

Category:

Number:

Subject: **FUND BALANCE POLICY**

1. **PURPOSE:** The purpose of this policy is to establish appropriate levels of reserves within the various funds and fund types of Gratiot County. The levels described in this policy are designed to ensure that adequate cash flows are maintained for operations, that adequate reserves are maintained for contingency and emergency expenditures, and that adequate fund levels are maintained for the continuation of the services provided by the County.
2. **AUTHORITY:** Gratiot County Board of Commissioners.
3. **APPLICATION:** This policy applies to all County Elected Officials, Departments and Agencies of Gratiot County.
4. **RESPONSIBILITY:** The Administrator shall be responsible for the implementation and administration of this policy.
5. **DEFINITION(S):**
 - 5.1 **GOVERNMENTAL FUNDS** include the following fund types: general fund, special revenue funds, capital project funds, and debt service funds.
 - 5.1.1 The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund does not capitalize fixed asset purchases; these are expenditures for the current year.
 - 5.1.2 The *Special Revenue Funds* account for revenues that are legally restricted to expenditures for specific purposes. This includes all grants, Health Department activities, and millage service activities. Special Revenue Funds do not capitalize fixed asset purchases. Like the general fund, these are expenditures for the current year. If the County establishes a Budget Stabilization Fund, it would be accounted for as a Special Revenue Fund. A Budget Stabilization Fund is the excess unreserved general fund balance to be utilized in subsequent years. Possible uses of these funds are unforeseen operating expenditures and during time of economic downturns.
 - 5.1.2 *Capital Project Funds* are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.
 - 5.1.3 The *Debt Service Funds* account for the servicing of the County's general

long-term debt that is not being financed by proprietary or non-expendable trust funds. Debt service revenue is derived from millage dollars collected through property taxes. This fund accounts for debt principal and interest.

5.2 **PROPRIETARY FUNDS** are accounted for using the accrual basis of accounting. Fixed asset purchases are capitalized and depreciated using the straight-line method. Proprietary Funds include the following fund types: enterprise funds and internal service funds

5.2.2 The *Enterprise Funds* are used to account for the operations that are financed and operated in a manner similar to private business. The intent is to provide goods or services to the general public, on a continuing basis, and to be financed or recovered primarily through fees.

5.2.3 *Internal Service Funds* are used to account for all operations that provide services to other departments or agencies of Calhoun County, on a cost-reimbursement basis. These include, but are not limited to, buildings and grounds, administrative services, insurance, employee benefits, workers' compensation, and self-insured disability.

5.3 **AGENCY FUNDS** are custodial in nature and do not effect operating revenues or expenditures. These funds are used to account for the assets that Calhoun County holds for others. These include, but are not limited to: current tax collections, penal fines, inmate trust funds, Friend of the Court, District Court, and employee withholdings.

5.4 *Cash flow*: Having the funds available to meet the continuing financial needs of a fund in order to maintain a positive cash position.

5.5 *Fund Balance/Reserves*: Designated portions of assets, which represent financial resources available to finance expenditures other than those tentatively planned

5.6 *Restricted Fund Balance/Reserves*: The portion of fund balance/reserve that is restricted by law or agreement and must be maintained for its restricted purpose.

5.7 Nonspendable Fund Balance consists of amounts that cannot be spent. Nonspendable amounts will be determined before all other classifications and include the following items (as applicable in any given fiscal year):

5.7.1 A fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government)

5.7.2 A balance equal to the value of inventory balances and prepaid items

- 5.7.3 A fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact
- 5.7.4 A fund balance equal to the balance of any land or other nonfinancial assets held for sale
- 5.8 *Committed Fund Balance* includes amounts that can be used only for the specific purposes determined by a formal resolution or ordinance of the County Board of Commissioners.
- 5.9 *Assigned Fund Balance* includes amounts intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. The Gratiot County Board of Commissioners or the County Administrator shall have authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.
- 5.10 *Unassigned Fund Balance* includes the residual classification for the county's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

6. BALANCE POLICY:

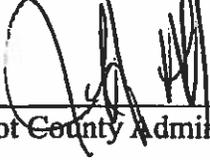
- 6.1 *General Policy.* The County shall strive to maintain an unreserved General Fund balance between 8% and 12% of the annual General Fund operating expenditures of the previous fiscal year. The General Fund will not advance funds (except to the Delinquent Tax Revolving Fund) to other funds without Board of Commissioner approval.
- 6.2 *Special Revenue Funds* are evaluated annually to determine if revenues or fund balances have been restricted by State statute, ordinance, resolution, or contract. Any funds that have been restricted will be retained in the appropriate Special Revenue Fund. Unrestricted funds shall revert to the General Fund at year-end.
- 6.3 The *Debt Service Funds* shall maintain all cash and investments in a specific fund until the bonds and interest are paid in full. In the event there is a residual amount within the fund when the bonds are paid in full, the residual shall be transferred to the General Fund.
- 6.4 *Capital Project Fund* reserves shall be restricted for the specific purpose or project that was established by resolution or contract. Any residual reserves in

these funds, after completion of the project, shall be transferred to the associated Debt Service Fund. Any residual reserve not required to be transferred to a Debt Service Fund, or original funding source, shall be transferred to the General Fund.

- 6.5 All Enterprise Fund balances should remain in each individual fund. In the event that an Enterprise Fund is dissolved, then any remaining amount of reserves shall be transferred to the General Fund unless not legally permitted. In the event that a transfer cannot legally be made to the General Fund, then those remaining reserves shall be transferred as legally required or as stipulated by general legal counsel.
- 6.6 All monies held within the Trust and Agency Funds are held in a fiduciary capacity. Any amount, not returned to the person or entity, shall escheat to the State of Michigan in accordance with State law.
7. OPERATIONAL GUIDELINES: The following guidelines address the classification and use of fund balance in governmental funds:
- 7.1 *Classifying fund balance amounts.* Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.
- 7.2 *Encumbrance reporting.* Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.
- 7.3 *Prioritization of fund balance use.* 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 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 that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.
8. ADMINISTRATIVE PROCEDURES: NONE
9. ADMINISTRATOR/LEGAL COUNSEL REVIEW: The Administrator has determined that this policy as submitted to the Board of Commissioners contains the necessary substance in order to carry out the purpose of the policy. The County Civil Counsel has

determined that this policy as, submitted, complies with all applicable laws, rules and regulations.

Approved as to Substance:



Gratiot County Administrator

Approved as to Legal Content:



Gratiot County Civil Counsel

