

County Of Cumberland Fund Balance Policy

I. Purpose:

Cumberland County is dedicated to maintaining a reasonable fund balance sufficient to mitigate current and future financial risks (i.e. unanticipated emergency expenditures and revenue shortfalls) and to ensure stable tax rates.

By maintaining a sufficient level of fund balance the County

- Reduces the need for urgent and significant increases in the County millage (tax) rate
- Ensures its ability to effectively react with existing resources to emergency situations and unanticipated events
- Avoids the need for costly tax anticipation notes
- Exercises good fiscal management by permitting the development of a more responsible and responsive long-term financial plan
- Maintains or improves a strong bond rating thereby reducing future interest expense
- Maximizes investment earnings by maintaining adequate levels of cash and investments

II. Definitions:

Fund - For purposes of this policy a fund is defined as “a fund as separated by the County’s financial accounting software.” The budget is developed based on the fund as separated by the financial accounting software and the funds are managed based on this separation. This is different from the comprehensive annual financial report (CAFR). The CAFR combines several funds in the accounting software. The budget document clearly defines which funds are combined for the CAFR presentation.

Fund Balance – Fund balance is the difference between a fund’s assets and liabilities.

There are up to five categories of fund balance

1. Nonspendable fund balance is inherently nonspendable because it cannot ever be spent, cannot currently be spent, or it is legally or contractually required to remain intact.
2. Restricted fund balance reflects resources that are subject to enforceable legal restrictions by outside parties.
3. Committed fund balance is government imposed constraints on the use of resources by formal action of the governing body. The constraint remains binding unless removed by formal action of the governing body.

4. Assigned fund balance reflects the government's intended use of resources for a specific purpose and assigned in accordance with the governing body or a designated delegate. Fund balance may be assigned after the end of the reporting period. Assigned fund balance can never exceed total fund balance.
5. Unassigned fund balance is the residual balance reported in the General Fund and cannot be a negative number.

Fund Balance – for budgeting and projection purposes is defined as “Unassigned Fund Balance” plus “Assigned – Future Budgetary Requirements.”

III. Government Finance Officers Association (GFOA) best practice recommendations:

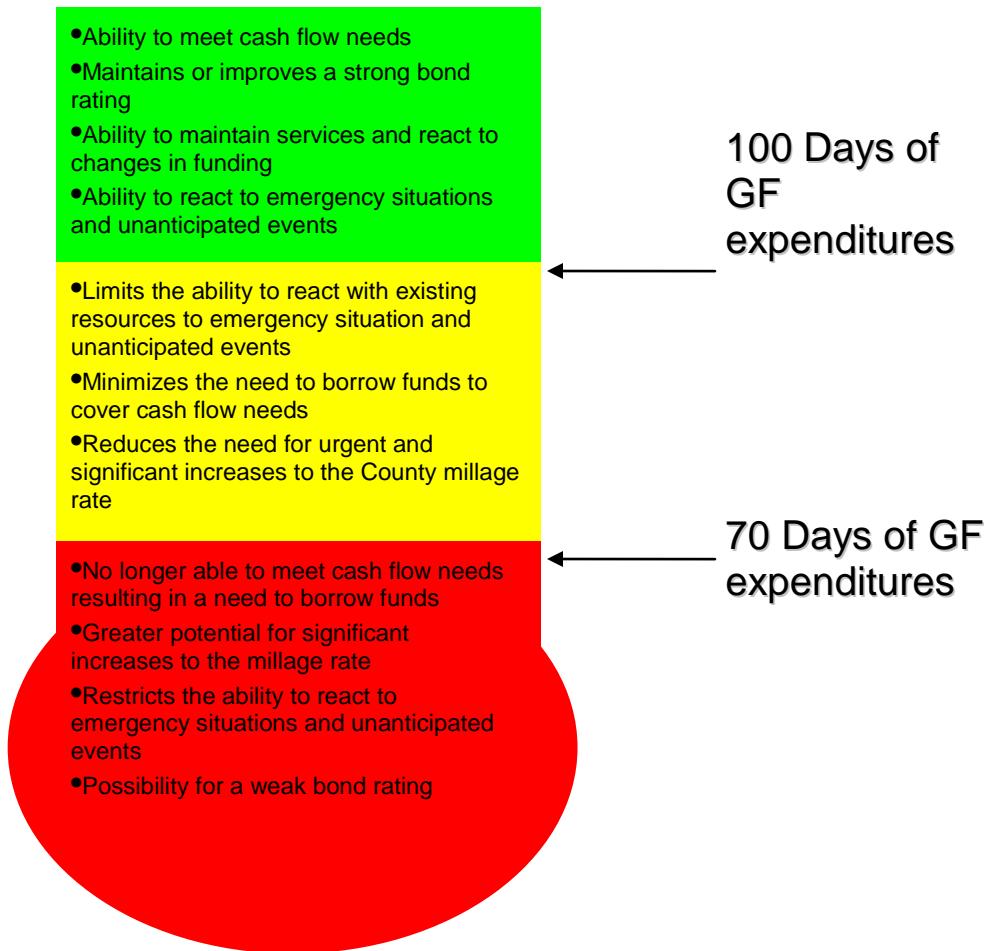
The GFOA recommends “The adequacy of unrestricted fund balance in the general fund should take into account each government's own specific circumstances.... Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”

