



Board of County Commissioners Agenda Request

7A

Agenda Item #

Requested Meeting Date: April 23, 2019

Title of Item: Adopt Fund Balance Policy

<input checked="" type="checkbox"/> REGULAR AGENDA <input type="checkbox"/> CONSENT AGENDA <input type="checkbox"/> INFORMATION ONLY	Action Requested: <input checked="" type="checkbox"/> Approve/Deny Motion <input type="checkbox"/> Adopt Resolution (attach draft)	<input type="checkbox"/> Direction Requested <input type="checkbox"/> Discussion Item <input type="checkbox"/> Hold Public Hearing* <small>*provide copy of hearing notice that was published</small>
Submitted by: Jessica Seibert, County Administrator		Department: Administration
Presenter (Name and Title): Jessica Seibert, County Administrator		Estimated Time Needed: 10 minutes
Summary of Issue: A working group was formed to review and develop a new, comprehensive Fund Balance Policy (see attached). The policy has been reviewed by the working group, Budget Committee, and Clifton, Larson, Allen. Also attached is a review of the 2018 year end cash balances as they would be reflected under the new Fund Balance Policy.		
Alternatives, Options, Effects on Others/Comments: 		
Recommended Action/Motion: Adopt Fund Balance Policy.		
Financial Impact: <i>Is there a cost associated with this request?</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>What is the total cost, with tax and shipping? \$</i> <i>Is this budgeted?</i> <input type="checkbox"/> Yes <input type="checkbox"/> No <i>Please Explain:</i>		

Legally binding agreements must have County Attorney approval prior to submission.

AITKIN COUNTY

ADOPTED BY THE COUNTY BOARD XX-XX-XXX

Our Vision: We strive to be a county of safe, vibrant communities that place value on good stewardship of local resources

Our Mission: Aitkin County's mission is to provide outstanding service in a fiscally responsible manner through innovation and collaboration with respect for all.

Our Values: We achieve outstanding customer service through these core values Collaboration, Innovation, Integrity, People-Focused, and Professionalism.

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Fund Balance Policy Statement of Purpose:

In February 2009, the Governmental Accounting Standard Board (GASB) issued GASB #54 Balance Reporting and Governmental Fund Type Definitions. The statement substantially changes how fund balances are categorized. It clarifies/modifies how some of the governmental funds are presented and classified.

The purpose of this policy is to provide the basis for a stable financial environment for Aitkin County's operations that allows the County to provide quality services to its residents in a fiscally responsible manner by maintaining an adequate level of financial resources to fund operations, address revenue shortfalls and/or unanticipated expenditures, and to help ensure stable tax rates.

Scope:

This Fund Balance Policy applies to all governmental-type funds of the County, except where noted otherwise. For purposes of calculating target levels, year-end cash balance totals excluding non-cash assets (ie. inventory & receivables) will be used.

Funding Flow Assumption

The County considers restricted amounts to be spent before unrestricted fund balance when an expenditure is incurred for purposes for which both restricted and unrestricted (Committed, Assigned, Unassigned) amounts are available. Similarly, within unrestricted fund balance, the Committed Assigned, and Unassigned amounts will be spent in that order when expenditures are incurred for a purpose for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance Classifications: The classification of fund balances is based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources. Fund Balance is the difference between assets/deferred outflows and liabilities/deferred inflows in governmental funds (i.e. general fund, special revenue funds, debt service funds, capital project funds and permanent funds). The five classifications of fund balance are:

- a) **Non-spendable funds:** Funds that are not in a spendable form or are legally limited to be used for a particular purpose. Included in this category are amounts related to inventories, amounts which are non-cash items and therefore not available for spending, and amounts not available due to advances to other funds or other governments, or prepaid items.

***Policy –** At the end of each fiscal year, the County will report the portion of the fund balance that is not in spendable form as Non-spendable Fund Balance in the audited Financial Statements.*

- b) **Restricted funds:** Funds that are subject to externally enforceable restrictions. The funds may be subject to statutes or rules, contributors, or creditors/bond documents.

***Policy –** At the end of each fiscal year, the County will report "restricted" fund balance for amounts that have applicable external legal restrictions per GASB #54.*

- c) **Committed Funds:** Funds whose use is authorized only by resolution of the County Board. Such authorization can be changed only by Board resolution. Action to commit funds for a specific year must be done before the end of the year with the exact amounts for such commitment to be determined at a later date, but before the completion of the financial statements.

