

RESOLUTION NO.2012-381-R

A RESOLUTION ESTABLISHING THE FUND BALANCE POLICY FOR THE CITY OF MADISON, ALABAMA, IN ACCORDANCE WITH GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT NO. 54

WHEREAS, a fund balance policy is a key element of financial stability; and

WHEREAS, the maintenance of adequate levels of unassigned fund balance will lessen financial risk from unforeseen revenue fluctuations, unanticipated expenditures and other similar circumstances; and

WHEREAS, unassigned fund balance is an important measure of economic stability; and

WHEREAS, the City Council desires to establish a Fund Balance Policy in accordance with GASB 54; and

WHEREAS, the City Council, of the City of Madison, Alabama, has reviewed the attached Fund Balance Policy for the City of Madison; and

WHEREAS, all resolutions, or parts of resolutions in force with provisions relating to this resolution, which are inconsistent or in conflict with the terms or provisions contained herein, are hereby repealed to the extent of any such conflict only. The non-conflicting sections, sentences, paragraphs, and phrases shall remain in full force and effect.

NOW THEREFORE, BE IT RESOLVED by the City Council of the City of Madison, Alabama, that the attached document identified as the FUND BALANCE POLICY FOR THE CITY OF MADISON, ALABAMA, is adopted as the Fund Balance for the City of Madison, Alabama.

READ, APPROVED AND ADOPTED this _____ day of _____.

Ronica Ondocsin, President
Madison City Council
City of Madison, Alabama

ATTEST:

Melanie A. Williard, City Clerk-Treasurer
City of Madison, Alabama

ADOPTED this _____ day of _____, 2012.

Paul Finley, Mayor

Fund Balance Policy
City of Madison, Alabama
Revised for GASB 54

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Madison, Alabama, by setting guidelines for a fund balance in accordance with the standards established by GASB 54. GASB 54 abandons the reserved, unreserved, and designated classifications of fund balance and replaced them with five classifications: nonspendable, restricted, committed, assigned, and unassigned.

An unassigned fund balance is an important measure of economic stability, and it is essential that the City maintain adequate levels of unassigned fund balance to lessen financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances. This policy will ensure the City maintains adequate fund balances in its various operating funds with the capacity as listed below:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls, and
4. Provide funds for unforeseen expenditures related to emergencies.

Definitions

Fund Equity – A fund's equity is the difference between its assets and liabilities.

Fund Balance – The fund equity of a *governmental fund* is an accounting distinction between the portions that are spendable and nonspendable.

The following classifications are the five categories of a fund balance:

1. **Nonspendable Fund Balance** – this classification represents fund balance that is not in a spendable form such as prepaid items and inventory, or the amount legally or contractually required to remain intact such as the principal of an endowment.
2. **Restricted Fund Balance** – this classification of fund balance represents amounts the City can only spend for specific purposes stipulated by law or by the external providers of those resources. Examples include grant awards and bond proceeds.
3. **Committed Fund Balance** – this classification of fund balance represents the amounts the City Council imposed limitations on use prior to the end of the fiscal year. The City must use the amounts for the specific purposes determined by the formal action (ordinance or resolution) of the City Council. The City cannot use these amounts for any other purposes unless the City Council removes or changes the specific use by taking the same type of action employed when the amounts were initially committed. The City Council must approve the formal action before the end of the fiscal year (September 30) for the commitment to reflect on the financial statements.
4. **Assigned Fund Balance** – this classification of fund balance represents the amounts, which the City Council has established the intended use, or the City Official authorized to do so by the City Council. Assignments of a fund balance are less formal than the commitments of a fund balance and do not require formal action for the imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amounts not restricted or committed, which indicates that the City plans to use the resources for the purpose of that specific fund.
5. **Unassigned Fund Balance** – this classification of fund balance represents the amounts in excess of the amounts the City properly classified in one of the other four categories of fund balance. Unassigned amounts are technically available for any legal purpose.

POLICY

Committing Funds

The City Council is the highest level of decision-making authority for the City of Madison. A resolution approved by the City Council is the formal action required to establish, modify, or rescind a fund balance commitment. The City Council must approve, or rescind, as applicable, the resolution prior to the last day of the fiscal year the City Council made the commitment. The City may determine the amount subject to the constraint in the subsequent period (i.e. the City Council may approve the calculation or formula to determine the amount to commit).

Assigning Funds

The City Council authorizes the appropriate City Official(s) responsible for the assignment of the fund balance for specific purposes as approved by this fund balance policy.

Minimum Unassigned Fund Balance

The City's goal is to achieve and maintain an unassigned fund balance in the General Fund equal to 20% of expenditures. The City considers an unassigned fund balance of less than 15% of expenditures to be cause for concern, barring unusual or deliberate circumstances. The City considers an unassigned fund balance of more than 30% as excessive. In the event the City calculated the unassigned fund balance to be less than the policy stipulates, the City shall develop a plan to adjust the budget in the subsequent fiscal year to restore the unassigned fund balance.

Replenishment of Minimum Fund Balance

In the event the unassigned fund balance of the General Fund is less than the policy stipulates, the City shall develop the steps necessary to replenish the unassigned fund balance of the General Fund and establish a timeline for replenishing the unassigned fund balance.

The steps for replenishing the fund balance of the General Fund may include, but not limited to, identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues for charges and/or fees; using year-end surpluses; and enacting cost saving measures such as holding capital purchases, reducing department operating budgets, freezing vacant positions, and/or restructuring the workforce. The City shall replenish the fund balance to the minimum level within a three-year period. If the City cannot accomplish the restoration of the fund balance within the three-year period without severe hardship to the City, the City Council shall establish an extended timeline for attaining the minimum unassigned fund balance.

Order of Expenditures of Funds

When multiple categories of fund balance are available for expenditures (example: a construction project funded partly by a grant, funds set aside by the City Council and unassigned fund balance), the City will first spend the most restricted funds before expending the next most restrictive category with available funds.

Appropriation of Unassigned Fund Balance

Appropriation from the minimum unassigned fund balance shall require the approval of the City Council. The City shall utilize appropriation from minimum unassigned fund balance only for one-time expenditures, such as capital outlay purchases, and not for ongoing expenditures unless there is a viable revenue plan to sustain the expenditures.

The City Council may appropriate unassigned fund balance for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

Monitoring and Reporting

The Director of Finance, under the direction of the Mayor, shall be responsible for monitoring and reporting the City's various fund balances. The Mayor shall make recommendations to the City Council on the use of the fund balances in the proposed annual operating budget and will provide fund balance reports to the City Council throughout the fiscal year as needed.

The annual operating budget adoption process shall include review of the provisions in this policy for compliance. Subsequent review shall be included in the annual audit and financial statements preparation procedures.