



<b>GENERAL SUBJECT:</b> <b>Fiscal Policies</b>	
<b>SPECIFIC SUBJECT:</b> <b>Fund Balance Policy</b>	
<b>POLICY NUMBER:</b> <b>FP1001</b>	<b>PAGE:</b> <b>1 of 5</b>
<b>EFFECTIVE DATE</b> <b>Adopted 1/19/2011</b>	<b>REVISED DATE:</b> <b>5/16/18</b>

## **PURPOSE:**

The purpose of this policy is to set forth the different classifications of fund balance, the level of authority required to assign or commit it and the order in which fund balance will be used. This policy also establishes the rules that govern the minimum balances to be retained in the County's Rainy Day Fund and the requirements for its use.

The County believes that sound financial management principles require that sufficient fund balance be retained by the County to provide a stable financial base at all times. Maintaining an appropriate level of Rainy Day Fund Balance:

- Demonstrates the County's commitment to good financial management.
- Reduces the need for urgent and significant increase in County tax rates.
- Provides the ability to effectively react with existing resources to emergency situations and unanticipated events including those that affecting the School Division.
- Avoids the need to issue short-term debt such as revenue anticipation notes for cash flow purposes.
- Maximizes any potential bond rating the County may seek in the future.
- Maximizes investment earnings.

## **DEFINITIONS:**

1. *Governmental funds' net operating revenues* – For purposes of this policy, governmental funds' net operating revenues equals general fund revenue plus total component unit school board general operating revenue less transfers.
2. *Fund Equity* – A fund's equity is generally the difference between its assets and its liabilities.
3. *Fund Balance* – An accounting distinction is made between the portions of fund equity that spendable and nonspendable. These are broken up into five categories:
  - a. *Nonspendable Fund Balance* – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.



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- b. *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include unspent bond proceeds or unspent tax revenues raised for a specific purpose such as for school debt service or Emergency Medical Services.
  - c. *Committed Fund Balance* – 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.
  - d. *Assigned Fund Balance* – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body 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.
  - e. *Unassigned Fund Balance* – 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.
4. *Rainy Day Fund Balance Ratio* – Rainy Day Committed Fund Balance / Governmental funds’ net operating revenues.
5. *Structural Budget Deficit* – A long-term imbalance between the growth rate of revenue and the growth in the cost of basic services.

## **PROVISIONS:**

### **1. COMMITTED FUND BALANCE**

The Board of Supervisors has authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution. The passage of the resolution must take place prior to the end of the applicable fiscal year. If the actual amount of the commitment is not available by the end of the fiscal year, the resolution must state the process or formula to calculate the actual amount as soon as information is available. Commitments may be changed or lifted only by the Board taking the same formal action that imposed



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the constraint originally. Examples of committed fund balance include the County’s Rainy Day Fund details of which are listed below.

**A. Rainy Day/Stabilization Fund**


- i. **General:** Maintaining a financial stabilization or Rainy Day Fund to meet unexpected revenue shortfalls or financial emergencies is a necessity for sound financial management and fiscal accountability. The Board of Supervisors has the authority to establish a Rainy Day Fund and has exercised this authority through the passage of a resolution.
- ii. **Level to Maintain:** The County’s goal is to maintain the “Rainy Day” fund at an amount equal to no less than 16.7% of budgeted governmental funds’ net operating revenue. This goal however will not be achieved until 2021 due to financial constraints. In the interim, the Board of Supervisors has established the following minimum ratios.

Fiscal Year	Minimum Annual Appropriation Required	General Fund Committed Rainy Day Fund Balance	Projected General Fund & School Operating Fund Revenues <sup>1</sup>	Rainy Day Fund Balance Ratio
2011 (actual)	n/a	\$ 4,695,521	\$ 69,132,253	6.8%
2012 (actual)	\$ 1,404,544	\$ 6,100,065	\$ 70,039,131	8.7%
2013 (actual)	\$ 760,324	\$ 6,860,389	\$ 70,823,315	9.7%
2014 (actual)	\$ 771,729	\$ 7,632,118	\$ 70,270,897	10.9%
2015 (actual)	\$ 783,305	\$ 8,415,423	\$ 73,222,244	11.5%
2016 (actual)	\$ 795,054	\$ 9,210,477	\$ 76,171,999	12.1%
2017 (actual)	\$ 806,980	\$ 10,017,457	\$ 77,701,600	12.9%
2018	\$ 819,085	\$ 10,836,542	\$ 78,478,616	13.8%
2019	\$ 855,944	\$ 11,692,486	\$ 79,263,402	14.8%
2020	\$ 894,461	\$ 12,586,947	\$ 80,056,036	15.7%
2021	\$ 934,712	\$ 13,521,659	\$ 80,856,597	16.7%

