



Finance Department Fund Balance Policy

Background

In February 2009, the Governmental Accounting Standards Board (GASB) issued *GASB #54 Fund Balance Reporting and Governmental Fund Type Definitions*. The statement significantly changes how fund balances are categorized. It clarifies/modifies how some of the governmental funds are presented and classified.

This policy will provide a cross reference between the Pre-GASB #54 Fund Balance Classifications and the Post-GASB #54 Fund Balance Classifications.

Fund Balance Classifications: Current and GASB #54

Pre-GASB #54 Classifications of Fund Balance

Post-GASB #54 Classifications of Fund Balance

Reserved Non-spendable	<i>Not available for appropriation.</i> Not available for spending, neither now nor in the future, because of (e.g., debt retirement)	
Designated Restricted	<i>Available for appropriation but intended for a specific use.</i> Constraints on spending that are legally enforceable by outside parties.	
Unrestricted	Designated Committed	Not available for appropriation. Constraints on spending that the government imposes upon itself by highest-level formal action prior to the close of the period.
	Undesignated Assigned	Available for appropriation. Resources intended for spending for a purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board.
	Unassigned	Residual (General Fund Only)



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Purpose

The Fund Balance Policy will help provide a stable financial environment for the County's operations, which allows the County to provide excellence services to its residents in a fiscally responsible manner. This policy will also provide a measure of financial protection against unanticipated events that would adversely affect the financial condition of the County and endanger the continuation of necessary county services. No other policy or procedure supersedes the authority and provisions of this policy.

This policy is adopted to ensure the County maintains sufficient fund balance reserves to provide the capacity to:

- Provide sufficient cash flow for daily financial needs
- Offset significant economic downturns or revenue shortfalls
- Provide funds for unforeseen expenditures related to emergencies
- Provide funds to maintain a balanced annual operating budget

Generally, the fund balance levels are dictated by:

- Cash flow requirements to support operating expenses;
- Susceptibility to emergency or unanticipated expenditure;
- Credit worthiness and capacity to support debt service requirements;
- Legal or regulatory requirements affecting revenues, disbursements, and fund balances; and
- Reliability of outside revenues.

I. Policy

It is the goal of the Darlington County Council and the County Administrators Office (CAO) to achieve and maintain an unassigned fund balance reserves in the General Fund at the close of the fiscal year of no less than 35% of General Fund operating expenditures. If the unassigned fund balance at the close of the fiscal year is below 35%, the County Administrator will present a restoration plan to achieve and maintain the minimum fund balance amount.

In the event fund balance reserves in the General Fund exceeds the 35% minimum balance requirements, additional funds can be used to cover one-time capital purchases or expenditures (*i.e., vehicle purchases, facility improvements, etc.*) with Council approval. In addition, County Administration recommends council appropriate funding to be held in a budget stabilization account to assist with balancing the General Fund operating budget.



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II. Replenishment Policy

- General Fund balance will *not* be appropriated to support the on-going operations of the County except in extreme emergency situations.
- If, at the end of a fiscal year, the fund balance falls below the 35% minimum, a replenishment period will commence.
 - During the replenishment period, the County Administrator shall prepare and submit a plan for expenditure reductions and/or revenue increases to the County Council for approval.
- To return the General Fund Balance to the minimum 35% of total General Fund expenditures, repayment of General Fund balance will be budgeted over the next two fiscal years beginning with the subsequent year's adopted budget.

III. Stabilization Account

The stabilization account provides the County with a "rainy day" fund in addition to county fund balance reserves. These funds will be used to balance the annual operating budget or cover unforeseen and/or unbudgeted expenditures for the following reasons:

- Emergencies (natural disasters or emergency infrastructure failure)
- Declining real estate values & tax collection rates
- Loss of a major taxpayer in the County
- Sudden changes in revenues
- Spending requirement imposed by state or federal government
- Unforeseen litigation

The County Administrator's Office (CAO) recommends county council annually appropriate \$500,000 or 1%, whichever is greater, of undesignated fund balance reserves be kept in a stabilization account. Stabilization funds shall be kept in this account to cover unforeseen and/or unbudgeted expenditures incurred as a result of the bulleted items listed above.



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IV. Definitions

- **Fund Balance** – This is the cumulative difference of all revenues and expenditures. It can also be considered to be the difference between assets and liabilities reported in the governmental fund.
- **Non-spendable Fund Balance** – Amounts that are not spendable in form or legally or contractually required to be maintained intact. “Not spendable in form” includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale (unless the proceeds are restricted, committed, or assigned). The principal of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance** – Amounts constrained for a specific purpose by formal action of a government using its highest level of decision-making authority. Commitments include amounts that can only be used pursuant to internal constraints imposed by the County’s Code of Ordinances. Commitments may be changed or lifted only by the County Council taking the same formal action that imposed the original constraint. Action to constrain resources must occur prior to yearend; however, the amount can be determined in the subsequent period.
- **Assigned Fund Balance** – In the General Fund, these are spendable amounts constrained by the County’s intent to use for a specific purpose, but are neither restricted nor committed; the intent shall be expressed by the County Administrator based on County Council direction. For all governmental funds other than the General Fund, assigned fund balance is any residual positive amounts not classified as non-spendable, restricted or committed.
- **Unassigned Fund Balance** – The residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.
- **Unrestricted Fund Balance** – The total of *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the County. It is also referred to as Spendable Fund Balance.