

Unrestricted Fund Balance and Contingency Policy

Purpose:

The Fund Balance and Contingency Policy (or “Policy”) is intended to provide guidelines for budgeting and throughout the year, to ensure that sufficient financial resources are maintained for unanticipated expenditures or revenue shortfalls. The Policy is also intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The Fund Balance and Contingency Policy should maintain a long-term perspective, recognizing that stated thresholds are considered minimum balances. The primary objective of establishing and maintaining this policy is for the district to be in a strong financial position that will allow for better position to weather negative economic trends.

Definitions:

Fund Balance is the difference between assets, liabilities and deferred balances of the District (also referred to as “net position”). Fund Balance for the District has two categories:

- Restricted Fund Balance – these funds have constraints placed on their use externally by creditors, grantors, contributors, or laws/regulations. These funds are not addressed in this policy due to the nature of their restrictions. When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.
- Unrestricted Fund Balance – these funds (which include unused Contingency), are available for the ongoing operation of the District and are subject to the limitations defined by this Policy. Contingency represents dollars appropriated in the annual budget that are set aside for unanticipated or undefined costs incurred in the year. The level of Contingency approved annually in the budget should be an amount sufficient to cover possible expenditure variations during the fiscal year. With Board approval, contingency can be used during the year to cover these requirements.

Contingency and Unrestricted Fund Balance are one-time only resources: once they are depleted, there is not a continuing revenue source to replenish them. TriMet does not maintain any unrestricted reserves other than Unrestricted Fund Balance. Costs such as self-insured claims, capital investments and asset replacement, and unanticipated or higher than anticipated expenses, and unexpected declines in revenue all must be covered by the Unrestricted Fund Balance/Contingency each year.

Minimum Requirements for Contingency and Unrestricted Fund Balance:

Contingency:

Budgeted Contingency will be at least 3% of Total Operating Requirements. Based on an assessment of expenditure risk for the upcoming fiscal year the General Manager may

recommend a higher level of Contingency and include such recommendation in the Proposed Budget. The Board holds final authority over approval of the annual budget.

Unrestricted Fund Balance:

Unrestricted Fund Balance should be at least 2.5 times the appropriated average monthly operating expenditures for the upcoming fiscal year.

Replenishment Plan:

If the Unrestricted Ending Fund Balance is less than 2.5 times the appropriated average monthly operating expenditures for the upcoming fiscal year, the Board must approve a restoration plan to correct for the shortage within a three year period.

Reporting:

The Board will receive financial reports at least quarterly, which include current fund balance levels, and comparison of Unrestricted Fund Balance to the Policy standards.

Policy Review:

The Fund Balance Policy will be reviewed and approved by the Board bi-annually. Necessary revisions to the Policy including fund balance minimums will be considered during this review process.