

Buncombe County
General Fund Balance Policy

Original Effective Date: 06-18-96
Dates of Revision: 08-07-12, 08-04-20

Purpose

The County desires to maintain a prudent level of financial reserves to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The fund balance has been accumulated to meet this purpose – to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

The primary reasons for a general fund reserve policy are to:

- **Plan for contingencies.** Because of the volatile revenue sources such as property and sales tax, governments will always face challenges when it comes to matching planned revenues with actual expenditures. Local events, such as the closure of a major employer, can also negatively affect revenue. Finally, extreme events such as winter storms or hurricanes can increase operating and/or capital costs. Reserves can be used to make up these temporary shortfalls.
- **Maintain good standing with rating agencies.** Bond rating agencies consider an adequate level of reserves a sign of creditworthiness because it enhances a government's ability to repay debt on time and in full.
- **Avoid interest expenses.** Cash reserves may be used rather than debt to fund capital projects.
- **Generate investment income.** Reserves can be a source for investment revenue, effectively reducing the burden on the property tax rate. To maintain the reserve's value as a risk mitigation device, investments will remain relatively liquid in compliance with the County Investment Policy.
- **Serve as a cash flow management tool.** Reserves can be used to cover times of the year that normally experience low levels of cash.
- **Create a shared understanding.** A formal reserve policy clearly outlines appropriate use of the reserves.

Administration and Implementation

The County Manager and Finance Director are charged with carrying out the policy.

Components of Fund Balance

Fund Balance vs. Reserves - *Fund balance* is an accounting term defined as the difference between assets and liabilities in a governmental fund. The term *reserves* is often used by public finance practitioners, but isn't an actual government accounting term. It refers to the portion of fund balance held in reserve to provide a buffer against financial distress or risk.

In governmental funds, "reserves" comprise a portion of total fund balance. Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* governs the descriptions used to report fund balance. The statement focuses on the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent" and breaks total fund balance into five (5) different components:

- **Nonspendable fund balance.** Fund balance in this category is inherently nonspendable.
- **Restricted fund balance.** This category has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors, or laws or regulations of other governments.
- **Committed fund balance.** This encompasses limitations imposed by the government on itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might like to commit a portion of fund balance to a "stabilization fund" to provide a cushion against unknown economic downturns and revenue declines.
- **Assigned fund balance.** This category is for the portion of fund balance that is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or an official designated for that purpose. For example, a portion of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or a portion could be assigned to pay for an upcoming special project.

- **Unassigned fund balance.** This encompasses all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.

The last three components (committed, assigned and unassigned fund balance) together comprise "unrestricted fund balance", which is the part of fund balance covered by this reserve policy because unrestricted fund balances are either unconstrained or the constraints are self-imposed, so they could be lifted in order to make fund balances available for other purposes. Conversely, restricted fund balances or nonspendable fund balances are not suited to many of the purposes a reserve policy typically is intended to fulfill.

Required Reserve Levels

The North Carolina State Treasurer recommends a minimum unallocated general fund balance of eight percent (8%). However, the County policy is more restrictive, requiring a minimum unallocated general fund balance of between fifteen percent (15%) and twenty percent (20%) of the total actual expenditures and transfers. The minimum requirement will be reviewed by the Finance Director as changes in economic conditions occur, new legislation is enacted or revenue sources change. Fund balance appropriated will not exceed an amount management can reasonably expect to save during the year. If fund balance is appropriated to balance the following year's budget in an amount that, if spent, would reduce the percentage below fifteen percent (15%) an explanation of the circumstances of the utilization and a plan to save or replenish the fund balance will be included in the transmittal letter of the Comprehensive Annual Financial Report (CAFR).

Excess Fund Balance Levels

Upon completion of the annual audit of County finances, any unreserved, undesignated fund balance above twenty percent (20%) will be transferred to the County Capital Projects Fund. The County Capital Projects Fund shall be used for one-time capital expenditures. The fund may also be used for prepayment of debt, upon recommendation by the County Finance Officer and approval of the County Manager, to reduce the county's outstanding debt or to pay down debt with high interest rates. The Board of County Commissioners will be notified of any prepayment of debt.

Adopted by the Board of County Commissioners
08/04/200



Buncombe County Chief Financial Officer