FUND BALANCE YEAR-END CLASSIFICATION POLICY

(Per GASB 54)

PURPOSE:

The purpose of this policy is to establish specific guidelines the City of Northfield will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

The purpose of this policy is to also establish specific guidelines the City of Northfield will use to classify fund balances into categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

1. Nonspendable

- This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.

2. Restricted

- Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

3. Committed

- Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.
- The City's highest level of decision making authority (City Council) will annually or as deemed necessary commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.
- To remove the constraint on specified use of committed resources the City Council shall pass a resolution

4. Assigned

- Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.

5. Unassigned

- Unassigned fund balance represents the residual classification for the General fund. Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.

  The City will maintain a minimum unassigned fund balance in the General Fund of an amount not less than 40% of the subsequent year's budgeted expenditures of the General Fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

i. Unrestricted fund balance in excess of the minimum of 40% specified above may be "spent down" if a budgetary shortfall occurs in the General Fund and is approved by a 2/3 majority vote of the Council.

ii. Unrestricted fund balance in excess of 50% of the subsequent year's budgeted expenditures of the General Fund may be spent on projects or other non-General Fund-related operations when deemed necessary and is approved through separate resolution by the Council.

iii. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund

the replenishment will be funded through future budget surpluses or other funding sources within a time period established by the City Council. The Council will consider the amount of the replenishment and its impact on future budgets and cash flow.

The City Administrator and Finance Director shall annually prepare the status of fund balances in relating to this policy and present to the City Council for approval prior to the publishing of the annual financial statements and in conjunction with the development of the annual budget.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed 2) assigned) and 3) unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General Fund.

COMMITMENT OF SPECIAL REVENUE FUNDS' FUND BALANCES

The specific revenue sources of each special revenue fund and the specific purpose for which they are restricted or committed are as follows:

		Two Major	Restricted/	
Fund #	**Fund Name**	**Revenue Source(s)**	**Committed/Assigned**	**Purpose**
211	Community Resource Center Fund	Intergovernmental/ Charges for Services	Restricted/Committed in 2012	Community Services
215	Motor Vehicle Fund	Charges for Services, interest	Committed/Assigned	Licensing
229	Communication Fund	Franchise fees, PEG fees	Restricted/Assigned	Communications
240	Library Gift Fund	Donations,interest	Restricted	Library
241	GW Bunday Gift Fund	Donations, interest	Restricted	Library
242	Scriver Memorial Fund	Donations, interest	Restricted	Library
243	LJ Gustafson Fund	Donations, interest	Restricted	Library
244	M. Houston Trust Fund	Donations, interest	Restricted	Library
245	CC Cloherty Endowed Fund	Donations, interest	Restricted	Library
250	CDBG Fund	Intergovernmental	Restricted	Housing/ public services
250	Transit Grant/St. Maintenance Fund	Grants, bond proceeds	Restricted/Committed	Transit/Streets
270	Municipal District #4	Tax increment, interest	Restricted/Committed	Redevelopment
271	Jefferson Square Townhomes Fund	Tax increment, interest	Restricted/Committed	Housing

Debt Service Funds

Debt service fund balances are considered restricted; they are resources that are being accumulated for payments of principal and interest maturing in current and future years. All of the City of Northfield debt service funds are considered restricted.

Capital Project Funds

Capital project fund balances are considered restricted or committed; they are resources that are being accumulated for current and future projects. Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. In Northfield, capital project funds are split into three categories:

1. **Capital Projects** – this category has balances that are considered both restricted and committed.
2. **Improvement Construction** - these funds are considered restricted either through bond covenants or enabling legislation.

3. **State Aid Construction** - these funds are considered restricted by Minnesota Department of Transportation agreements.

Order of Fund Balance Spend-down

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When unrestricted resources are available for use, it is the City's policy to use resources in the following order: (1) committed, (2) assigned, and (3) unassigned.

Carryovers and Encumbrances

For each year end, the City Council approves contracted encumbrances and budget carryovers. Both the encumbrances and the budget carryovers will be considered committed fund balances upon approval by the City Council.