

Resolution 2012-129
Kootenai County Fund Balance Policy

WHEREAS, the intent of this fund balance policy is to provide direction and guidance to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or emergencies or for nonrecurring unanticipated expenditures and minimal increases in service delivery costs; and

WHEREAS, this policy is to mitigate current and future risks, to ensure stable property tax rates, to address long-term financial planning and to preserve the integrity of the bond rating of the County and to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unexpected one-time expenditures. This policy pertains to the governmental funds of Kootenai County and includes net assets of Solid Waste, Trust Funds and Agency Funds; and

WHEREAS, this policy is to adopt a fiscally sound policy relating to a fund balance while maintaining an appropriate balance which is not overly excessive or operating as a means to hold and invest funds. To provide our citizens with fiscally prudent fund balances which are not excessive but if so, the requirement to reduce the funds when the maximum is exceeded; and

WHEREAS, this policy is in accordance with generally accepted governmental accounting principles and compliance with the Idaho Constitution and Idaho law, and

WHEREAS, the Idaho Constitution, in Article 7, Section 15, instructs the legislature to provide by law, such a system of county finance, and shall cause the business of the several counties to be conducted on a *cash basis*. Correspondingly, Idaho Code 31-1605A provides authorization for counties to operate on a cash basis. Counties may accumulate fund balances at the end of a fiscal year and carry over such fund balances into the ensuing fiscal year sufficient to achieve or maintain county operations on a cash basis. A fund balance is the excess of the assets of a fund over its liabilities and reserves. Upon resolution by the board of county commissioners, such funds may be carried over for the use of specific county departments as an additional appropriation in the next fiscal year; and

WHEREAS, after evaluating the County's operating characteristics, diversity of tax base, reliability of non-property tax revenue sources, working capital needs, impact on bond rating, State and local economic outlooks, emergency and disaster risk, and other contingent issues, the Board of Kootenai County Commissioners establishes the following policy regarding Fund Balances in Kootenai County; and

WHEREAS, the Government Finance Officers Association (GFOA) recommends that governments establish a formal policy regarding the appropriate level and spending priority of fund balance that should be maintained in the County's Governmental Funds. Kootenai County recognizes the financial importance of maintaining a stable, appropriate level of unassigned fund balances in the General Fund; and

NOW THEREFORE, BE IT HEREBY RESOLVED by the Board of County Commissioners of Kootenai County, that a Fund Balance Policy be adopted.

Upon a motion to adopt the text of the foregoing Resolution made by Commissioner _____, seconded by Commissioner _____, the following vote was recorded:

Commissioner Nelson:
Commissioner Green:
Chairman Tondee:

Upon said roll call, the text of the foregoing was duly enacted as a Resolution of the Board of Commissioners of Kootenai County, Idaho on the _____ day of December, 2012.

KOOTENAI COUNTY
BOARD OF COMMISSIONERS

ATTEST:
CLIFFORD T. HAYES, CLERK

W. Todd Tondee, Chairman

By: _____

Daniel H. Green, Commissioner

Jai Nelson, Commissioner

Fund Balance Policy: General Definitions

Fund Balance: Fund balance represents the difference between fund assets and fund liabilities. Fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Fund Balance Range: A fund balance range is the range amount this policy has set within which the County means to maintain a specific fund balance. The ranges set for each fund are based on the predictability of revenues, volatility of expenditures, and liquidity requirements of each fund and shall be reviewed periodically. Adequate fund balance ranges are necessary for purposes of unanticipated expenditures, and to meet desired reserves.

Surplus: Surplus is the amount by which a fund balance exceeds the upper limit of the fund balance range.

Shortfall: Shortfall is the amount by which the lower limit of the set fund range of a fund balance has yet to be met.

Expenditures and Operating Expenditures: Expenditures are all uses of financial resources, budgeted for any purpose, and include operating and capital expenses, debt service, and transfers to other funds. Operating expenditures are uses of financial resources for personnel, supplies, services and materials, and exclude capital expenses, debt service, and transfers to or from other funds.

Revenues and Operating Revenues: Revenues are sources of funds generating from any source, including taxes and fees. Operating revenues are those actual revenues reported in the County's audited Comprehensive Annual Financial Report (CAFR) in the fund "Statement of

Revenues, Expenditures and Changes in Fund Balances” and exclude transfers to or from other funds.

Fund Classifications

Nonspendable Fund Balance: Inherently nonspendable county resources that cannot be spent, or will never be converted to cash because of the nature of the asset. Examples include prepaid assets and inventories.

