

Green Mountain Transit Authority Fund Balance Policy

A. Policy Statement

GMT will establish and maintain an adequate fund balance to mitigate the Authority's financial risk occurring from unforeseen revenue fluctuations, unanticipated required expenditures, and to take advantage of federal and state funding requiring a local match. *This policy primarily addresses how the authority will spend, monitor, and report the status of its unrestricted, undesignated net position/fund balance.*

B. Definitions

1. *Fund Net Position (Equity)/Balance* – Within governmental funds, proprietary fund equity is reported as net position. Fund balance/net position is the difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reflected on the balance sheet or statement of net position.

An accounting distinction is made between the portions of net position/fund balance that are restricted or unrestricted. Within the unrestricted category there are different distinctions of what is spendable and non-spendable. The following is a brief explanation of the authority's fund categories:

- a. **Net investment in capital assets** – includes the cost of capitalized assets less depreciation and related debt on those assets.
- b. **Restricted**– includes resources with constraints placed on their use which are either a) externally imposed by creditors (such as through debt covenants), grantors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. An example would be grant obligations that extend into future years and local capital match funds for future capital acquisitions.
- c. **Unrestricted**– for purposes of internal classification can be divided up into the following types of unrestricted net position/fund balance.
 1. **Committed**– includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
 2. **Unassigned**– is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.
- d. **Unrestricted, Undesignated** – is a management-imposed designation that eliminates “non-spendable” assets from the unrestricted net position/fund balance calculation.

C. Policy Elaboration

1. Establishing the Unrestricted, Undesignated Net Position/Fund Balance Goal

- a. It shall be the goal of the Authority to achieve and maintain an unrestricted, undesignated net position/fund balance equal to 16.7% (2 months) of its annual operating expenses for each of the Authority's urban and rural programs.
- b. In pursuing the Authority's stated unrestricted, undesignated net position/fund balance goal, no Federal or State funds can be accumulated so only unencumbered local funds will be used, except for Medicaid funds according to the current Medicaid contract.

- c. Additionally, since the Authority's Urban and Rural program are funded differently, the fund balance minimum thresholds will be based on the following additional guidance:

Urban

The Urban system receives a large percentage of its federal funds directly from the Federal Transit Administration (FTA) and has an ongoing practice of spending the prior federal fiscal year authorization in the current GMT fiscal year. Based on these factors, the Authority should be concerned when the unrestricted, undesignated fund balance reaches 1 month or less of annual operating expenses.

Rural

The Rural system receives the majority of its funding directly through the state and routinely does not receive funds for the fiscal year beginning in July until the end of August. Based on these factors, the Authority should be concerned when the unrestricted, undesignated fund balance reaches 1 month or less of annual operating expenses.

2. Spending the Unassigned Fund Balance

- d. A Board of Commissioners resolution is required to establish, modify, or rescind any expenditure of the Committed Unrestricted Fund Balance. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- e. The Finance Committee will review and recommend any fund balance assignments to the Board of Commissioners for approval.
- f. When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the Authority Commissioners, and unassigned fund balance), the Authority will start with the most restricted category and spend those funds first before moving down to the next category with available funds, unless this practice violates regulatory requirements.

3. Monitoring and Reporting the Unassigned Fund Balance

- a. The Director of Finance will review the breakdown of the fund balance by category with the Authority's Finance Committee twice a year (once with unaudited balances and the other with year-end audited financials) and once a year, with the board of Commissioners.
- b. If the unassigned fund balance falls below the minimum threshold set in paragraph C.1.c. above or has a deficiency, the Director of Finance will first notify the Treasurer of the Board of Commissioners and review the total fund balance allocations and decide the best course of action based on the specific situation at that time. At a minimum, the Treasurer will inform the members of the Finance Committee of the unassigned balance shortfall and discuss the matter at the next scheduled Finance Committee meeting.

Adopted by the GMT Board of Commissioners on April 20, 2021.

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