<sup>1</sup> Assumes 1.0% annual revenue growth

At the close of each fiscal year the County will adjust the “Rainy Day” Fund based on actual fiscal year results by moving such amounts from unassigned fund balance to the Rainy Day Committed Fund Balance as may be necessary to reach the ratios above.

- iii. **Permitted Uses:** Withdrawals from the Rainy Day Fund will be made only by appropriation of the Board of Supervisors and require a supermajority vote. Rainy Day Funds will not be used to

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compensate for structural budget deficits. Withdrawals from the fund are intended to mitigate situations of severe financial distress impacting the County and/or School Division including significant unplanned fluctuations in projected revenue or expenditures as approved by the Board of Supervisors. The list below sets forth permitted reasons to use Rainy Day/Stabilization Fund:

1. To offset a projected County or School Division revenue shortfall that is greater than 1% of General Fund Operating Revenue or
  2. To respond to an emergency situation such as those created by natural disasters, severe weather events, etc. which significantly impacts the operations of the County or public school division.
  3. To mitigate a potential event that, left unaddressed, could jeopardize the safety or security of the public, students or employees.
  4. To take actions necessary to preserve the County's or School Board's overall financial health.
- iv. **Maximum Withdrawals:** The amount that may be appropriated from Fund during any one year cannot exceed more than 1/2 of the balance of the Fund.
- v. **Restoration:** Any proposed appropriation that would result in the balance of the fund falling below the minimum fund balance ratio must be accompanied by a restoration plan that brings the fund back to the minimum within 3 years.

## 2. ASSIGNED FUND BALANCE

Assigned Fund Balance consists of amounts that are intended to be used by the County for a specific purpose. Intent can only be expressed by the Board of Supervisors or their designee. Assigned Fund Balance differs from Committed Fund Balance in that assignments do not require a resolution.

An assignment of fund balance requires the majority vote of the Board however the Board has authorized the County Finance Director to automatically assign fund balance in the following situations.

- If upon passage of a budget resolution, any fund balance is used to balance a future budget, the amount used will be automatically recorded as Assigned Fund Balance.
- If any unspent funds for an ongoing capital project remain at fiscal year end, these funds will be automatically recorded as Assigned Fund Balance until the project is complete.



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- If any funds contributed by a citizen for a specific purpose are not used for that purpose by the end of the fiscal year, they will be recorded as Assigned Fund Balance.
- If any residual fund balance exists in a special revenue fund, they will be automatically recorded as Assigned Fund Balance.

### **3. UNASSIGNED FUND BALANCE**

Unassigned fund balance is the amount of fund balance in the General Fund which cannot be classified as either nonspendable, restricted, committed or assigned. It represents resources available for immediate appropriation by the Board.

No use of Unassigned Fund Balance is permitted without approval of the Board of Supervisors. The County will make every effort to use unassigned funds for the following purposes (listed in order of priority):

- To maintain the County's Rainy Day Fund at the prescribed level
- To address unexpected revenue short-falls or expenditures encountered in the current fiscal year
- To fund non-recurring capital expenditures

Unassigned fund balance will not be used to fund recurring expenditures or to compensate for structural budget deficits.

### **4. ORDER OF FUND BALANCE USE**

When multiple categories of fund balance are available for expenditure, the County will start with the most restricted category and spend those funds first before moving down to the next category with available funds. For example, if a construction project was being funded by bond proceeds and assigned fund balance, the County would first use the bond proceeds to pay expenditures since use of bond proceeds is more restrictive than use of *assigned fund balance*.

### **5. REPORTS TO GOVERNING BODY**

The County Finance Director shall prepare, on at least an annual basis, a report detailing the amounts of spendable fund balance available. This report may be integrated into the Annual Fiscal Plan, Interim Financial Report or as a stand-alone document.