Unassigned Fund Balance: Unassigned fund balance represents available financial resources that have not been obligated, assigned, or committed for a specific purpose. Unassigned Fund Balance represents funds for budget stabilization purposes—sometimes referred to as "rainy day funds".

Restricted Fund Balance: The portion of fund balance that reflects resources subject to externally enforceable legal restrictions. Such restrictions on assets are imposed by parties altogether outside the County such as Creditors, Grantors, or Other Governments. Examples of Restrictions include bank debt covenants, Federal and State laws restricting use of County funds for specific purposes, and Federal Agencies requiring reservations of funds for future programs or services.

Committed Fund Balance: A committed or designated fund balance is that portion segregated to indicate tentative plans for discretionary use and reflects the County’s self-imposed limitations on the use of otherwise available financial resources. The funds are being held in reserve for a dedicated future purpose, use and obligation. The use of these resources is constrained by specific limitations that the government imposes upon itself at its highest level of decision making (Board of County Commissioners) and that remain binding unless removed in the same manner.

Assigned Fund Balance: The portion of fund balance which reflects a government’s intended use of resources. Such intent would have to be established by the Board of County Commissioners or a designated official as appointed by the Commissioners. Amounts in excess of nonspendable, restricted and committed fund balance, in funds other than the general fund, are automatically reported as assigned fund balance. It is the assigned fund balance category that may be used to reflect the appropriation of a portion of the existing fund balance to eliminate a projected deficit in the subsequent years budget.

Proprietary Funds: Proprietary funds account for ongoing organizations and activities of a government, which are similar to those found in the private sector. The measurement focus is upon the determination of net income. Kootenai County has two proprietary fund types, an enterprise fund used to account for solid waste disposal activities and an internal service fund to account for self-insured health services.

Enterprise Fund: The Enterprise fund is a proprietary fund used to capture the operations of the Solid Waste Department which is intended to run similar to a private business without direct tax support, rather on a fee basis. This means that the revenues generated are used to pay for the operations and any excess remains with the fund as retained earnings.

Internal Service Fund: The Internal Service Fund is a proprietary fund. Funds are established to ensure accountability and expenditure for specific purposes. Internal service funds account for activities provided to other funds, departments or agencies of the primary government on a cost reimbursement basis. Kootenai County utilizes an internal service fund to account for self-insured health services, and to facilitate the bulk purchase of commodities such as paper supplies that are universally utilized throughout the organization.

Governmental funds account for the County's general activities, including current expendable financial resources (except for those accounted for in proprietary funds), and are those through which most governmental functions of the County are financed. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's governmental fund types:

General Fund: The general fund is the government's primary operating fund. It accounts for services that include general government, justice fund including public safety and jails, and liability insurance. The General Fund includes all financial resources of the general government except those required to be accounted for in another fund.

Special Revenue Fund: Special revenue funds account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts, such as grants) which are legally restricted to expenditures for specified purposes. Specific examples include Airport, District Court, Health District, Indigent or County Assistance, Parks & Waterways, and Revaluation Services. By definition, Fund Balance for Special Revenue Funds maintain an accumulated fund balance as Assigned Fund Balance unless otherwise classified in another fund balance category.

Capital Project Funds: Capital project funds account for financial resources used for the acquisition or construction of major capital assets (other than those financed by proprietary funds) to be owned by the county. Revenue sources include federal grants and transfers in from other county funds.

General Reserve Appropriation

Idaho Statute 31-1605 allows the County the option to appropriate a "general reserve appropriation" not to exceed 5% of the current expense budget as finally adopted—provided the contingency appropriation is within any tax or levy limits in effect. Use is limited to unforeseen and unbudgeted expenditures and is not applicable for Special Levy Funds, and is subject to the *unanimous* vote of all three County Commissioners. Additionally, a resolution is required. Based on historical use and other factors, an amount of general reserve appropriation shall be determined and appropriated each annual budget cycle. Specifically Idaho Statute 31-1605 states:

The board shall also have the right to make a "general reserve appropriation," said appropriation not to exceed five percent (5%) of the current expense budget as finally adopted, the total levy however, for current expense, including the "general reserve appropriation," to be within the limitations imposed by chapter 8 of title 63, Idaho Code, or by any statutes of the state of Idaho in force and effect. In the event of any unforeseen contingency arising, which could not reasonably have been foreseen at the

*time of making the budget, and which shall require the expenditure of money not provided for in the budget, the board of county commissioners, by unanimous vote thereof, shall have the right to make an appropriation from the "general reserve appropriation" to the office, department, service, agency or institution in which said contingency arises, in such amount as shall be determined by resolution of said board. **Provided, however, that no appropriation may be made from the "general reserve appropriation" to any county fund which is authorized under the law to make a special levy.***

The statute specifically limits the authorization of contingency funds to expenditures which are not authorized for a special levy.