IV. Policy:

General Fund

Cumberland County will maintain an unassigned fund balance in the General Fund no less than 70 days of General Fund expenditures. The fund balance will be calculated using the budgeted total General Fund expenditures (salaries, benefits, operating expense, interfund transfers, and capital expense). This balance is the minimum fund balance required to meet our cash flow needs. In order to have the financial resources needed to react to emergency situations and unanticipated events, with existing resources, the General Fund will target 100 days of General Fund expenditures. In the event that the General Fund unassigned fund balance falls below the targeted 100 days of expenditures, the Commissioner's will develop a plan to increase fund balance over a reasonable amount of time utilizing a combination of cost containment and revenue enhancements in order to return to the targeted days. The following graph is a depiction of the targeted ranges of fund balance and the considerations that must be evaluated at the differing levels.

Fund Balance Range



Nonspendable and restricted fund balance are legally restricted and the resources that it represents can be used for the restricted purpose only.

Committed fund balance is established by a formal action of the Commissioners. The formal action should describe the specific circumstance committed fund balance will be used and the order in which multiple funding resources will be used.

For example, a commitment is established for construction at the prison. The County also will do a bond issue for these funds and apply for grants. The formal action should state the order in which funding resources will be used based on the specific circumstances related to the funding resources. Grant monies will be used for eligible expenditures first, bond proceeds will be applied second, committed fund balance third, and remaining expenditures will be paid from unassigned fund balance.

If the formal action does not specify the order in which resources will be used, the most specific (restrictive) funding source requirements will be used first.

For example, a grant is awarded to buy an oven for the kitchen at the prison. When the oven is purchased – the grant will be used for that purchase because the use of the grant is specific to the purchase of the oven. The committed fund balance will be depleted as the expenditures occur that meet the commitment and do not have more restrictive funding available.

Contractual obligations that will be satisfied with existing fund resources will be reported as committed fund balance.

If at any time the Commissioner's wish to change the committed fund balance it must do so by formal action. The Commitment occurs in the year formal action is taken and approved. The Commissioners may either commit by year-end (1) a fixed amount of fund balance to fund a project or (2) may commit an estimated amount to fund a project, the final amount subject to adjustment as more precise cost information is available prior to the issuance of the County's financial statements.

[For commitments where the dollar amount is not able to be pinned down by year-end (e.g. all information is not available to fix the dollar amount), para 75 of GASB 54 recognizes the need for, and allows, the adjustment of amounts committed by the end of the reporting period up until the date of financial statement issuance in the subsequent year.]

Assigned fund balance is for future one-time/non-recurring expenditures and residual fund balance of funds other than the General Fund to the extent they have an amount of fund balance that is unrestricted. The use of assigned fund balance to balance the budget when related to recurring operating expenses is discouraged. Fund balance can be assigned after the reporting period ends.

For sound financial planning purposes the County has two ongoing assigned fund balances.

1. Assigned capital fund balance – is designed for large capital projects that are both planned and unplanned. Assigned capital fund balance will fluctuate based on the long term project plans of the County but should be at least 5% of General Fund expenditures. The spending of the assigned capital fund balance is addressed in the capital policy. The assigned fund balance for capital projects is a combination of assigned fund balance in the Capital Project Funds and the General Fund.
2. Assigned farmland preservation designation – is a minimum of the market value of investments that were purchased to liquidate debt related to farmland preservation and remaining funds pledged towards County match for the preservation of farmland with federal and state grants.

The Commissioners designate the Chief Clerk and Director of Finance to approve and/or remove assigned fund balances that reflects the Commissioners intended use of the resources. Assigned fund balance can be adjusted any time prior to the issuance of the financial statements. The assigned fund balance does not

automatically decrease when expenditures occur that meet the requirements of the assigned fund balance.

Residual fund balance from other funds that are reported in the General Fund will be reported as assigned in the General Fund. The Commissioner's have chosen to "earmark" those funds for the mission of the fund the residual balance came from.

It should be a primary objective of all County budgets and long-term financial plans to incorporate the achievement, and maintenance of the minimum General Fund fund balance established herein.

Special Revenue, Capital Projects, Internal Service, and Fiduciary Funds

The fund balance is based on the revenue funding, the result of an actuarial review, or regulations and laws governing the funds.

By reporting particular amounts that are not restricted or committed in a special revenue, capital project, debt service, or a permanent fund, the County has *assigned* those amounts to the purposes of the respective funds – and such amounts should therefore be reported as assigned.

Nonspendable amounts should not be reported in a fund if the proceeds from the collection, conversion, or sale of the asset is restricted, committed, or assigned. In such a situation, they should be included in the appropriate fund balance classification (restricted, committed, or assigned) rather than as nonspendable.

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (e.g. investment earnings, certain user charges, and transfers in) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the General Fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Enterprise Funds

The fund balance of business-type funds will be maintained at a minimum of fixed assets less long-term liabilities.

Any profits earned by the Nursing Home will remain in the Nursing Home and be used to offset future capital and one time expenditures of the Nursing Home.