
SUBJECT: FUND BALANCE RESERVES

ADOPTED DATE: AUGUST 6, 2012

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FUND BALANCE RESERVES - In accordance with GASB Statement No. 54

SCOPE/PURPOSE: To accurately report and classify fund balances in accordance with GASB Statement No. 54 and to ensure the County maintains adequate fund balance reserves for the following:

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenue shortfalls, and
- d. Provide funds for unforeseen expenditures related to emergencies.

GOVERNMENTAL FUND DEFINITIONS:

Fund type definitions: The following definitions will be used in reporting activities in governmental funds throughout the County's financial statements. The County 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 expenditures 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 expenditures for principal, interest and debt service related fees.

Capital Projects Funds are used to account for all financial resources restricted, committed or assigned to expenditures for the acquisition of construction of capital assets.

FUND BALANCE REPORTING IN GOVERNMENTAL FUNDS:

Classification: Fund balance classification shall be recorded in accordance with governmental accounting standards as promulgated by the Government Accounting Standards Board (GASB).

Spending: The order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned and unassigned. Negative amounts shall not be reported for restricted, committed or assigned funds.

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Definition - Fund Balance: Shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet. Governmental fund assets are those of the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

General Fund: The fund balance of the general fund, one of the governmental fund balance types is of primary significance because the general fund is the primary fund, which finances most functions in the County. The fund balance of the general fund shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet.

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

1. **Non-spendable fund balance** shall mean the portion of the gross fund balance that is not expendable (such as inventories or loans receivable) or is legally earmarked for a specific use (such as the self-funded reserves program).

Examples of non-spendable fund balance reserves for which fund balance shall not be available for financing general operating expenditures include:

- Inventories;
- Prepaid items;
- Deferred expenditures;
- Long term receivables; and
- Outstanding encumbrances.

2. **Restricted fund balance** shall include amounts constrained to a specific purpose by the provider, such as a grantor, by restricted tax levy or by bond indenture. Examples of restricted fund balances include:

- Tax levy funds;
- Construction programs (including related debt service funds restricted); and
- Resources from other granting agencies - restricted state and federal grants/reimbursements.

3. **Committed fund balance** shall mean the portion of the fund balance that is constrained to a specific purpose by the Commission authority to make commitments. Commitments will only be used for a specific purpose pursuant to a formal action by the Commission enacted by a motion with a majority voting in approval.

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Examples of committed fund balances include:

- Potential litigation, claims, and judgments;
- Commission approved projects, grants, programs; and
- Legislative induced restrictions.

4. **Assigned fund balance** shall mean the portion of the fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose by the County. In current practice, such plans may change and may not be budgeted, or may result in expenditures in the future. Examples of assigned fund balances include:

- Insurance deductibles;
- Program start-up costs; and
- Other legal use.

5. **Unassigned fund balance** shall include amounts available for any legal purpose. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

The unassigned fund balance shall be the difference between the total fund balance and the total of the non-spendable fund balance, restricted fund balance, committed fund balance and assigned fund balance.

Minimum Fund Balances:

General Fund, Social Service Fund, and County Road and Bridge Fund: The County shall maintain a minimum unassigned fund balance in these major operating funds ranging from not less than 7 percent to 10 percent of the subsequent year's budgeted expenditures and outgoing transfers. The minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Replenishing Deficiencies: When the fund balance falls below the minimum 10 percent target range, the County will replenish shortages/deficiencies using the budget strategies and timeframes described below:

- Reduce recurring expenditures to eliminate any structural deficit or;
- Increase revenue, pursue other funding sources, or;
- Some combination of the two options above.

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Minimum fund balance deficiencies shall be replenished within the following timeframes:

- Deficient fund balance between 5% and 7% shall be corrected within 1 year;
- Deficient fund balance between 0% and 5% shall be corrected within 3 years.

Special Revenue Funds: Special levy funds account for the proceeds of specific revenues. Special Revenue funds will have unique criteria for reserves based on the use and objective of the fund, for special revenue funds other than Social Service and County Road and Bridge Funds as noted above, the County shall maintain a minimum unassigned fund balance from 7% to 10% of the preceding year's operating expense with the exception of the Emergency and Flood Mitigation Fund. The Emergency and Flood Mitigation Fund is used to provide funds for emergencies caused by nature and for flood mitigation (control) projects. This Fund is the major source of dollars to bridge the time period when funds are expended on emergency measures and the reimbursement of dollars from state and federal agencies which may take several years. As such, the minimum unassigned fund balance will be stated in terms of dollars and be adjusted periodically based upon the history of emergencies and the dollars needed to fund those emergencies. At the current time, based on the 2009, 2010, and 2011 emergency flood fighting costs, a minimum unassigned fund balance will be established at \$2,000,000.

Debt Service Funds: The objective of designated debt service funds is to accumulate principal and interest payments maturing in future years. At a minimum, each debt service fund shall maintain reserves sufficient to meet bond covenants and current year obligations. A viable revenue source must be identified and maintained for all long term obligations. Debt service fund balances, revenues, and expenses will be reviewed during the annual budget process; insufficient revenue and or reserves shall be addressed as part of the annual budget process.

Capital Project Funds: Capital project funds will accumulate costs, any off-setting revenue, and debt proceeds related to long term capital projects. Capital project funds will typically be resolved with permanent long term debt financing, which will be determined prior to incurring any expenditures. At the time of completion the capital project fund will be closed with proceeds from permanent financing, and multiple projects will require separate and distinct capital project funds.

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Internal Service Funds: The business type activity funds of the County include Motor Pool, Telephone Trust, Health Insurance Trust and Dental Insurance Trust; these funds shall systematically retain an unassigned fund balance between 25% and 50% of the preceding year's operating budget. Internal Service funds are required to be self-sufficient in activity and will establish rates sufficient to maintain and grow fund equity. In the event a Commission directive allocates funding from equity, a plan and time frame not to exceed 3 years needs to be included in the budget process to restore the established one year's operating fund equity requirement.

Expending Fund Balance Reserves: Fund balance reserves are maintained to prohibit and or minimize interruption in operations, unmet obligations and opportunity costs. Fund balance reserves will only be made available for extraordinary events such as:

1. Major projects that are long term in nature.
2. Temporary gap financing pending permanent financing and/or grant monies.
3. Disaster recovery.
4. Potential service disruptions.

Reserves may only be committed upon approval of the Cass County Commission.

HISTORICAL REFERENCE DATE: AUGUST 6, 2012