

FUND BALANCE POLICY

BACKGROUND INFORMATION

In 2009, The Governmental Accounting Standards Board ("GASB") adopted GASB statement GASB 54 (referred herein as "GASB 54"), which requires certain actions by the municipal governing body to establish a means to segregate fund balance for reporting purposes. In addition, although not required by any accounting standard, to ensure that governments maintain adequate levels of fund balance to mitigate risks and provide for a back-up for revenue shortfalls, it is recommended best practice that governments establish a minimum level of unrestricted fund balance in their general fund, along with policies related to use and replenishment of fund balance.

The Grand Traverse County Board of Commissioners (the "BOC") adopted an unreserved Fund Balance Policy in 2016 incorporating these principles by requiring a minimum fund balance of 15% of budgeted General Fund expenditures. In 2019, the BOC amended this policy to increase the minimum fund balance from 15% to 25 %. Due to the existing global financial circumstances Grand Traverse County desires to take additional steps to ensure its ability to manage unexpected risk by increasing the required minimum fund balance to 30% of budgeted General Fund expenditures. The following policy expands upon this minimum requirement to ensure compliance with GASB 54 and best practice.

PURPOSE

The BOC believes that sound financial management principles require that sufficient funds be retained by the County to always provide a stable financial base. To retain this stable financial base, the organization needs to maintain a fund balance in the General Fund that is sufficient to fund all cash flows of the organization, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergent nature, and to provide funds for all existing encumbrances.

The purpose of this policy is to establish a key element of the financial stability of the County by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that the County maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the general operations of the County.

In addition, this policy addresses the County's requirements under GASB 54 surrounding the composition of fund balance, including the establishment and use of the various components of fund balance.

DEFINITIONS

Fund Balance – The fund balance of a governmental fund is the difference between its assets, deferred outflows and its liabilities and deferred inflows.

Fund Balance Components – An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. Under GASB 54, these are broken up into five categories:

- 1) Non-spendable fund balance – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- 2) Restricted fund balance –Amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and dedicated millages.
- 3) Committed fund balance- Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- 4) Assigned fund balance –Amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) Unassigned Fund Balance- the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Unrestricted fund balance - Unrestricted fund balance includes committed, assigned and unassigned fund balance categories. Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Budget Stabilization Fund- A fund established to set aside surplus revenue for times of unexpected revenue shortfall, budget deficit, or other immediate financial need.

Pension Stabilization Fund- A fund established to maintain long term financial stability in our MERS pension system. The immediate goal is to accumulate funds that would be used to maintain long term full funding status of our pension.

POLICY

Minimum Unrestricted Fund Balance - General Fund

The fund balance of the County's General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities that maximize benefits to taxpayers or minimize the costs of providing services. The County's basic goal is to limit expenditures to anticipated revenue to maintain a balanced budget.

It is the goal of the BOC to maintain an unrestricted fund balance in the General Fund equal to 30% of General Fund expenditures. The use of fund balance is appropriate due to an unanticipated shortfall in revenues or unexpected increase in expenditures that would otherwise significantly impact the County's ability to provide ongoing services to its taxpayers while the emergent event is addressed. Best practice is to limit use of fund balance to one-time expenditures to avoid creating a structural deficit.

If unrestricted fund balance falls below the goal or has a deficiency, the BOC will adopt a plan in the subsequent fiscal year's budget setting aside an annual amount each year for a period not to exceed three years to restore the designated reserve balance.

Committed Fund Balance

The Board of Commissioners is the County'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 that is approved by a majority of the elected and serving the County Commissioners at a regular or special BOC meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Order of Expenditure of Funds (Spending Prioritization)

When multiple components of fund balance are available for the same expenditure (for example, a project has both restricted and unrestricted funds available for it) spending will occur in the following order: restricted, committed, assigned, and unassigned.

Management of funds in excess of fund balance

At the second BOC meeting after the receipt of the audit, the County Administrator will present the audit to the County Commissioners to include a description of the County's Fund Balance. Any annual increase of the fund balance that results in an increase in the unrestricted balance over the established 30% minimum will be allocated in the following manner:

- 50% of the amount over 30% of the unrestricted fund balance will be transferred to the Capital Improvement Fund.
- 25% of the amount over 30% of the unrestricted fund balance will be transferred to the Pension Stabilization Fund. This will occur annually until the annual MERS Actuarial Valuation determines that our MERS defined benefit funded level is 105% or higher.
- 25% of the amount over 30% of the unrestricted fund balance will be transferred to the Budget Stabilization Fund. Once the Budget Stabilization Fund reaches \$1.25 million dollars no additional funds will be transferred to the Budget Stabilization Fund until the amount goes below \$1.25 million. While the Budget Stabilization fund is at \$1.25 million dollars, the amount to be transferred to the Budget Stabilization Fund will be applied to the Pension Stabilization Fund.

Changes in the percentages of allocation may only be made by Board of Commissioner's resolution.

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