

**Mobile County Commission
Fund Balance Policy
General Fund**

Purpose

Sound financial management principles require that sufficient funds be retained to provide a stable financial base at all times. To meet this obligation the Mobile County Commission (the Commission), as the governing body of Mobile County, Alabama (the County), must maintain a general fund balance sufficient not only to fund its ordinary recurring cash flows and all existing encumbrances, but also to provide financial reserves for unanticipated expenditures, to manage revenue shortfalls due to economic down turns, and to respond to emergency situations. Though specific levels of fund balance are not prescribed by bond rating agencies, such levels may be taken into consideration in evaluating the County's credit worthiness.

The purpose of this policy is to specify the size and composition of the County's financial reserve and to identify certain requirements for replenishing any fund balance reserves utilized.

General Definitions

For purposes of this policy the following terms shall be defined as follows:

1. Financial Administration Team – a group composed of those persons actively serving the Mobile County Commission at any given time in the positions of County Administrator, Deputy County Administrator and Director of Finance
2. Structural Deficit – a budget deficit that results from a fundamental imbalance in government receipts and expenditures, as opposed to one based on one-off or short-term factors; a condition where a budget deficit persists for some time

Fund Balance Definitions

The following individual items shall constitute the County's general fund balance:

1. Nonspendable Fund Balance – net resources that cannot be spent:

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- a. Because of their form, such as assets that will never convert to cash (e.g., prepaid items and inventories of supplies), or assets that will not convert to cash soon enough to affect the current period (e.g., the long-term portion of loans receivable and non-financial assets held for resale, such as foreclosure properties)
 - b. Because they must be maintained intact pursuant to legal or contractual requirements (e.g., the principal of an endowment or the capital of a revolving loan fund)
2. Restricted Fund Balance – net resources subject to externally enforceable limitations on use imposed by:
- a. Creditors, grantors, contributors, or laws and regulations of other governments
 - b. Law through constitutional provisions or enabling legislation
 - c. Resources accumulated pursuant to stabilization arrangements (e.g., rainy day funds or contingency funds) are sometimes reported in this category, depending upon the force of the limitation placed upon their use; such arrangement must be specific regarding the circumstances when spending would be permitted, and those circumstances must be of a non-routine character
3. Unrestricted Fund Balance – total fund balance less nonspendable fund balance less restricted fund balance; unrestricted fund balance is composed of:
- a. Committed Fund Balance
 - i. The portion of net resources subject to self-imposed limitations on use which were set in place prior to the end of the reporting period, though actual calculations may be performed post fiscal year end
 - ii. Such limitation must be imposed at the highest level of decision making that requires formal action at the same level to remove
 - iii. Resources accumulated pursuant to Stabilization Arrangements (e.g., rainy day funds or contingency funds) are sometimes reported in this category, depending upon the force of the limitation placed upon their use; such arrangement must be specific regarding the circumstances when spending

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would be permitted, and those circumstances must be of a non-routine character

b. Assigned Fund Balance

i. The portion of net resources subject to limitations resulting from intended use

ii. Such intended use must be established at either the highest level of decision making, or by a body or an official designated for that purpose

iii. Appropriation of existing fund balance to eliminate a projected deficit in the next year's budget is an assignment of fund balance

iv. The act of transferring resources to another governmental fund is considered an assignment for the purpose of that fund

v. No assignment is allowed if such assignment would result in a deficit in unassigned fund balance

c. Unassigned Fund Balance – residual net resources with no restrictions, commitments or assignments, including assignment to other funds

i. Total fund balance in the general fund in excess of nonspendable, restricted, committed and assigned fund balance (i.e., surplus); all residual fund balances outside of the general fund are considered to be assigned for the purpose of the fund

ii. Excess of nonspendable, restricted and committed fund balance over total fund balance (i.e., deficit); deficit balances in the general fund and in other governmental funds are reported as unassigned

Recommended Practice

The Government Finance Officers Association in its publication *The New Fund Balance* makes the following assertions:

- a. Unrestricted fund balance in the general fund should represent no less than two months of operating revenues or operating expenditures, whichever is less volatile

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- b. Certain circumstances, including exposure to natural disasters, often justify a significantly higher minimum target level
- c. Some governments prefer to exclude resources that have been committed or assigned to some other purpose, and focus on unassigned fund balance rather than on unrestricted fund balance

Policy

1. The County shall maintain an unassigned fund balance in its general fund equal to 16.67% - 25% of annual budgeted operating expenditures plus transfers-out of the general fund. This benchmark shall be observed in the preparation of the annual proposed budget. The range shall be further divided into "traffic light" increments where an unassigned fund balance ratio (UFBR) in the 16.67% - 21% range represents a red light signaling that no further use of unassigned fund balance should be made except under extraordinary circumstances or where almost immediate replenishment is assured. Priority should be given to increasing unassigned fund balance levels. A UFBR in the 21% - 25% range represents a yellow light signaling that caution should be exercised in the use of unassigned fund balance and only for one-time costs. Consideration should be given to increasing the UFBR should resources become available. Above 25% represents a green light signaling that an adequate unassigned fund balance level has been achieved. Additional resources need not be set aside at this time for economic uncertainties and may be used to further other goals of the Commission.
2. The fund balance policy shall be reviewed and the status of the fund balance reported to the Commission:
 - a. In conjunction with the development of the annual budget and upon any significant amendments made to the budget during the fiscal year
 - b. In conjunction with delivery of the annual year-end financial report
3. The amounts in the various classifications of fund balance shall be reviewed by the Commission at the close of each fiscal year and adjusted based on actual fiscal year results to reach an acceptable level of unassigned fund balance in accordance with this policy.
4. All commitments of fund balance, and any changes thereto, shall require formal approval by majority vote of the Commission in an open meeting. An assignment of fund

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balance, or any change thereto, may be effected either by action of the Commission in an open meeting or by the Financial Administration Team acting as a unit.

5. Unassigned fund balance, to the extent that it exceeds 25% of annual budgeted operating expenditures plus transfers-out, may be accessed in the event of unexpected expenditures upon approval of a budget amendment by the Commission. The Financial Administration Team provides financial reports and projections to the Commission on a quarterly basis.

6. Appropriation (for authorized purposes) of fund balance in an amount that would result in unassigned fund balance falling below the minimum level established by this policy may be considered by the Commission. However, fund balance should not be used to compensate for a structural budget deficit, but rather as a means to bridge the gap during the time in which corrective action is being implemented to bring revenues and expenditures into balance.

7. Order of use of restricted and unrestricted funds:

a. When an expenditure is incurred for purposes for which amounts are available in both the restricted and unrestricted fund balance classifications, restricted funds should be spent first unless legal requirements disallow it.

b. When an expenditure is incurred for purposes for which amounts are available in more than one of the unrestricted fund balance classifications, committed funds should be used first, assigned funds second, and unassigned funds last.

8. The Commission, the County's highest level of decision-making authority, may consider a "spend down" of unassigned fund balance below its required level:

a. To address a projected revenue shortfall that is greater than 5% of general fund operating expenditures including transfers

b. To mitigate damage caused by a natural disaster, such as a hurricane

c. To address an urgent event that jeopardizes the safety of the public

d. To address any other extraordinary circumstances when deemed necessary by the Commission

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9. Should unassigned fund balance fall below the established minimum level for any reason, the Commission shall implement a budgetary plan to replenish the fund balance to the established minimum within three years. The progress of replenishment shall be reported in the annual budget.