

RESOLUTION 2011 - 52

**A RESOLUTION OF THE CITY OF FROSTBURG, A MUNICIPAL CORPORATION
OF THE STATE OF MARYLAND APPROVING A FUND BALANCE POLICY**

WHEREAS, the City of Frostburg maintains certain accounting standards for all City funds and transactions as determined by Federal regulations and verified by annual independent audits; and

WHEREAS, the City of Frostburg establishes an annual budget for all City transactions designed to maintain financial solvency while meeting the demands of the citizens and the requirements of Federal and State regulators; and

WHEREAS, it is the desire of the Mayor and Council further enhance the standards of the City's accounting processes by the adoption of a Fund Balance Policy.

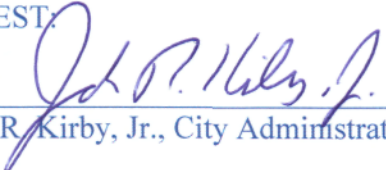
NOW, THEREFORE, be it resolved that the Council of the City of Frostburg:

Approves a Fund Balance Policy with said Policy attached hereto and made a part hereof this Resolution.

ADOPTED the 17th DAY OF NOVEMBER 2011

MAYOR & CITY COUNCIL OF
THE CITY OF FROSTBURG

By 
W. Robert Flanigan, Mayor

ATTEST:

John R. Kirby, Jr., City Administrator

City of Frostburg Fund Balance Policy

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned 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 City's general operations.

Definitions

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

Fund Balance – An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. These are broken up into five categories:

- 1) **Nonspendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are prepaid expenses.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. When expenditures could be funded by either restricted or unrestricted resources, the City will use restricted resources first. Examples include grants.
- 3) **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body 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.

Policy

Committed Fund Balance

- The City Council is the City'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 Council at the City's Council meeting. 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's Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain an unassigned fund balance for Cash Flow in a range equal to 30 - 50% of expenditures. The City considers a balance of less than 30% to be cause for concern, barring unusual or deliberate circumstances.

If the unassigned fund balance falls below the desired range, the Finance Director shall report such amounts to the City Council as soon as practical after the end of the fiscal year. The City shall create a plan to restore the unassigned balance to the appropriate levels.

The order of spending when the City incurs expenditures that are not restricted will be committed, assigned, and unassigned fund balance.