

**RESOLUTION NO. 22-149**

**RESOLUTION OF THE BOARD OF COUNTY COMMISSIONERS OF OKALOOSA COUNTY; ESTABLISHING A GENERAL FUND BALANCE AND RESERVE POLICY; AND PROVIDING AN EFFECTIVE DATE.**

**WHEREAS**, the Board of County Commissioners of Okaloosa County (the “Board” or “County”) desires to establish a General Fund Balance and Reserve Policy (“Policy”) consistent with the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; and

**WHEREAS**, the County has not previously adopted a formal minimum fund balance policy but has established an unofficial reserve target of 10% of the General Fund budget during each budget policy meeting since 2017; and

**WHEREAS**, the audited year-end Fund Balance of the General Fund has steadily increased since 2017 due to healthy revenues and moderate expenditure growth; and

**WHEREAS**, the Board desires a reserve policy based on sound fiscal principals designed to allow the County to maintain continuity of operations in adverse conditions while being mindful of our fiduciary responsibility to taxpayers, both current and future generations; and

**WHEREAS**, it is essential for the County to maintain sufficient levels of reserve funds to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to maintain stable tax/fee rates; and

**WHEREAS**, Okaloosa County lies within a coastal zone highly susceptible to hurricane and storm damage; and

**WHEREAS**, there exists uncertainty in the economic markets around the world, in regards to the cost of construction materials, interest rates, personnel costs, medical insurance costs, and general inflation; and

**WHEREAS**, the Government Finance Officers Association (“GFOA”) recommends that general-purpose governments maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures; and

**WHEREAS**, the adoption of a General Fund Balance and Reserve Policy by the Board will assist in ensuring the fiscal well-being of the County by establishing a minimum level at which reserves are to be maintained, as well as the mechanisms by which the Policy may be amended, which are critical to the continued operation of services.

**NOW, THEREFORE**, the Board of County Commissioners of Okaloosa County, Florida, does hereby declare and establish the following:

**SECTION 1 – PURPOSE/INTENT**

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. Additionally, the Policy insures against unanticipated events that would adversely affect the financial condition of the County and jeopardize the continuation of necessary public services.

**SECTION 2 – BACKGROUND AND DEFINITIONS**

To improve the usefulness of governmental fund balance information, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with implementation required for fiscal years beginning after June 16, 2010. Fund balances are reported within the County’s Annual Comprehensive Financial Report (ACFR) in accordance with GASB 54. This statement 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.

On September 30, 2015, the GFOA Executive Board approved a best practice titled “Fund Balance Guidelines for the General Fund” which recommended that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes. The recommended level of reserves for general-purpose governments, regardless of size, is to maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. For fiscal years 2021 and 2020, the General Fund unrestricted fund balance has been 20% each year, of operating expenditures and transfers out for the fund.

Definitions of Fund Balance are as follows:

**Fund Balance** – As defined by the Governmental Accounting, Auditing and Financial Reporting of the Government Finance Officers Association, “The difference between assets and liabilities reported in a governmental fund.” Categories of Fund Balance are described below:

**Non-spendable Fund Balance** – Comprised of amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term loans and notes receivable, as well as property acquired for resale. The County’s non-spendable fund balance currently consists of the inventory and prepaid items held by the General Fund.

**Restricted Fund Balance** – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed Fund Balance** – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the County’s highest level of decision-making authority. The Board is the highest level of decision-making authority for the County that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**Assigned Fund Balance** – Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as committed. Intent is expressed by the Board or official to which the County has delegated the authority to assign amounts to be used for specific purposes. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. The County Administrator and Finance Officer is delegated this authority to assign fund balance.

**Unassigned Fund Balance** – Unassigned fund balance is the residual classification for the County’s fund balance. This classification represents spendable fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that can report a positive unassigned balance. It would be inappropriate for other funds to report a positive unassigned balance. However, if expenditures are incurred for a specific purpose that exceed the amounts that are restricted, committed or assigned, they may report a negative unassigned balance.

**Unrestricted Fund Balance** – The total of *committed fund balance, assigned fund balance, and unassigned fund balance*.

### **SECTION 3 – GENERAL FUND**

The Board establishes the following *unrestricted fund balance* minimum reserve level for the General Fund:

#### *Disaster/Emergency Reserve*

This reservation of fund balance is established by the County due to the County’s coastal location, hurricanes and other natural disasters, as well as economic changes that severely impact the County’s ability to continue operations and provide services.

The General Fund will strive to maintain an ideal total minimum reserve as *unrestricted fund balance* of no less than two months (17%) of audited expenditures and transfers out. For purposes of determining two months of regular General Fund operating expenditures, the Board stand-alone audited and actual financials for the prior year shall be utilized and one-time General Fund expenditures or transfers to other funds that would otherwise distort the two-month calculation shall be excluded.

Provided that the Unrestricted Fund Balance requirements established by the Policy have been met, the County may use excess amounts to offset operating expenditures or revenue losses in subsequent fiscal year budget; for unanticipated budgetary shortfalls; one time expenditures or other capital initiatives; transfers to other funds for vehicles, equipment, facility and major information technology infrastructure improvements having no funding sources; or similar uses as approved by the Board during the budget process.

### **SECTION 4 – SPENDING ORDER OF FUND BALANCE**

The County shall spend 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 shall 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.

### **SECTION 5 – AUTHORIZATION OF ENDING FUND BALANCE**

The County hereby appoints the County Administrator or Budget Director with the authority to “assign” ending fund balances consistent with this Policy.

### **SECTION 6 – MINIMUM RESERVE REQUIREMENT**

In the event funds are not available to establish the balances required under the Policy, the Unrestricted Fund Balance target shall be achieved by adding a designated amount to the budget to cover the deficiency over a period of not to exceed three (3) years.

**SECTION 7 – ANNUAL REVIEW AND DETERMINATION**

Compliance with the provisions of this Policy shall be reviewed as part of the annual budget adoption process, and the amount of non-spendable, restricted, committed, assigned, and unassigned balances shall be determined during this process. The unrestricted fund balance in excess of the ideal total minimum reserve level will be calculated to determine the amount of spendable fund balance. Any changes to the targeted amount established herein must be approved by the Board.

**SECTION 8 – ADDITIONAL INFORMATION AND RESPONSIBILITIES**

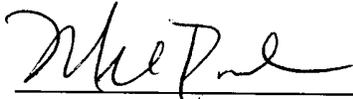
It will be the responsibility of the County Administrator to uphold this policy and keep it current.

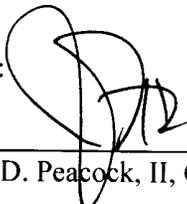
**SECTION 9 – EFFECTIVE DATE**

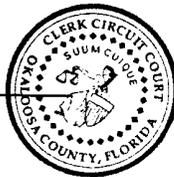
This Policy shall take effect immediately upon its adoption and will be applied beginning with the preparation of the County’s September 30, 2022 Annual Comprehensive Financial Report and adoption of the County’s Fiscal Year 2023 Budget.

**ADOPTED BY THE BOARD OF COUNTY COMMISSIONERS OF  
OKALOOSA COUNTY, FLORIDA, THIS 20<sup>th</sup> DAY OF SEPTEMBER, 2022.**

BOARD OF COUNTY  
COMMISSIONERS OKALOOSA  
COUNTY, FLORIDA

By:   
Mel Ponder, Chairman

ATTEST:  
By:   
J. D. Peacock, II, Clerk



APPROVED AS TO FORM:

By:   
Lynn M. Hoshihara, County Attorney