

## 1.0 Purpose

To establish a key element of the financial stability of the County by setting guidelines for the General Fund balance. Available fund balance is an important measure of economic stability. It is essential that the County maintain adequate levels of available fund balance in order to ensure against unanticipated events that would adversely affect the financial condition of the County and jeopardize the continuation of County services and/or activities and to provide the capacity to:

- a) Provide sufficient cash flow for daily financial needs;
- b) Secure and maintain investment grade bond ratings;
- c) Offset significant economic downturns or revenue shortfalls;
- d) Provide funds for unforeseen expenditures related to emergencies;
- e) Adhere to Local Government Commission minimum fund balance recommendation
- f) Provide citizens with a stable property tax rate

This policy will also establish guidelines for the replenishment of the County's fund balance in the event that the fund balance falls below the required levels set forth herein.

## 2.0 Definition

2.1 Fund balance. Fund balance is the difference between assets and liabilities reported in a governmental fund. An accounting distinction is made between classifications of fund balance based on restrictions on the use of fund balance. These classifications as defined by the Government Finance Officers Association are (1) Non-spendable, (2) Restricted, (3) Committed, (4) Assigned, and (5) Unassigned.

2.2 Non-spendable fund balance: Non-spendable fund balance are the components of fund balance that cannot be spent because they are either (a) not in a spendable form or (b) contractually required to be maintained intact.

2.3 Restricted fund balance: Restricted fund balance are the components of fund balance that have constraints placed on the use of resources either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors or

laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

- 2.4 Committed fund balance: Committed fund balance are the components of fund balance that are used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. In New Hanover County, the highest level of decision-making authority would be considered the Board of County Commissioners. These self-imposed limitations must be set in place prior to year-end, but can be calculated after year-end to be considered committed for that fiscal year end. In addition, to be considered committed, the limitations that were imposed at the highest level of decision-making authority must also require the same action to remove or modify the limitations. Ordinances that lapse at year-end do not meet the committed test.
- 2.5 Assigned fund balance: Assigned fund balance are the components of fund balance that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. These assignments can occur any time before the issuance of financial statements to be considered assigned for that fiscal year end. Further, this assignment ability can be delegated by the Board of County Commissioners to an appropriate person (i.e. County Manager, Finance Officer or Budget Officer).
- 2.6 Unassigned fund balance: Unassigned fund balance is the remainder of fund balance that has not been reported in another classification and represents assets that are available to appropriate for future purposes.
- 2.7 Available fund balance: Available fund balance is the total fund balance less the total of non-spendable fund balance and fund balance restricted for stabilization by state statute.

## 3.0 Policy

- 3.1 The New Hanover County Board of Commissioners formally establishes the goal of maintaining unassigned fund balance in the General Fund in an amount between eighteen (18) percent (approximately two and two-tenths of a month) and twenty-one (21) percent (approximately two and a half months) of the General Fund expenditures and outflows at the end of each fiscal year. It is the

## FUND BALANCE POLICY

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duty of the Chief Financial Officer to ensure the Board of County Commissioners is informed on the annual unassigned fund balance level. If the level is near the bottom of the allowed range, the Chief Financial Officer will make recommendations on where that level should be within the range. If any significant event or change occurs during a fiscal year which the Chief Financial Officer believes will lead to the County being below the bottom of the allowed range, the Chief Financial Officer will notify the Board of County Commissioners.

- 3.2 If the unassigned fund balance level exceeds the twenty-one (21) percent ceiling in a given year, the Board of County Commissioners delegates authority to assign the funds for the purpose of paying for future capital and capital project needs to the Chief Financial Officer. Alternatively, Chief Financial Officer may recommend to the Board of County Commissioners that a budget amendment be adopted to move the amount above the ceiling to a capital project fund.
- 3.3 The Chief Financial Officer is charged to maintain available fund balance in the General Fund in an amount no less than eight (8) percent (or approximately one month) of the General Fund expenditures and outflows at the end of each fiscal year, as recommended by the North Carolina Local Government Commission. In the event of an emergency, a supermajority vote (four of five member's affirmative vote) of the Board is required to approve the use of the fund balance such that it falls below the eight (8) percent target.
- 3.4 The County's budget and revenue spending policy provides for programs with multiple revenue sources. The Chief Financial Officer will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local funds and county funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Chief Financial Officer has the authority to deviate from this practice if it is in the best interest of the County.
- 3.5 The independent auditor of the County shall monitor the County's compliance with this established Fund Balance Policy. The auditor shall report related findings and recommendations annually as part of the County audit.

## **4.0 Replenishment of Fund Balance**

- 4.1 If it is anticipated at the completion of any fiscal year that the projected or estimated amount of fund balance falls below the required levels set forth in section 3.1, the County Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure reductions and/or revenue increases necessary to restore the amount of fund balance to the minimum requirements within two (2) fiscal years.

## **5.0 Maintenance of Fund Balance for Enterprise Funds and Special Fire District**

- 5.1 The County will strive to maintain an adequate level of fund balance for its Enterprise Funds and Special Fire District Fund for future capital expenditure needs and for unforeseen circumstances and emergencies.