***Policy –**The County Board will review a list of "committed" fund balance requests and will take action by resolution to approve these specific purposes.*

- d) **Assigned Funds:** Funds for which the County has an intended purpose. This intention for usage will be determined by the County Board, or their assignee, in accordance with funding requirements. For all funds other than the General Fund, any unrestricted amount that is not committed will be assigned based on the function of the fund.
- e) **Unassigned Funds:** Any remaining fund balance in the General Fund for which a higher level of restriction, commitment or assignment has not been imposed will be reported as unassigned fund balance. Unassigned amounts are available for any purpose. Any Governmental Fund having a negative balance will report the negative balance as unassigned. The General Fund is the only governmental fund that can report a positive balance in the unassigned classification. The unassigned fund balances are the current resources available for which there are no government self-imposed limitations or set spending plan. Although there is generally no set spending plan for the unassigned portion, there is a need to maintain a certain funding level. Unassigned fund balance is commonly used for emergency expenditures not previously considered. In addition, the resources classified as unassigned can be used to cover expenditures for revenues not yet received.

Fund Balance Levels: The County shall follow the MN State Auditor's Statement of Position on GASB #54 and such updates as may be made from time to time. The Office of the State Auditor of Minnesota recommends local governments that rely significantly on property taxes maintain an unrestricted fund balance of approximately 35-50% of fund operating revenues or no less than five months of operating expenditures in their general fund and special revenue funds.

Fund Balance Target Levels:

Governmental Funds:

General Fund: This is the primary operating fund for all financial resources of the general government, except those required to be accounted for in another fund. At the end of each fiscal year, the County will maintain an unrestricted portion of fund balance in a range equal to 40-50% of the General Fund operating expenditures for the next year. In addition to working capital needs this accommodates emergency contingency concerns. This cushion will mitigate risks from unpredictable revenue shortages and controllable costs and to cover expenditures for revenues not yet received. Should the actual amount of the unrestricted fund balance rise above the targeted range, any excess funds will remain unassigned pending the County Board's final decision concerning transfer to another fund or additional General fund Commitments.

Special Revenue Funds:

Health & Human Services Special Revenue Fund: Used for Health & Human Services, which is responsible for the provision of economic assistance and community social services programs. Should the actual amount needed for working capital rise above the target range, any excess will be addressed using the Excess Fund Balance criteria listed below. Excess fund balance may be transferred to the General Fund with County Board approval. Additionally, transfers in and transfers out corresponding adjustments will be made by the County Auditor. At the end of each fiscal year, the County's Health & Human Services Fund will maintain an Assigned portion of fund balance for working capital in a range equal 40%-50% of the operating expenditures for the next year. On the financial statements, funds will be reported as non-spendable, restricted, or committed, with the remaining balance classified as assigned and used for the day to day operations of Health & Human Services, to provide for emergency expenditures, and to cover expenditures for revenues not yet received. At the end of the fiscal year, the Health & Human Services Director will assess the Health & Human Services Fund's fund balance as it

Aitkin County Fund Balance and Reserves Policy

relates to spending intentions and make a request to the County Administrator. The County Administrator and County Auditor will review the request prior to Board approval.

Road & Bridge Special Revenue Fund: Used for the Road & Bridge Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Due to the cyclical nature of the highway expenditures, working capital ranges may vary year to year. At the end of each fiscal year, the Road & Bridge fund will maintain an assigned portion of fund balance for working capital in a range equal to 40%-50% operating expenditures for the next year, in addition, a minimum amount of \$500,000 will be maintained in fund balance to account for unforeseen natural disasters and project related expenses. At the end of the fiscal year, the County Engineer will assess the Road & Bridge Fund's fund balance as it relates to spending intentions identified in the Capital Road Improvement Plan and make a request to the County Administrator. The County Administrator and County Auditor will review the request prior to Board approval.

Debt Services Funds: Used for the financing of the County's general long term debt. At the end of each fiscal year, a portion of Debt Service Fund balance is allocated to pay the next upcoming principal and interest payments and will be classified as Restricted, per bond covenant. Any accumulated fund balance that remains that arose from property taxes or unspent bond proceeds related to refunding bonds will also be reported as restricted due to statutory requirements and the debt agreements. Then, any remaining fund balance will be reported as Assigned. However, when bonds/notes are fully retired, any remaining fund balance related to the bond issuance must be transferred to another Debt Service Fund if other outstanding debt exists, but if the County has no other outstanding debt issues, any remaining fund balance will be transferred to the General Fund.