Idaho Statute 63-805(2) allows the County the option to appropriate a "general reserve appropriation" not to exceed 5% of the county justice fund budget as finally adopted. This provides identical authority for the Board as described above in Idaho Code 31-1605 but for the Justice Fund. Additionally, the Justice Fund, which is established by Idaho Code 31-4502 also allows for an accumulation of funds.

General fund and Justice Fund Balances

The County will maintain a General Fund which is an unassigned and undesignated balance adequate to meet any unexpected fiscal needs of County operations to permit orderly adjustment to changes resulting from fluctuations of revenue sources. Other funds are topical in nature meaning that the funding captured in those funds is intended to be used for the purpose for which they were levied. Accordingly, it is important to manage county fund balances to maximize the funds available under the current expense authority of the county to provide the most versatility in our financial management capacity.

Through good fiscal management, the General Fund balance will be maintained to allow for unforeseen needs of an emergency nature and to permit orderly adjustment to changes resulting from a reduction or termination of revenue sources. The General Fund balance will be determined in conjunction with the fiscal year-end audit to insure an adequate fund balance will be available at year end so that the unreserved, undesignated fund balance will be maintained.

The General Fund is the County's primary operating fund and represents the most flexible source available as it can be used for a variety of county purposes. It accounts for services that include general government, public safety and correction, and liability and health insurance. The General Fund includes all financial resources of the general government except those required to be accounted for in another fund.

Receivables in the General Fund consist primarily of fees for services and property tax. Property tax revenues are recognized when received in the period for which the taxes are levied. Property taxes are accrued as assets receivable and deferred revenue on the Balance Sheet when the County has an enforceable legal claim to the taxes which occurs in September prior to year end when the Board of County Commissioners adopts the subsequent fiscal year budget. The County's assessment date is January 1, and property taxes, levied by the second Monday of September on a market value basis, are billed to the taxpayers in November. Half of the real, personal, and mobile home property taxes are due on December 20 and the remainder is due the following June 20. Other property taxes are due December 20. Real property taxes not paid constitute a lien on the property when entered on the real property assessment roll as delinquent on the first day of January of the succeeding year.

Business-type activities receivable are reported net of an allowance for doubtful accounts. Business-type receivables occur as part of the ordinary course of business. The major non-property tax sources of revenue in the general fund include: State Revenue Sharing, State Liquor Apportionment, Payments in Lieu of Taxes, Interest Income, State Agricultural Replacement Funds, Building & Planning fees, Recording fees, DMV revenues, and Administrative Services revenue. Additional major restricted sources include: 9-1-1 line fee revenue, Lottery funds, Contracted Services revenue, Client Reimbursements, Tax Deeds and Title Search fees.

Additionally, the County will maintain a Justice Fund balance which is a committed balance adequate to meet the unexpected fiscal needs of county justice operations to permit orderly adjustment to changes resulting from fluctuations of revenue sources and to allow for unforeseen needs of an emergency nature and to permit orderly adjustment to changes resulting from a reduction or termination of revenue sources.

The Justice Fund balance will be determined in conjunction with the fiscal year-end audit to insure an adequate fund balance will be available at year end so that the fund balance will be maintained.

The departments that are currently included in the Justice Fund include the Commissioner's general justice account (used to track tax and general support, contingency funds, and conflict public defender attorneys), the office of the Public Defender, the Juvenile Detention Center, Adult Misdemeanor Probation and Juvenile Probation. The Prosecuting Attorney's administration, operations and civil division stem from this fund as well Juvenile Diversion. In addition, this fund is utilized for the Sheriffs operations, specifically the administration, Civil department, Animal Control, Patrol division, Detectives division, Driver's Licensing, Records, Special Response, Search & Rescue, Maintenance, Auto Shop and Jail operations.

The policy will be for the county to establish and maintain a General Fund and Justice Fund Balance of:

1. The combined, unassigned General Fund and Justice Fund balances are to be maintained at a level between 10 to 15 percent of actual total county-wide personnel and operating expenses based on the prior year's budget.
2. When either or both funds exceed the 15% level the excess funds should be appropriated to a committed fund for a specific, designated use or used to relieve property tax revenues generated by the county.

At the end of January of each year, as part of the forthcoming annual budget process, the Clerk/Auditor shall estimate the surplus or deficit for the current year and prepare a projection of the year-end fund balance levels along with an estimate of cash basis requirements. Such projection will include an analysis of trends in expenditures and fund balance levels on a historical and future projection basis.

