



# FUND BALANCE POLICY

Ordinance #

Adopted:

Effective:

## PURPOSE

The purpose of this policy is to establish guidelines for the general fund, unrestricted fund balance to improve and maintain the County's financial stability in order to protect the County from unforeseen or unbudgeted situations such as declining tax collection rates; the loss of a major taxpayer; sudden changes in revenues or spending requirements; natural disasters; major infrastructure failures and unexpected litigation.

## BACKGROUND:

Fund balance is a measure of the financial resources available in a governmental fund. The purpose of a fund balance policy is to ensure that there will be adequate liquid resources to serve as a financial cushion. Unrestricted fund balance is that portion of fund balance that reflects expendable available financial resources.

It is essential that governments maintain adequate levels of unrestricted fund balance to mitigate current and future risks and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In that statement, the GASB recommends " ... at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances."

Credit rating agencies carefully monitor the unrestricted fund balance. A municipality's ability to accurately plan and develop significant reserves is a common characteristic of highly rated municipalities.

## GLOSSARY OF TERMS

**Assigned Fund Balance.** Amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance.

**Committed Fund Balance.** Amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources.

**Fund Balance.** The difference between the assets and liabilities reported in a governmental fund.

**Fund Balance Policy.** A policy that establishes a minimum level at which unrestricted fund balance is to be maintained.

**General Fund.** Fund used to account for and report all financial resources not accounted for and reported in another fund.

**Non-spendable Fund Balance.** Amounts that cannot be spent due to form (i.e. inventories, prepaid amounts), and/or amounts that must be maintained intact legally or contractually (i.e. corpus or principal of a permanent fund).

**Restricted Fund Balance.** Amounts constrained for a specific purpose by external parties, constitution provision, or enabling legislation.

**Unassigned Fund Balance** - Amounts not classified as non-spendable, restricted, committed, or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance.

**Unrestricted Fund Balance** - The total of *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.

## POLICY STATEMENT:

These policy guidelines will provide direction during the budget process and demonstrate a commitment to maintain adequate reserves for financial stability and for long term financial planning:

- The County will maintain an unrestricted fund balance in the general fund of not less than two months (16.7%) of regular general fund operating expenditures and transfers out, and not more than six months (50%) of regular general fund operating expenditures and transfers out).
- Proposed budgets, or budget revisions, will maintain an ending balance of at least 16.7% of the General Fund's operational expenditures.
- If the unrestricted fund balance goes below the minimum 16.7% benchmark, the Treasurer (or designee) shall recommend and submit to the Board for approval a plan to replenish reserves to minimum levels. This plan will specify the source of the funding for this replenishment and the replenishment shall be completed within a 24-month period. If the restoration of the reserve cannot be accomplished within such a period without severe hardship to the County, then the Board may establish a different time period.
- The use of unrestricted fund balance will be permitted under certain circumstances:
  - Emergency - An emergency is what the County Board determines it to be. It will always reflect a careful balancing of the County's desire to maintain adequate reserves with its desire to maintain essential services. Guidance given from this policy

will aid the Board in defining an emergency as an unanticipated budgetary shortfall in excess of 10% of the total General Fund balance.

- If the unrestricted fund balances go over 50% benchmark, the use of such excess funds should be for capital projects and other one-time uses. The Board recognizes that any such funds should be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.
- The unrestricted fund balance will be spent in the following order: committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.
  - Committed fund balances shall be established based on actions and/or limitations imposed by the Board. Such commitments must be established prior to the end of the fiscal year.
  - Assigned fund balances may be established for intended uses by the Board. In conjunction, the Treasurer or his designee shall also be delegated to establish assigned fund balance amounts.
  - Unassigned fund balances represent balances available for appropriation at the discretion of the Board. However, the Board will make every effort to use the unassigned funds for the following purposes (listed in order of priority):
    1. Increase restricted and/or committed fund balances as deemed necessary.
    2. Increase assigned and/or unassigned fund balances as deemed necessary.
    3. Use for capital improvement/outlay purposes and/or other one-time purchases.