Enterprise Funds:

Long Lake Conservation Center Enterprise Fund: Used for operation of the Long Lake Conservation Center. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Any net position in this fund that has outside requirements/restrictions placed on the unspent amounts will be reported as restricted net position. This fund will also report net investment in capital assets in the net position section based on calculations provided in GASB #34. Any remaining net position in this fund after the two previously mentioned categories will be reported as unrestricted net position.

Remaining Fund Categories:

The remaining Fund Balance categories will be accounted for in accordance with applicable state statutes and Minnesota laws.

Excess Fund Balance:

In the event that the minimum fund balance levels of the General, Road & Bridge, Health & Human Services, Capital Project Fund or Debt Services Funds shall fall above or below the desired range, the County Auditor shall annually report such amounts to the County Administrator and the County Board as soon as practical.

Excess fund balance dollars may be used in the following financially prudent ways:

- a. Restore fund balances to minimum approved levels in Special Revenue funds;
- b. Capital and technology improvements;

Aitkin County Fund Balance and Reserves Policy

- c. Additional Highway infrastructure projects in the Highway Fund;
- d. Debt retirement/refunding;
- e. Cost avoidance projects and productivity enhancement projects (one-time projects i.e. scanning);
- f. Other one-time or short term purposes deemed to be fiscally prudent for the County;
- g. Pre-funding or buying down of long-term liabilities (i.e. PTO severance payouts.)

Fund Balance Evaluation Process: By April of each year, the County Administrator and County Auditor will review and report to the Board all fund balances according to the fund balance classifications as of December 31 of the previous year. Based upon the recommendation in the Statement of Position by the Office of the State Auditor, *Fund Balances for Local Government*, the County will strive to maintain an unrestricted fund balance as of December 31 equal to the following:

- 40-50% of the current year General Fund operating budget in the General Fund;
- 40-50% of the current year Community & Veterans Services Fund operating budget in the Health & Human Services Fund; and
- 40-50% of the current year Road & Bridge operating budget + \$500,000 in Road & Bridge Fund.

During the annual review of fund balances, the following options shall be considered in the order they are listed for those funds having balances larger than allowed by this policy:

- a) Any funds in excess of the limits indicated that are intended to be left in excess will be documented as to the circumstances for such intention. When determining if an excess balance should be reduced, the following items will be taken into consideration: criteria listed in the Excess Fund Balance section, tax delinquency rate trends, financial stability of the State of MN, and any pending litigation.
- b) Transfers between funds may be processed to ensure all funds are at the levels specified above. Individual fund balance transfers that take place as part of this process must be approved by the County Board.

Funding the Target Amount: Funding of the reserve targets will generally come from excess revenues over expenditures or one-time revenues.

Authority over Fund Balances: Use of fund balances for a special circumstance or emergency situation requires approval of the County Board. Use of fund balance as part of a budgeted expenditure requires County Board approval as part of the annual budgeting process.

Replenishment of reserves: Should the actual amount of reserves fall below the targeted range, the County Board shall create a plan to restore balances to the appropriate levels.

Fund Balance Policy Adoption: The County's Fund Balance Policy shall be adopted by resolution of the County Board. The policy shall be reviewed as needed by the Fund Balance Workgroup and Budget Committee. Any modifications made thereto must be approved by the County Board.

Adopted by the Aitkin County Board on this XX day of XXXXXX, 20XX

Jessica Seibert, Aitkin County Administrator

Fund Balance Reporting Chart

	Classification	Definition	Examples
	Non-Spendable	Amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact	<ul style="list-style-type: none"> • Inventories, • Prepaid items, • Long-term receivables in the general fund, and • Permanent principal of endowment funds.
	Restricted	Fund balance should be reported as restricted when constraints placed on the use of resources are either: <ol style="list-style-type: none"> a. Externally imposed by creditors grantors, contributors, or laws or regulation of other governments: or b. Imposed by law through constitutional provisions or enabling legislation. 	<ul style="list-style-type: none"> • Restricted by state statute • Unspent bond proceeds • Grants earned but not spent • Debt covenants • Taxes dedicated to a specific purpose • Revenues restricted by enabling legislation.
Unrestricted	Committed	Used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority	<ul style="list-style-type: none"> • Governing board has set aside \$1M for a road construction project • Property tax levies set for a specific purpose by resolution
	Assigned	Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.	<ul style="list-style-type: none"> • Governing board has set aside \$2M for a county project and the county administrator may amend this up to \$100,000. • Governing body delegates the authority to assign fund balance to the finance officer • Governing board has appropriated fund balance often to balance next year's budget. • Positive residual balances in governmental funds other than the general fund
	Unassigned	Unassigned fund balance is the residual classification for the General Fund. This is fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as assigned.	

