FUND BALANCE POLICY

I. POLICY

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

The purpose of this policy is to establish a key element of financial stability of the County of Ottawa by setting guidelines for fund balance. It is essential that the County of Ottawa maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstance.

In addition, this policy addresses requirements under Government Accounting Standards Board (GASB) surrounding the composition of fund balance, including the establishment and use of the various components of fund balance.

II. STATUTORY REFERENCES

III. COUNTY LEGISLATIVE OR HISTORICAL REFERENCES

Board of Commissioners Resolution Number and Policy Adoption Date: October 8, 2019

Board of Commissioner Review Date and Resolution Number: September 24, 2019

Name and Date of Last Committee Review: Planning and Policy Committee September 17, 2019

Last Review by Internal Policy Review Team: July 22, 2019
IV. PROCEDURE

A. Fund balance is only reported in governmental funds and is the difference between assets, deferred outflows and its liabilities and deferred inflows. The five components of fund balance are as follows:

1. Nonspendable 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, dedicated millage, and budget stabilization fund established under State law.

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 – is the residual classification of the general fund and includes all amounts not contained in other classification. Unassigned amounts are technically available for any purpose.

B. Minimum Fund Balance

The fund balance of the County of Ottawa’s General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities.
The County of Ottawa’s basic goal is to limit expenditures to anticipated revenue in order to maintain a balanced budget.

It is the goal of the County of Ottawa to achieve and maintain an unrestricted fund balance in the general fund equal to 20% - 25% of expenditures, including transfer to other funds, but excluding non-recurring expenditures and special millage tax revenue passed thru to component units. The use of unrestricted fund balance is appropriate for one-time expenditures.

For purposes of this policy, non-recurring expenditures are defined as an expenditure that has not occurred in the previous two years and is not expected to occur in the following year.

C. Budget Stabilization

Under State law, the maximum stabilization amount is the lower of 1) 20% of the most recently adopted General Fund budget; or 2) 20% of the average of the most recent five years of General Fund budgets, as amended.

Uses of stabilization fund will be in compliance with State law.

D. Assigned Fund Balance

Through the adoption of this policy, Ottawa County Board of Commissioners authorizes the County Administrator to assign fund balance to a specific purpose and in compliance with this policy.

E. Order of Spending Fund Balance

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the County of Ottawa to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the County of Ottawa that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

F. Measurement Date

The County will measure compliance with this policy as of September 30th each year, as soon as practical after year-end account information becomes available.
G. Funding the Reserve

Fund of General Fund reserve target will generally come from excess revenue over expenditures or one-time revenues.

H. Condition for Use of Reserve

It is the intent of the County to limit use of General Fund reserves to address unanticipated, non-recurring needs. Reserves may, however, be used to allow time for the County to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in a context of an adopted long-term plan.

I. Replenishment of Reserve

In the event that fund balance falls below the established minimum balance requirements, the Board of Commissioners will adopt a plan during the budget process to replenish the reserve within a three-year time horizon.

J. Excess Reserves

In the event reserves exceed the minimum balance requirements, the excess may be used in the following ways:

1. Fund accrued liabilities, including but not limited to debt service and pension. Priority will be given to those items that relieve budget or financial operating pressure in future periods;
2. Fund the Stabilization Fund to the maximum allowable under State law;
3. Appropriated to lower the amount of bonds or contributions needed to fund capital projects in the Capital Improvement Plan; and
4. One-time expenditures that do not increase recurring costs that cannot be funded through current revenues. Emphasis will be placed on one-time use that reduce future operating costs.

V. REVIEW PERIOD

The Internal Policy Review Team will review this Policy at least once every two years, and will make recommendations for changes to the Planning & Policy Committee.