

Scotland County Fund Balance Policy

SECTION 1. Purpose

- 1.1 This policy establishes guidelines for preserving an adequate fund balance in each of Scotland County's (County) operating funds in order to sustain financial stability and to provide prudent management of the County's financial reserves.

SECTION 2. Fund Balance - General Fund

- 2.1 Fund balance is the difference between a fund's assets and liabilities.
- 2.2 An accounting distinction is made between the portions of governmental fund balance that is spendable and non-spendable. These are broken up into five categories.
 - a. **Non-spendable Fund Balance** – includes amounts that are not in a spendable form or are required to be maintained intact. *Examples include inventory and prepaid items.*
 - 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 grants and debt proceeds.*
 - c. **Committed Fund Balance** – includes amounts that can be used only for specific purposes determined by a formal action of the County's highest level of decision making authority which is the Board of Commissioners. Commitments may be changed or lifted only by the Board of Commissioners taking the same formal action that imposed the commitment originally.
 - d. **Assigned Fund Balance** – comprises amounts intended to be used by the County for specific purposes. Intent can be expressed by the Board of Commissioners by the approval of a budget appropriation. 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. *An example includes funds assigned by the Board of Commissioners for specific capital projects.*
 - e. **Unassigned Fund Balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. The County uses the term available fund balance when referring to unassigned fund balance. Available fund balance (or unassigned fund balance) is the amount that is available for appropriation for public purposes.

SECTION 3. Fund Balance - Enterprise Fund

- 3.1 Enterprise funds are used to account for utility operations. Enterprise funds are also known as proprietary funds and business-type funds.
- 3.2 Enterprise funds have a totally separate fund balance that is not to be co-mingled with the general fund fund balance.
- 3.4 Enterprise funds have separate terminology for fund balance termed as net position in financial reports. The County most commonly uses the term fund balance when referring to the enterprise funds net position.
- 3.4 The fund balance of all enterprise funds including, water and solid waste, is designated as unrestricted fund balance (or unrestricted net position).
- 3.5 Restricted fund balance has externally imposed limitations on use from creditors, grantors, laws/regulations, or constitutional provisions. Generally, enterprise funds are business-type funds that do not have those types of restrictions and therefore, the fund balance is termed as unrestricted.
- 3.6 The fund balance of each enterprise fund is used for the operating purpose of the fund. Appropriations for non-operating purposes and transfers will be clearly indicated in the annual budget and transfers will be subject to applicable statutory restrictions.

SECTION 4. Objectives

- 4.1 The County recognizes that it is essential to maintain adequate unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Fund balance also provides cash flow liquidity for the County's operations.
- 4.2 Fund balance enhances short-term and long-term financial credit by helping to achieve the highest credit and bond ratings possible.
- 4.3 Fund balance promotes long-term financial stability by establishing clear and consistent guidelines.
- 4.4 Fund balance will provide funding flexibility during unanticipated emergencies, natural disasters and economic development opportunities.

SECTION 5. Guidelines

- 5.1 The County will maintain reserves required by law, ordinance, and/or bond covenants. The North Carolina Local Government Commission prescribes that a minimum of at least eight (8) percent of annual budgeted expenditures be maintained for unassigned fund balance. Higher levels may be set based on the current operating needs of the individual fund and future funding needs.

- 5.2 The County's goal is to have a target range of unassigned fund balance of at least fifteen percent (15%) up to a maximum of twenty-four percent (24%) of annual budgeted expenditures for each operating fund. The optimal unassigned fund balance shall be eighteen percent (18%) to twenty-four percent (24%).
- 5.3 All expenditures drawn from unassigned fund balance will require Board of Commissioner approval unless previously authorized by the Board of Commissioner's for expenditure within the County's annual budget.
- 5.4 The County will maintain adequate unassigned fund balance in all operating funds and have a goal for each fund that will be reviewed at least annually and a target level set by the Finance Officer and the County Manager. The level of unassigned fund balance will be determined based on anticipated future funding needs, historical trends, growth patterns, the economy and contractual obligations, including bond covenants.
- 5.5 If unassigned fund balance falls below annually set levels, the Finance Officer and County Manager shall implement a plan to restore unassigned fund balance within twenty-four (24) months and include within its annual budget the plan to restore fund balance to required levels.
- 5.6 The Board of Commissioners may, from time to time, appropriate unassigned fund balances that will reduce available fund balance below the fifteen percent (15%) goal for the purpose of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the County. In such circumstances, the Board of Commissioners will adopt a plan to restore the available unassigned fund balance to the policy level within twenty-four (24) months from the date of the appropriation. If restoration cannot be accomplished within such a time period without severe hardship to the County, then the Board of Commissioners will establish a different appropriate time period.
- 5.7 In the event that funds are available over and beyond the targeted amount, those funds may be transferred to the capital reserve fund and/or the economic development fund at the discretion of the Board of Commissioners.