

**CITY OF GLADSTONE
FUND BALANCE POLICY
COMPLIANT WITH GASB 54**

This policy will replace the Fund Balance Policy approved 10/23/2017.

Introduction & Purpose:

The City of Gladstone, County of Delta, State of Michigan has adopted the guidelines set forth in this document titled "Fund Balance Policy". This policy establishes an appropriate level of fund balance in the General Fund, define the components of fund balance, and direct officials in the methods to be used for increasing or decreasing fund balance when trends indicate fund balance will fall outside the minimum/maximum levels.

Definition and Classifications:

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for spending. There are five components of fund balance, namely:

- **Non-spendable Fund Balance.** This portion of fund balance is *non-spendable* because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements.
- **Restricted Fund Balance.** This portion of fund balance is *restricted* due to external limitations place on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.
- **Committed Fund Balance.** Fund balance is *committed* if a limitation is set in place by formal action of the City Commission prior to the end of the fiscal year. Examples are amounts set aside for specific purposes. The limitation is binding until the City Commission takes formal action to remove it.
- **Assigned Fund Balance.** *Assigned Fund Balance* amounts are funds that are to be used for specific purposes but do not meet the restricted or committed criteria. The assignment of funds may come from the City Commission or City Manager and can be done after the end of the fiscal year. Less formality is needed to impose, remove or modify a constraint reflected in the *Assigned Fund Balance*. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.

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

The minimum level of General Fund balance that the City strives to maintain as undesignated (Committed, Assigned and Unassigned) is an amount equal to 20% to 30% of the City's General Fund previous years audited ~~operating expenses~~ **non-capital expenditures**.

The maximum level of General Fund balance that the City strives to maintain as undesignated (Committed, Assigned and Unassigned) is an amount equal to 40% of the City's General Fund previous years audited ~~operating expenses~~ **non-capital expenditures**.

The minimum/maximum range will be determined each year and used as a guide by administration during the budget development process.

When fund balance approaches its minimum threshold, the following measures shall be used to build up fund balance:

- Cut or delay capital improvements.
- Cut general operating ~~expenses~~ **expenditures**.
- Increase rates and charges.
- Millage increase.

When fund balance approaches its maximum threshold, the following measures shall be used to reduce fund balance with long-term planning in mind:

- Consider capital improvements or fund capital improvement plan.
- Fully fund the defined benefit pension plan, if not already at full funding.
- Move up the debt schedule for existing bond payments to lower the City's debt burden.

Adopted: 3/13/2023

Revised: 8/28/2023