

## **03. FINANCE**

### **3.6. Fund Balance**

BOS Adopted – May 7, 2008

**3.6.1. Purpose.** The purpose of this policy is to establish:

- A. The components of General Fund Balance;
- B. A minimum for unreserved-undesignated fund balance;
- C. The fund balance of other funds and the impact on the General Fund; and
- D. Compliance with this policy.

### **3.6.2. Background**

A. Fluvanna County desires to maintain the financial operations of the County in a manner consistent with sound financial management principles which require that sufficient funds be retained by the County to provide a stable financial base at all times.

B. An adequate fund balance level is an essential element in both short- and long-term financial planning, and serves to mitigate current and future risks (revenue shortfalls and unanticipated expenditures), sustain operations during economic downturns, and enhance creditworthiness.

C. Through the maintenance of sufficient levels of fund balance, the County can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt.

### **3.6.3. Fund Balance Components**

A. General Fund – This fund is the County’s general operating fund, which accounts for all governmental activities unless required to be accounted for in another fund.

B. Fund Balance – The difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. It is divided into two elements: reserved and unreserved.

1. Reserved Fund Balance – This is the portion of financial resources that have been restricted for specific uses such as legal or grants. Reservations are often set by those outside the government such as State and federal agencies and can only be spent for those established purposes.

2. Unreserved Fund Balance – This is the portion of the fund balance that is available for spending. Unreserved fund balance is divided into two components: designated and undesignated.

a. Unreserved-Designated Fund Balance – These funds represent intended uses of financial resources including those specifically reserved by the Board of Supervisors for a future need, revenues recognized in advance of matching expenditure, funding of subsequent budget, and reappropriation of prior year balances. Designations are tentative and the Board of Supervisors can change the designation of these funds for other uses.

b. Unreserved-Undesignated Fund Balance – These funds represent the remainder of the County’s equity in the General Fund. This is the portion of fund balance that has not been reserved or designated for other uses; therefore, it is available to spend in future periods.

### **3.6.4. Fund Balance Requirements – General Fund**

#### **A. Unreserved-Undesignated**

1. The unreserved-undesignated fund balance shall be at least 12% of Governmental General Fund Revenues and Component Unit – School Board Operating Revenues at the end of each fiscal year.

2. Twelve percent (12%) is identified as the minimum amount needed to safeguard the County’s financial stability, and as one component in maintaining a high bond rating.

3. This would be the minimum fund balance to meet ongoing expenditure obligations for County and Schools.

B. Unreserved-designated shall be established at an amount equal to 1.11.3.b(2)(a).

#### **C. Contingency**

1. The County will maintain Board and Personnel contingency lines in the general fund to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery cost.

2. These contingency lines shall be budgeted at least 0.5% of governmental general fund expenditures.

### **3.6.5. Fund Balances – Other Funds**

#### **A. Capital Projects Fund**

1. Designation shall be made for projects made with issuance of bond proceeds.
2. Designation shall be made for proffers which present a timing difference between recognition of revenue and subsequent use of funds.
3. Any balances for unreserved-designated capital projects are held in the General Fund until funds are used. Cash transfers are made from the supporting operating fund for projects when funds are expended.

**B. School Fund**

1. The School Fund does not maintain a fund balance.
2. General Fund is the primary support for the School Fund. In the event revenue shortfalls occur, the General Fund may be impacted. The unreserved-undesignated fund balance requirement established for the General Fund takes this liability into account.

**C. Enterprise Funds**

1. The County currently has four Enterprise Funds:
  - Landfill
  - Utility (Sewer)
  - Fork Union Sanitary District (FUSD)
2. These operations are intended to be self-supporting. As such, the charges for services should be adjusted to cover any deficits.
3. In the event of deficits, the Board of Supervisors may approve a loan or gift to cover the deficit from the General Fund. The preferred method for providing supplemental funding shall be that of a loan accompanied by an appropriate repayment schedule. However, particular circumstances may warrant supplemental funding in the manner of a gift from the General Fund. The unreserved-undesignated fund balance requirement established for the General Fund takes this liability into account.

**3.6.6. Policy Compliance**

A. Fund balances shall be evaluated during the annual budget process. It shall be the goal of the Board of Supervisors to adopt a budget that maintains the requirements established herein.

B. Fund balance policy will be reviewed and reported to Board of Supervisors at least annually in conjunction with the development of the operating budget and upon any significant amendments made to the budget throughout the fiscal year.

C. No appropriation from Unreserved-Undesignated Fund Balance for recurring operational expenditures shall be made unless a plan for permanent funding of such expenditures is also approved at the time of appropriation.

D. In the event Unreserved-Undesignated Fund Balance is required to be drawn below the 12% requirement due to an emergency, such as natural disaster or due to severe economic circumstances, the County Administrator will present to the Board of Supervisors a plan and timeline to restore the Unreserved-Undesignated Fund Balance to its minimum level established herein.

E. All fund balances shall be invested in such instruments as deemed appropriate by the County Treasurer, and unless otherwise specified, investment revenue shall accrue to the General Fund.