

MUNICIPALITY OF SKAGWAY, ALASKA
RESOLUTION NO. 22-21R

A RESOLUTION OF THE MUNICIPALITY OF SKAGWAY, ALASKA, AMENDING ACCOUNTING POLICIES AND PROCEDURES TO IMPLEMENT A FUND BALANCE POLICY.

WHEREAS, the Municipality continues to develop policies and procedures for accounting and finance management; and

WHEREAS, accounting policies and procedures will be established and maintained to ensure that funds are being managed appropriately by the Municipality;

NOW, THEREFORE, BE IT RESOLVED by the Borough Assembly of the Municipality of Skagway that the Skagway Borough Assembly amends the accounting policies and procedures by adding the following attached policy:

- Fund Balance Policy

PASSED AND APPROVED this ___ day of _____, 2022, by the Assembly of the Municipality of Skagway, Alaska.

Andrew Cremata, Mayor

ATTEST:

Steve Burnham Jr., Borough Clerk

(SEAL)

Department: Finance**Policy Number:** Resolution No. 22-21R

Municipality of Skagway
Fund Balance Policy
Developed for GASB 54

I. PURPOSE:

This Fund Balance Policy establishes the procedures for reporting both restricted and unrestricted fund balance in the financial statements. Fund balance is required to be reported using five major classifications based on the extent to which the Municipality is bound by the constraint on resources reported in the funds. The policy also authorizes and directs the Borough Treasurer to prepare financial reports showing fund balance classification as required by Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The Borough Assembly recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Municipality and is fiscally advantageous for both the Municipality and the taxpayer. This policy will ensure that the Municipality maintains adequate fund balances and reserves in order to:

- Provide sufficient cash flow for daily financial needs,
- Secure and maintain investment grade bond ratings (if necessary),
- Offset significant economic downturns or revenue shortfalls, and
- Provide funds for unforeseen expenditures related to emergencies.

II. DEFINITIONS:

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund. The following definitions will be used in reporting activity in governmental funds. The Municipality may or may not report all fund types in any given reporting period based on actual circumstances and activity.

The General fund is the Borough's primary operating fund. It accounts for all financial resources of the general government not accounted for and reported in another fund.

The Sales Tax Special Revenue fund accounts for the revenue received from the Borough's sales tax. The sales tax ordinance requires that at the beginning of each fiscal year, a sum sufficient to pay installments on general obligation bonds for that year be set aside. Any sales tax proceeds in excess of the amount set aside are available for funding school operations, capital improvements, and services, including emergency care, clinic, and museum.

The Excise Tax Special Revenue fund accounts for excise tax appropriations from the State of Alaska and other sources. The purpose of these funds is to improve port and harbor facilities and other services to properly provide for vessel or watercraft visits and to enhance the safety and efficiency of interstate and foreign commerce.

The Permanent Trust fund accounts for assets held in a trustee capacity. The fund represents the proceeds from the sale of land conveyed by the State of Alaska under the Municipal Entitlement Act. The principal balance of the fund (nonexpendable portion) cannot be spent and must be held in trust for the benefit of future residents of the Borough. Earnings (expendable portion) can be spent under certain guidelines.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

GASB Statement 54 distinguishes fund balance classification based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

NONSPENDABLE Fund Balance -Includes amounts either not in spendable form, or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

RESTRICTED Fund Balance - Includes amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations). This would generally include amounts in bonded capital projects funds, debt service funds, and program funds funded with federal program dollars.

COMMITTED Fund Balance -Includes amounts that are committed for specific purposes by formal action of the Borough Assembly. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the Borough Assembly removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

ASSIGNED Fund Balance - Amounts that are intended by the Municipality to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Borough Manager and Borough Treasurer for the purpose of reporting these amounts in the annual financial statements.

Assigned fund balance includes:

- a) For the General Fund, amounts assigned by the government intended to be used for specific purposes. The amounts reported as assigned should not result in a deficit in unassigned fund balance.
- b) For all governmental funds (other than General Fund), these are all remaining positive amounts (except for negative balances) that are not classified as nonspendable and are neither restricted nor committed. However, if there is a negative balance after classifying amounts as nonspendable, restricted or committed, the fund would report a negative amount as Unassigned and zero to be reported as Assigned.

UNASSIGNED Fund Balance - includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated" unless formally committed or assigned.

- a) For the General Fund, these are amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would be required to report a positive amount in unassigned fund balance.
- b) For all governmental funds (other than the General Fund), these are the amounts expended in excess of resources that are nonspendable, restricted, committed or assigned (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.

No funds should report a negative amount for restricted, committed or assigned fund balance.

III. POLICY

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The Borough Assembly is the Municipality'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 adopted by the Assembly.

Assigned Fund Balance – The Borough Assembly has authorized the Borough Manager and Borough Treasurer as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Assembly, and unassigned fund balance), the Municipality will start with the most restricted category and spend those funds first before moving down to the next category with available funds. Unless legal requirements disallow it, the Municipality will spend the most restricted dollars before less restricted in the following order:

1. Nonspendable -if the funds become spendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

It is the goal of the Municipality to achieve and maintain an unassigned fund balance in the general fund at fiscal year-end of not less than 50% and not more than 75% of budgeted expenditures. Should unassigned fund balance of the general fund ever exceed the maximum (75%) range, the Municipality will consider such fund balance surpluses for one-time expenditures that are non-recurring in nature and which will not require additional expense outlays for maintenance, additional staffing or other recurring expenditures. In the event that the unassigned fund balance becomes less than the policy goal, the Municipality shall plan to adjust budget resources in the subsequent years to restore the balance. The unrestricted fund balance may only be reduced below the goal level for non-routine circumstances, such as severe economic downturns or other unanticipated budget shortfalls.

Revision History:

[illegible]