

NORTH SHORE FIRE DEPARTMENT	
STANDARD OPERATING PROCEDURES	SECTION: 100 S.O.P. #105
	INITIAL: 04-07-15
	LAST REVISION:
SUBJECT: FUND BALANCE	PAGE 1 OF 3

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PURPOSE

The purpose of this policy is to establish a key element of the financial stability of the North Shore Fire Department by setting guidelines for fund balance in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. The unassigned fund balance is an important measure of economic stability and it is essential that the Department maintain adequate levels of unassigned fund balance to ensure the City maintains adequate fund balances in the operating fund with the capacity to:

1. Provide sufficient cash flow for daily financial needs,
2. Offset significant economic downturns or revenue shortfalls, and
3. Provide funds for unforeseen expenditures related to emergencies.

SCOPE

This procedure applies to all personnel.

PROCEDURES

Fund balance will be reported in governmental funds under the following five categories or classifications using the definitions provided by GASB Statement No. 54:

- 1) Nonspendable fund balance – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepays).
- 2) Restricted fund balance – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include impact fees and bond proceeds.
- 3) Committed fund balance – includes the portion of net resources upon which the Board of Directors has imposed limitations on use. These are amounts that can be used only for the specific purposes determined by a formal action of the Board. Commitments may be changed or lifted only by the Board taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in

35 which the commitment will be reflected on the financial statements. An example is the
36 Stabilization funds being committed for the purpose of post-employment liabilities and
37 retirement expenses.

38 4) Assigned fund balance – includes the portion of net resources for which an intended use
39 has been established by the Board of Directors or authorized individuals. Assignments of
40 fund balance are much less formal than commitments and do not require formal action for
41 their imposition or removal. In governmental funds other than the general fund, assigned
42 fund balance represents the amount that is not restricted or committed which indicates
43 that resources are intended to be used for the purpose of that fund. An example of the
44 assigned fund balance is the intended Operating Fund Balance that is intended for Capital
45 Fund transfer at the end of the fiscal year.

46 5) Unassigned fund balance – includes the amounts in the general fund in excess of what is
47 classified in one of the other four categories described above. In other words, it is the
48 residual classification of the general fund that includes all amounts not contained in other
49 classifications. Unassigned amounts are technically available for any purpose.

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51 Minimum Unassigned Fund Balance

- 52 • General Fund – please refer to Resolution 95-24 that explains the policy to maintain a
53 unassigned fund reserve of two months of budgeted ALS, BLS and Fire Call revenues,
54 plus 1% of budgeted operating expenditures to provide operating liquidity and
55 contingency funding for non-specific unscheduled expenditures for major unexpected
56 expenditures. In the event that the unassigned fund balance is calculated to be less than
57 this policy stipulates, the Department shall plan to adjust budget resources in subsequent
58 fiscal years to restore the balance.

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60 Assigned Fund Balances

- 61 • Capital Asset Replacement- The Department assigns a transfer of the General Fund
62 Reserve for the Capital improvement Plan on an annual as needed or available basis. The
63 assigned fund balance at year end will become a committed transfer to the Capital Fund
64 if approved by the Board of Directors

65 Committed Fund Balances

- 66 • Stabilization Fund - The Board of Directors commits the Stabilization Fund Balance to
67 be used for post employment liabilities and retirement expenses.

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69 **Replenishment of Minimum Fund Balance Reserves:** If unassigned fund balance is anticipated
70 to be less than the minimum requirement, the Finance Director shall submit a plan to restore the
71 minimum required level as soon as economic conditions allow. The plan shall detail the steps
72 necessary for the replenishment of fund balance as well as an estimated timeline for achieving
73 such.

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75 These steps may include, but are not limited to, identifying new, nonrecurring, or alternative
76 sources of revenue; increasing existing revenues, charges and/or fees; use of year end surpluses;
77 and/or enacting cost saving measures such as holding capital purchases, reducing departmental
78 operating budgets, freezing vacant positions, and/or reducing the workforce.

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80 **Appropriation of Unassigned Fund Balance:** Appropriation from the minimum unassigned fund
81 balance shall require the approval of the Board of Directors and shall be utilized only for one-time
82 expenditures, such as capital purchases, and not for ongoing operating expenditures unless a viable
83 revenue plan designed to sustain the expenditure is simultaneously adopted. The Department may
84 appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such
85 use decreases the fund balance below the established minimum.

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87 **Monitoring and Reporting:** The Director of Finance shall be responsible for monitoring and
88 reporting the City's reserve balances. The Fire Chief is directed to make recommendations to the
89 Council on the use of reserve funds both as an element of the annual operating budget submission
90 and from time to time throughout the fiscal year as needs may arise. Compliance with the
91 provisions of the policy shall be reviewed as a part of the annual operating budget adoption process
92 and subsequent review will be included in the annual audit and financial statement preparation
93 procedures.

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96 **Definitions**

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

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99 **Fund Balance** – The fund equity of a governmental fund for which an accounting distinction
100 is made between the portions that are spendable and nonspendable. If some of the funds'
101 resources are not available to spend, this would be indicated by 'Restricting' or
102 'reserving ' a portion of the fund balance.

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