04/17/19
CASH BALANCE SHEET

BALANCE
12/31/18

Unassigned
Assigned
Restricted

INVESTMENTS (YTD)		32,046,707.98
CASH BALANCES		
GENERAL FUND	1 000	10,418,956.29
RESERVED	1 000	261,650.89
RESERVE FROM ECON DEV	1 000	425,297.61
SHERIFF CONTINGENT	1 201	4,595.51CR
ENHANCED 911	1 254	215,528.42CR
SOLID WASTE	1 391	657,387.63CR
Fund 1 Subtotal		11,105,904.79

Recorder's Fund 1	(452,928.01)
Recorder's Fund 2	(433,767.78)
Sobriety Court Fees	-
Prosecutorial	(5,000.00)
Gun Permits	(137,484.00)
Prisoner Welfare	(93,715.56)
Conservation	(28,231.76)
Sheriff Contingent	(4,595.51)
Enhanced 911	(215,528.42)
Solid Waste	(657,387.63)
TOTAL	(2,028,638.67)
Adjusted Balance	8,390,317.62

40%	50%	
5,301,354.40	6,626,693.00	\$1,763,624.62 OVER

ROAD & BRIDGE	3 000	4,245,005.47
UNORG R&B	4 421	588,425.99
UNORG FIRE	4 422	54,194.13
UNORG CEMETERY	4 423	2,840.24
Fund 4 Subtotal		645,460.36

Capital Equipment	(274,200.00)
Capital Facility	(395,000.00)
Capital Infrastructure	585,188.00
Gravel	(123,358.00)
Adjusted Balance	4,037,635.00

40% + \$500,000	50% + \$500,000	
2,325,240.00	2,781,550.00	\$1,256,085 OVER

HEALTH & HUMAN SERVICES	5 000	4,114,465.99
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40%	50%	
2,820,648.40	3,525,810.50	\$588,624.49 OVER

DEBT SERVICE	6 000	0.00
DITCH JUDICIAL 2	7 350	12,751.36
COUNTY 2	7 367	0.00
COUNTY 5	7 353	0.00
COUNTY 20	7 364	0.00
COUNTY 21	7 365	0.00
COUNTY 23	7 354	0.00
COUNTY 24	7 351	0.00
COUNTY 25	7 355	0.00
COUNTY 28	7 356	0.00
COUNTY 29	7 371	80.12
COUNTY 30	7 352	27,267.36

COUNTY 34	7	357	0.00
COUNTY 36	7	358	2,755.29
COUNTY 37	7	359	0.00
COUNTY 42	7	360	0.00
COUNTY 43	7	366	0.00
COUNTY 58	7	361	0.00
COUNTY 63	7	362	1,660.78
COUNTY 66	7	363	1,278.73
DIVERSION CHANNEL	7	373	0.00
Fund 7 Subtotal			45,793.64

BALANCE
12/31/18

STATE	9	000	107,822.77
TIMBER PERMIT BONDS	10	900	111,817.32
ABAN DEP/BAIL ESCROW	10	919	1,814.56
CO DEVELOPMENT	10	921	900,614.72
CONS FORF TAX SALE	10	922	0.00
FORF. TAX SALE	10	923	1,110,451.02
LAW LIBRARY	10	926	92,207.33
MISSING HEIRS	10	927	21,519.08
CO INSURANCE TRUST	10	929	863,175.48
Fund 10 Subtotal			3,101,599.51

FOREST RESOURCE	11	924	129,212.10
REFORESTATION	11	925	444,924.05
MEMORIAL FOREST	11	934	30,764.56
FOREST ROAD	11	935	(40.47)
GRAVEL PIT	11	936	69,111.77
Fund 11 Subtotal			673,972.01

PREPAID TAXES	12	000	36,077.98
ARROWHEAD REG COMM	12	930	49,613.65
TOWNS	12	931	376,456.87
SCHOOLS	12	932	213,583.79
Fund 12 Subtotal			675,732.29

TAXES & PENALTIES	13	943	20,738.99
CAPITAL PROJECT	14	000	7,599,759.90
COLLABORATIVE AGENCY	15	000	95,971.75
ENVIRONMENTAL TRUST	18	937	457,822.17

LLCC GENERAL OPERATIONS	19	000	2,877.80
LLCC CAPITAL IMPROV. C/O	19	525	(55,013.50)
Fund 19 Subtotal			(52,135.70)

PARKS	21	520	343,990.30
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TOTAL CASH & INVEST. 33,181,704.24
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