RESOLUTION
2012- 52

RESOLUTION BY THE BOARD OF COUNTY COMMISSIONERS OF WALTON COUNTY, FLORIDA ESTABLISHING A FUND BALANCE POLICY; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in order to clarify the meaning of "fund balance" on financial statements; and

WHEREAS, the Board of County Commissioners establishes a Fund Balance Policy for the General Fund, which is consistent with GASB Statement No. 54; and

WHEREAS, the Board of County Commissioners believes that it is necessary, appropriate and in the public's best interest to commit these fund balance reserve funds in the General Fund; and

NOW, THEREFORE, BE IT RESOLVED, by the Board of County Commissioners of Walton County, Florida:

1. The adoption of the "*Walton County Fund Balance Policy*".
2. The establishment of a "*Reserve for Contingency*" reserve. Once established, this committed fund balance may only be used by super-majority vote of the Board of County Commissioners.
3. The establishment of a "*Cash Balance Brought Forward*" reserve. This assigned fund balance will be used to provide funds for differences, if any, between budgeted revenues and expenditures.
4. The effective date of this resolution shall be ~~August 28~~ September 11, 2012 and the application of this resolution shall be for all fiscal years ending on or after September 30, 2012.

Passed and adopted this ~~28th~~ 11 of ~~August~~ September, 2012.

BOARD OF COUNTY COMMISIONERS
WALTON COUNTY, FLORIDA

SCOTT BRANNON, CHAIRMAN

ATTEST:
MARTHA INGLE, CLERK

2012-52

Fund Balance Policy
Walton County, Florida

FUND BALANCE POLICY OBJECTIVES:

The County hereby establishes and will maintain reservations of Fund Balance, as defined herein, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions.*

Fund Balance information is used to secure and maintain investment-grade credit ratings, identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the County, in accordance with policies established by the Board of County Commissioners.

The Fund Balance Policy establishes:

a. Fund Balance Policy for the General Fund;
b. Reservations of fund balance for the General Fund;
c. The method of budgeting in the General Fund the amount of estimated unrestricted fund balance available for appropriation during the annual budget adoption process and what actions may need to be initiated if the actual fund balance is significantly different than the budgeted fund balance; and
d. Establish the spending order of the general fund's fund balance.

FUND POLICY BACKGROUND and DEFINITIONS:

One of the key attributes of a financially stable organization is the maintaining of appropriate reserves. Adequate reserves allow a public entity to weather significant downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the County. In concert with the County's other financial policies, the County's Fund Balance Policy will serve as an important tool to guide the use of County resources in meeting the County's financial commitments and provides a framework for addressing unexpected future events in a fiscally prudent manner.

To improve the usefulness of governmental fund balance information, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with implementation required for fiscal years beginning after June 15, 2010. For Walton County, this statement applied to fiscal year 2011 reporting and subsequent years thereafter. However, Walton County early implemented this statement in fiscal year 2009. Statement No. 54 provides more clearly defined fund balance categories to make the nature and extent of the

constraints placed on a government's fund balance more transparent, improving the comparability of governmental fund financial statements and helping financial statement users better understand the purposes for which governments have chosen to use particular funds.

Under the old standards, there were three (3) fund balance categories: reserved, designated, and undesignated. The new Fund Balance category definitions as prescribed by Statement No. 54 are explained below:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because of form or because it must be maintained intact. The County's nonspendable fund balance currently consists of the inventory, pre-paid items and loans receivable held by the General Fund.

Restricted Fund Balance – The portion of fund balance with limitations imposed by creditors, grantors, laws, regulations, or enabling legislation (resource providers). Restrictions may be changed or lifted only with the consent of resource providers. The County's restricted General Fund balance currently consists of funds held for judicial facilities, court technology, court innovations and the Proportionate Fair Share Program.

Committed Fund Balance – The portion of fund balance that can be used only for the specific purposes determined by a formal action (resolution) of the Board of County Commissioners, the County's highest decision making authority. Commitments may be changed or lifted only by the Board of County Commissioners taking the same formal action (resolution) that imposed the original constraint. An example of committed fund balance would be the establishment of emergency reserves.

Assigned Fund Balance – The portion of fund balance that includes spendable amounts established by management of the County that are intended to be used for specific purposes that are neither considered restricted nor committed. The County's assigned General Fund balance currently includes un-finished capital projects and the next year's budget appropriations.

Unassigned Fund Balance – The residual portion of fund balance for the general fund and includes amounts that are not contained in the other classifications. Unassigned amounts are the portion of the fund balance which is not obligated or specifically designated and is available for any purpose.

In addition to the above GASB 54 Fund balance categories, net assets are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

Invested in Capital Assets, Net of Related Debt – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition,

construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.

Restricted – Constraints imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of County Commissioners.

GENERAL FUND:

In 2011, the Government Finance Officer's Association (GFOA) Executive Board recommended that governments adopt a formal fund balance policy that defines the appropriate level of fund balance reserves to mitigate risks and provide for revenue shortfalls. The recommended minimum unrestricted fund balance is no less than two months (17%) of regular General Fund operating revenues or regular General Fund operating expenditures. Most governmental entities utilize the operating expenditures (including transfers out) approach in calculating unrestricted fund balance levels.

The Board of County Commissioners establishes the following *committed fund balance* for the General Fund:

Reserve for Contingency – Also called "The Emergency Reserve". This cash reservation of fund balance is committed by the Board of County Commissioners and may be used for un-anticipated expenditures such as natural disasters or to address economic changes that impact the ability of the County to continue operations and provide services. The level of reserves will be determined by the Board of County Commissioners in accordance with Florida Statutes. Once established, funds can only be removed by supermajority vote of the Board of County Commissioners and the following three (3) findings of fact:

- That the expenditures cannot be delayed
- That there is no other source of funds
- The expenditure was unanticipated

The County establishes the following *assigned fund balance* in the General Fund:

Cash Balance Brought Forward – The cash balance brought forward fund balance is assigned by the County as set forth in the annual budget (and any amendments thereto) to provide funds for differences, if any, between budgeted revenues and expenditures.

The County hereby establishes in *unrestricted fund balance* in the General Fund (the sum of the *committed fund balance, assigned fund balance, and unassigned fund balance)*:

> A targeted minimum unrestricted fund balance equal to two (2) months of the current fiscal year operating expenditures and transfers out budgeted for the fund. This reserve is needed to cover short-term cash flow variations and economic downturns. In any fiscal year where the County is unable to maintain this reservation of fund balance as required in this section, the County shall not budget any amounts of unassigned fund balance for the purpose of balancing the budget without Board approval.

SPENDING ORDER OF FUND BALANCE:

The County spends restricted amounts first when both restricted (Non-Spendable Fund Balance and Restricted Fund Balance) and unrestricted fund balances (Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance) are available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the County would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

BUDGETING:

APPROPRIATION OF UNRESTRICTED FUND BALANCE: The actual amount of unrestricted fund balance (total of committed fund balance, assigned fund balance and unassigned fund balance) is not known until the completion of the annual audit which ends no later than March 31st of the following year. However, an estimate of unrestricted fund balance must be made during the annual budget adoption process (July through September) which is prior to the end of the fiscal year, September 30th.

ANNUAL REVIEW AND DETERMINATION:

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process and revisions to the levels of fund balance will be determined during this process. Any changes to the targeted amounts established herein must be approved by the Board of County Commissioners. Furthermore, it will be the responsibility of the County Administrator to uphold this policy and keep it current.

EFFECTIVE DATE AND TRANSITION:

The requirements of this policy are effective for financial statements for periods ending on or after September 30, 2012.