Authorized Fund Usage:

The Board of County Commissioners, by a two-thirds vote, can declare a fiscal emergency and withdraw a portion of this balance to address the emergency. Any such action must also provide for necessary appropriations to restore the amount of the withdrawal within one year.

Subsequent Year Expenditures:

Designations may be made representing management's plans to fund a portion of the subsequent year's budget with a portion of previous years' accumulated fund balance. This is a deliberate approach to either "draw down" excess fund balance rather than raise fees or tax allocations, or as part of multi-year savings program designed as an incentive for departments to save for longer term initiatives over multiple year budgets (rather than spend all their appropriations in one budget year).

Designations may also be made for capital project balances to fund yet unfinished existing projects-- which shall equal the continuing project balance for which the revenue source was recognized in a prior fiscal year and is to be designated at carry-over for that specific project.

Cash Basis Designation:

Current property tax collections are property tax collections are available intermittingly, therefore fund balance must provide for cash flow during the fiscal year to alleviate the timing difference between the receipt of revenues and disbursement of expenditures. An estimate of the cash basis requirement will be prepared annually in conjunction with the projection of undesignated fund balance. The estimate will be displayed as a designation on the face of the Financial Statements.

Surplus:

If it is determined there is a surplus due to the County having achieved its goal of an appropriate level of Undesignated Fund Balance, the surplus funds may be utilized for other fiscal purposes. This is to be accomplished by appropriation during the next budget cycle beginning after the surplus is identified. Examples include, without limitation:

Capital Improvements. For capital project funds, balances will arise as part of formulation of long-range capital savings programs with projected accumulation and utilization of such savings plans presented annually in the County's Capital Projects Plan. By utilizing fund balance surplus for one-time capital needs, the County will reduce the need to incur long-term debt.

Replacement Programs. Technological advances require replacement of equipment and software on a scheduled timetable. Fleet vehicles must also be replaced. Surplus funds may be used to supplement or enhance a planned replacement program.

Tax, fee or rate stabilization. Surplus funds may be utilized in order to avoid raising taxes, fees, or rates in subsequent years.

Shortfall:

If it is determined there is a shortfall the combined, unassigned General Fund and Justice Fund balances are to be restored to an amount in the range within the following year's budget cycle.

Planning and Performance:

Compliance with fund balance policy will be reviewed in conjunction with:

- Preparation and Adoption of a Capital Projects Plan
- The Budget Process
- The Audit Process
- Any changes made to the Original Budget throughout the Current Fiscal Year
- Investment Policy for Kootenai County

All fund balances shall be invested in compliance with Idaho Statutes, specifically, but not limited to, Title 57, Chapter 1, and in compliance with the Investment Policy for Kootenai County with all investment income recognized in the general fund, unless specified otherwise.

No appropriation of fund balance for recurring operational expenditures shall be made unless a plan for permanent funding of such expenditures is also approved at the time of appropriation.

The Clerk/Auditor shall from time to time recommend amendments to the Fund Balance Policy to assure compliance with prevailing generally accepted accounting procedures.

Component Units:

The basic financial statements of the North Idaho Fair & Rodeo and the Kootenai County Emergency Medical Services System (KCEMSS) are included as discretely presented component units in financial reports because of the significance of their financial relationship with the County.

The North Idaho Fair and Rodeo is a component unit because Kootenai County maintains financial accountability. The Kootenai County Board of County Commissioners appoints all members of the North Idaho Fair and Rodeo Board. Furthermore, the Board has the authority to modify or approve the annual budget and has assumed secondary responsibility for any debt of the North Idaho Fair & Rodeo.

Kootenai County Emergency Medical Services System (KCEMSS) is a component unit because the Board of County Commissioners also serves as the Ambulance Board. As such, the Board of County Commissioners approves the annual KCEMSS operating budget and levying the balance necessary to fund the approved budget under the Emergency Medical Services Levy. Additionally, the County Commission appoints a member to the Joint Powers Board, the KCEMSS joint governed organization.

Joint Governed Organizations:

Kootenai County participates in three jointly governed organizations. Those organizations are the Centennial Trail Board, the Hayden Area Regional Sewer Board (HARSB), and the Kootenai County Emergency Medical Services System (KCEMSS).

Resources

Resources utilized to compile this policy were the Kootenai County Annual *Comprehensive Annual Financial Report (CAFR)* and key sections including the Schedule of Net Assets and Fund Equity Balances, Schedule of Deposits and Investments and Schedule of all Fund Account and Trust Accounts.