

1) Government Finance Officers Association and Governmental Accounting Standards Board

In 2002, the Government Finance Officers Association (GFOA) issued a recommended practice (now a best practice) on *The Appropriate Level of Unreserved Fund Balance in the General Fund*. In 2009 the Governmental Accounting Standards Board issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which replaces the traditional categories of reserved and unreserved fund balance and defines the classifications of fund balance based on the focus of the constraints placed on the use of current fund balance. The Statement also identifies the governmental fund type definitions.

<i>Fund Balance Reporting</i>			<i>Carmel Clay Public Library</i>	
<i>Classification</i>	<i>Definition</i>	<i>Examples</i>	<i>Fund</i>	<i>Balance as of 1/31/2018</i>
Nonspendable	“Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.” ²	<ul style="list-style-type: none"> • Inventories, • Prepaid items, • Long-term receivables in the general fund, and • Permanent principal of endowment funds. 	N/A	
Restricted	“Fund balance should be reported as restricted when constraints placed on the use of resources are either: <ol style="list-style-type: none"> Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or Imposed by law through constitutional provisions or enabling legislation.”³ 	<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, and • Revenues restricted by enabling legislation. 	<ul style="list-style-type: none"> • Debt Service • State Technology Grant • PLAC 	\$926,780 20,095 <u>780</u> <u>\$947,655</u>
Unrestricted	Committed	“Used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.” ⁴	<ul style="list-style-type: none"> • The governing board has decided to set aside \$1M for a new city hall. • Property tax levies set for a specific purpose by resolution. 	<ul style="list-style-type: none"> • LIRF • Capital Projects \$1,973,562 <u>630,929</u> <u>\$2,604,491</u>
	Assigned	“Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.” ⁵	<ul style="list-style-type: none"> • Governing board has set aside \$2 million for a county hospital and the county manager may amend this up to \$100,000. • 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 unassigned. ⁷		<ul style="list-style-type: none"> • General • Rainy Day • Friends • Foundation \$7,756,040 7,932,716 78,171 <u>316,599</u> <u>\$16,083,526</u>
	Grand Total			

- GFOA recommends, at a minimum, that general-purpose governments, regardless of size, **maintain unrestricted fund balance in their general fund of no less than two months (17%) of regular general fund operating revenues or regular general fund operating expenditures.**
- A primary objective of a fund balance policy is to maintain adequate resources to cope with contingencies. **As a practical matter, very large governments often are in a much better position to predict contingencies than are smaller governments (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty).**

2) **H. J. Umbaugh, and Standard & Poor’s**

Jason R. Tanselle, Manager, H.J. Umbaugh & Associates, Certified Public Accountants, LLP, supplied the following:

After consulting with our Director of Disclosure Strategy and Services, Susan Reed, we have gathered information to guide the Library’s decision regarding excessive balances.

Per the S&P Global Rating Report titled “Key General Obligation Ratio Credit Ranges,” fund balances in excess of 15% are considered “Very Strong” (see below). Carmel-Clay Public Library greatly exceeds this 15% threshold as the combined General Fund and Rainy Day Fund had an ending balance of \$14,189,272 in 2016 compared to operating expenditures of \$6,289,671 (226%). The one caveat to the 15% balance is that the State of Indiana as a whole gets a slight penalty from S&P due to being on a cash basis of accounting.

Available Fund Balance

<u>Low</u>	<u>Below 0%</u>
<u>Adequate</u>	<u>1% - 4%</u>
<u>Good</u>	<u>4% - 8%</u>
<u>Strong</u>	<u>8% - 15%</u>
<u>Very Strong</u>	<u>Above 15%</u>

I have also attached the rating report the Library received for its 2015 Refunding Bonds. When the Library went through the rating process for the 2015 Refunding Bonds, it listed an unofficial 50% target reserve number to S&P. We would recommend not dipping below this number as S&P will look to see if this reserve target has been met during surveillance, and it would be a factor for future ratings if the Library were to issue debt in the coming years.

S&P – 2015:

In our opinion, the district has maintained a very strong financial position, albeit on a cash basis, supported by consecutive operating surpluses during the past four years. We understand that these surpluses are primarily due to larger income tax distributions and an increase in the library's operating tax levy. Property taxes fund 49% of general fund operations while the county option income tax accounts for most of the remaining operating revenue. Although the district files its examination reports biannually, it submits unaudited financial reports to the state on an annual calendar year basis. For calendar year 2013 (unaudited), the district's unreserved

*general fund cash balance increased by \$1 million to \$4.9 million, or 90.8% of expenditures, which we consider very strong. The rainy day fund, with a cash balance of \$3.9 million, provides additional liquidity. The combined general and rainy day cash reserves of \$8.8 million translate to 164% of expenditures, which we view as very strong. The district had budgeted for a general fund drawdown of roughly \$470,000 for calendar year 2014, primarily because of an \$870,000 transfer out to build reserves in the rainy day fund; however, actual year-end results show a use of only \$219,000 reserves. The combined general and rainy day cash balance improved to \$9.45 million in 2014, or 155% of general fund expenditures. For 2015, the district anticipates a general fund surplus of about \$500,000 to \$765,000, which will further strengthen its available reserves. **We believe that general fund reserves will remain very strong, and well above the district's informal fund balance target of 50% of property tax revenue, for the next several years.***

Another item to consider when analyzing fund balances is a plan to spend down cash and executing the plan properly. If the Library has any one-time expenditures over and above the unofficial 50% reserve target, those would be items to consider. However, S&P prefers to see the spend down of a reserve in conjunction with a capital plan that is at least 5 years. Umbaugh can assist with this type of planning if the Library is interested, as ultimately we want to preserve flexibility while being prudent with taxpayer dollars.

3) Other Sources

At the May, 2017, OneZone breakfast, a panel of Hamilton County Commissioners and County Councilors stated their desired balance is an amount equal to six months property tax revenue.

Mike Reuter advises that an amount equal to six months property tax revenue allows units to avoid temporary loans and adds that a balance equal to 50% of the budget (expenditures) is really strong.

Sample Fund Balance Policy

Developed for GASB 54

Purpose

The Board of Trustees (the “Board”) recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Library and is fiscally advantageous for both the Library and the taxpayer. This policy establishes goals and provides guidance concerning the desired level of fund balance maintained by the Library to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

Definitions

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- 1) **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
- 3) **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Board. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the board’s commitment in connection with future construction projects).
- 4) **Assigned fund balance** – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board or by a designee to whom the Board delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

Policy

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The Board of Trustees is the Library’s highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

Assigned Fund Balance – The Board of Trustees has authorized the Director (and the Business Manager) as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance

It is the goal of the Library to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than _____% of _____ revenues [*or expenditures*]. If the unassigned fund balance at fiscal year end falls below the goal, the Library shall develop a restoration plan to achieve and maintain the minimum fund balance.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the Library will start with the most restricted category and spend those funds first before moving down to the next category with available funds.