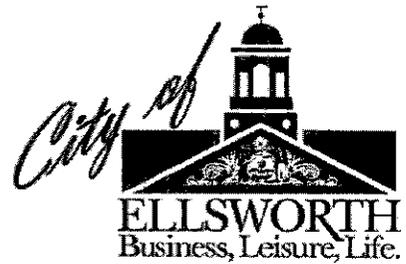


Chapter 50
FUND BALANCE ORDINANCE
City of Ellsworth, Maine

A true copy –

Attest: Heidi-Noel Grindle
City Clerk



Repealed/Replaced 10/17/2011

FUND BALANCE ORDINANCE

A. Purpose

The City's Fund Balance is the accumulated difference between assets and liabilities within governmental funds. A sufficient fund balance allows the City to meet certain commitments and assignments of fund balance to help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events, mitigate negative revenue implications of federal or state budget actions, mitigate economic downturns, fund disaster or emergency costs, protect the City's creditworthiness, and fund non-recurring expenses identified as necessary by City Council.

B. Fund Type Definitions

The following definitions will be used in reporting activity in governmental funds. The City may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- **General Fund** is used to account for all financial resources not accounted for and reported in another fund.
- **Special Revenue Funds** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- **Debt Service Funds** are used to account for all financial resources restricted, committed, or assigned to expenditure for principal and interest.
- **Capital Project Funds** are used to account for all financial resources restricted, committed, or assigned to expenditure for the acquisition or construction of capital assets.
- **Permanent Funds** are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes.

C. General Policy

This policy establishes limitations on the purposes for which Fund Balances can be used in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting. The City's financial statements will report up to five components of Fund Balance: (1) Nonspendable Fund Balance; (2) Restricted Fund Balance; (3) Committed Fund Balance; (4) Assigned Fund Balance; and (5) Unassigned Fund Balance.

- **Nonspendable Fund Balance** consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.
- **Restricted Fund Balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- **Committed Fund Balance** consists of funds that are set aside for a specific purpose by the City's highest level of decision making authority, City Council. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
- **Assigned Fund Balance** consists of funds that are set aside with the intent to be used for a specific purpose by the City Council or an official that has been given

the authority to assign funds per the City's Procurement Policy. Assigned funds cannot cause a deficit in unassigned fund balance.

- **Unassigned Fund Balance** consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

D. Operational Guidelines

The following guidelines address the classification and use of fund balance in governmental funds:

- **Classifying Fund Balance Amounts** – Fund balance classifications describe the type of net resources that are reported in the governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.
- **Encumbrance Reporting** – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.
- **Prioritization of Fund Balance** – When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive fund first in the following order: restricted, committed, assigned, and unassigned as needed.
- **Minimum Unassigned Fund Balance** - The City will maintain a minimum unassigned fund balance in its General Fund ranging from 10 to 20 percent of the previous fiscal year's actual gross City's expenditures. This minimum fund balance is used to maintain a budget stabilization commitment.
 - **Replenishing Deficiencies** – Should the fund balance falls below the minimum 10 percent range, a written plan to replenish the fund in a maximum of three fiscal years will be submitted to the City Council for approval as part of the annual budget process.
 - **Surplus Fund Balance** – Should the unassigned fund balance of the General Fund exceed the maximum 20 percent range, the City Council will consider increasing designated reserves, the City's appropriated contingency account, or the appropriated capital improvement account.