

## **FP 1: Restricted and Unrestricted Funds**

***The County will maintain restricted and unrestricted stabilization funds at levels sufficient to protect the County's credit, as well as its financial position, for emergencies.***

The County seeks to maintain a prudent level of financial resources to protect against 1) reducing service levels or 2) raising taxes and fees because of either temporary revenue shortfalls or unpredicted one-time expenditures. Stabilization funds are called by many names including rainy day funds, contingency funds, and unassigned fund balances. These funds are used at a government's discretion for many purposes, such as to fund emergencies or to address temporary cash flow shortages, unanticipated economic downturns, and one-time opportunities.

These funds provide flexibility to respond to unexpected opportunities that may help a government achieve its goals. The minimum and maximum amounts to be accumulated are based on the types of revenue, the level of uncertainty associated with revenues, the condition of capital assets, or the County's level of security with its financial position.

Revenue projections are conservative and authorized expenditures are closely monitored. In stable economic times, the combinations of these two strategies lead to revenue collections higher than actual expenditure. The accumulation of these reserves serves to protect the County from uncontrollable increased expenditures or unforeseen reductions in revenue, or a combination of the two. It also allows for the prudent financing of capital construction and replacement projects.

The County maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies. All expenditures of reserves must be approved by the Board of County Commissioners (the "Board"). This may occur during the annual budget process or throughout the fiscal year.

The following summarizes the County's policy on fund balances:

### **1. Unassigned Fund Balances**

- Fund balance may be classified as either non-spendable or spendable. Spendable fund balance is categorized as restricted, committed, assigned, or unassigned. Unassigned Fund Balance is the remaining fund balance after all considerations for the portions that are restricted (i.e. limited by an external source), committed (i.e. adopted by the governing body), or assigned (as designated by management).
- In accordance with NC General Statutes, appropriated (i.e. budgeted) fund balance in any fund will not exceed the available fund balance (available fund balance is defined by NC General Statutes as the sum of cash and investments less the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts).
- The County will maintain an unassigned fund balance in the General Fund that significantly exceeds the minimum eight percent (8%) required by the LGC. The percentage is to be determined by dividing the unassigned fund balance amount by actual annual expenditures. The target goal of the County for the General Fund's unassigned fund balance (i.e. "Reserves") shall be a minimum of 25% with a goal of 30% - 40% of the actual expenditures of the then completed fiscal year.

- **Purpose of Reserve:** These funds will be utilized to avoid cash flow interruptions, generate interest income, eliminate the need for short-term borrowing, and maintain or improve the County’s credit ratings.
  - **Reserve Drawdown:** The fund balance may be purposefully drawn down below the target percentage for emergencies, non-recurring expenditures, or major capital projects.
  - **Reserve Replenishment:** If the fund balance falls below the target percentage for two consecutive fiscal years, the County will replenish funds by direct appropriation in the next budget developed for the fiscal year after occurrence is known. In that instance, the County will annually appropriate 33% or more of the difference between the target percentage level and the actual balance until the target level is met. In the event appropriating 33% is not feasible, the County will appropriate a lesser amount and shall reaffirm by Board resolution its commitment to fully replenish the fund balance over a longer period of time.
  - Any General Fund unassigned fund balance that exceeds the target goal range may be transferred for the following uses:
    - Capital Projects
    - Economic Development
    - Disaster Recovery
    - Post-Employment Health Benefits Liability
    - Other designations as designated by the Board
  - The amount that budgeted debt service exceeds actual debt service expenditures for debt issues subject to a swap shall be reserved up to the potential swap termination payment as of each June 30th.
  - **General Fund:** The General Fund shall maintain an unassigned fund balance equal to at least 25% of the total audited General Fund expenditures for the previous fiscal year. These funds are to be left in the County’s general operating cash and investment accounts for the purpose of floating the County’s operations throughout the fiscal year.
  - **Enterprise Fund:** The Enterprise Fund shall maintain an unassigned fund balance equal to at least 25% of the total audited Enterprise Fund Operating Expenses for the previous fiscal year. These funds are to be left in the County’s enterprise operating cash and investment accounts for the purpose of floating the County’s operations throughout the fiscal year.
  - **Other Governmental Funds:** Other governmental funds shall maintain an unassigned fund balance equal to at least 20% of the total audited fund expenditures for the previous fiscal year. These funds are to be left in the County’s general operating cash and investment accounts for the purpose of floating the County’s operations throughout the fiscal year.
- 2. Restricted Fund Balances**
- All restricted fund balances shall be fully funded and set aside. The total set aside in this account is to be equal to the cumulative total of all “Restricted Fund Balances” for the previous fiscal year. These fund balances may only be used for the express purpose of funding expenditures directly related to the restricted purpose.
- 3. Liabilities**
- As a matter of policy, the County will maintain a separate account for Utility Deposits equal to the prior year audited totals. These fund balances may only be used for the purpose of refunding utility deposits or paying delinquencies related to the account.

These calculations are to be updated on an annual basis when the final audit is complete.