

Section Name: Financial Management  
Section Number: 300  
Policy Number: 301

Effective Date: December 13, 2011  
Date of Revision: October 19, 2021

Subject: Fund Balance Policy in Accordance with GASB Statement No. 54

Purpose: This policy has been adopted by the Monroe County Board of Commissioners in order to comply with Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the County of Monroe and jeopardize the continuation of necessary public services. This policy will ensure that the County maintains adequate fund balances and reserves in order to:

- A. Provide sufficient cash flow for daily financial needs
- B. Secure and maintain investment grade bond ratings and enhance credit ratings where possible
- C. Offset significant economic downturns or revenue shortfalls,
- D. Cover any operating shortfalls in County funds including internal service funds where risk is managed while reducing the need for first dollar premium expenses; and,
- E. Provide funds for unforeseen expenditures related to emergencies related to operating including facility incidents and community responses.

This policy and the procedures promulgated under it supersede all previous regulations regarding the County's fund balance and reserve policies.

Fund Type Definitions. The following definitions will be used in reporting activity in governmental funds across the County. The County of Monroe may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- A. The General Fund is used to account for all financial resources not accounted for and reported in another fund and shall be the chief operating fund of the County.
- B. Special Revenue Funds are used to account and report the proceeds of *specific revenue sources* that are *restricted* or *committed* to expenditure for *specific purposes* other than debt service or capital projects.
- C. Debt Service Funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- D. Capital Projects Funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

- E. Permanent Funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's purposes.

Fund Balance Reporting in Governmental Funds: Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

A. Nonspendable Fund Balance

*Definition* - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact.

*Classification* – Non-spendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The County of Monroe will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government)
- The County of Monroe will maintain a fund balance equal to the value of inventory balances and prepaid items
- The County of Monroe will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact
- The County of Monroe will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale

B. Restricted Fund Balance

*Definition* - includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

C. Committed Fund Balance

*Definition* - includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

*Authority to Commit* - Commitments will only be used for specific purposes pursuant to a formal action of the Monroe County Board of Commissioners. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Budget Stabilization Fund - the County will commit to hold Budget Stabilization Fund balance in the general fund in an amount equal to not less than five (5%) percent of the annual general fund operating budget unless otherwise approved by the Board of Commissioners. Such commitments are intended to insulate County programs and current service levels from large and unanticipated one-time general fund expenditure requirements, reductions in budgeted general fund revenues due to a change in State or Federal requirements, adverse litigation,

catastrophic loss, or any similar swift unforeseen event. This commitment may be expended with a majority vote of the Monroe County Board of Commissioners.

#### D. Assigned Fund Balance

*Definition* - includes amounts intended to be used by the government 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.

*Authority to Assign* - The Monroe County Board of Commissioners delegates to the Administrator/Chief Financial Officer or the Director of Fiscal Services, or his/her/their designee the authority to assign amounts to be used for specific purposes consistent with GASB 54. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

#### E. Unassigned Fund Balance

*Definition* - includes the residual classification for the government'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.

Operational Guidelines: The following guidelines address the classification and use of fund balance in governmental funds:

- A. 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 non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.
- B. 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.
- C. 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 of Monroe, Michigan, 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 Monroe, Michigan, that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

- D. Fund Balance Amount-The County shall hold not less than fifteen (15%) percent of its General Fund balance as unassigned fund balance in reserve. The percentage of unassigned fund balance shall be the dollar amount reported at year-end upon audited financial statements and divided by the current year's General Fund budgeted expenditures to calculate the percentage of unassigned fund balance to hold in reserve.

Implementation and Review: Upon adoption of this policy, the Monroe County Board of Commissioners authorizes the Administrator/Chief Financial Officer and/or the Director of Fiscal Services to establish any standards and procedures which may be necessary for its implementation. These two (2) officials shall review this policy at least annually and make any recommendations for changes to the Monroe County Board of Commissioners.

Administrative Procedures: None

Legislative History of Authority for Creation or Revision:

Adopted pursuant to action of the Monroe County Board of Commissioners, dated December 13, 2011.

Revised pursuant to action of the Monroe County Board of Commissioners, dated October 19, 2021.