act 51 Gas and Weight Taxes are restricted for street maintenance.
3. Committed Fund Balance: This is the portion of fund balance that is designated to be used for a specific purpose as determined by the City Council. Such action to “commit” the fund balance must occur prior to the end of the fiscal year for which such amounts are being reported. An example is fund balance in the City's 420 account is committed for payment of capital improvement project contracts.
4. Assigned Fund Balance: In the General Fund, these are funds that are intended to be used for specific purposes, but have not been designated by the City Council. Designation of amounts on the General Fund financial statements as “assigned fund balance” shall be the prerogative of the City Treasurer in consultation with the City Manager.

Regarding ~~the~~ governmental funds other than the General Fund, assigned fund balance includes all residual amounts not restricted or committed because the fund is created and maintained to support a specific purpose (~~ie.e.g.~~ Recreation Fund, Solid Waste Fund).

5. Unassigned Fund Balance: The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the other four categories described above. Only the General Fund can report a surplus as unassigned fund balance.

IV. POLICY

Utilization of Fund Balance: The policy regarding fund balance shall be that when multiple classifications are available and appropriate for particular expenditures, fund balance will be utilized first from the most restrictive category working toward unassigned fund balance. Relative “restrictiveness” of fund balance shall proceed from most restrictive to the least restrictive in order of the five classifications listed in this policy, from one to five above.

Minimum Fund Balance: Many factors should be considered to determine an appropriate level of fund balance for the General Fund. Factors such as unanticipated infrastructure emergencies, operating a minimum number of months during crisis, responding to cuts in state funding aid, matching funds required for grant opportunities, being remaining credit worthy based upon the City’s credit rating y rating agencies and responding to downturns in the economy.

For the General Fund, the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least 20% of adopted expenditures, except in the case of emergency or financial distress. ~~Circumstances of e~~Emergency or financial distress circumstances shall be reported to the City Council at the earliest practical time. Upon such report, the City Council may direct that additional action be taken to preserve the minimum unassigned fund balance.