

SUBJECT:**Fund Balances, Reserves, Contingencies, and Utility & Solid Waste
Rate of Return Policy****ORIGINATING DEPARTMENT:**

Management & Budget

PURPOSE:

To adopt a Fund Balance policy to comply with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establish criteria and procedures for utilizing reserves and contingencies, and to provide for a sustainable, sound fiscal policy which:

- Provides working capital until receipt of tax revenues,
- Provides for unexpected contingencies and natural disasters,
- Directs a scheduled Public Utility and Solid Waste Management rate of return,
- Is favorably viewed by rating agencies and banks in evaluating the credit worthiness of Citrus County, and
- Allows the County to maintain a stable tax rate through temporary revenue and/or expenditure fluctuations

BACKGROUND:

Fund Balance is an important measure representing the difference between a fund's assets and liabilities. Fund balance serves as a measure of the financial resources available within a governmental fund. A hierarchy of fund balance classifications exists based primarily on the extent to which governments are bound by constraints on resources reported in the funds. That hierarchy is: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

Reserves and Contingencies are accounts used to either indicate that a portion of a fund's balance is legally restricted for a specific purpose and is, therefore, not available for general appropriation or funds which are set aside to cover emergencies or unforeseen events that occur during the fiscal year, such as new federal mandates, shortfalls in revenue and unanticipated expenditures.

It is desired that a rate of return on the County's investment in the Public Utility and the Solid Waste Management business-type activities be established benefitting the General Fund.

DEFINITIONS:

Fund Balance – the difference between assets and liabilities reported in a governmental fund.

Non-Spendable Fund Balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance – amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned Fund Balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority.

Unassigned Fund Balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Unrestricted Fund Balance – The total of committed fund balance, assigned fund balance and unassigned fund balance.

Reserve- An account used to indicate that a portion of a fund's balance is legally restricted for a specific purpose and is, therefore, not available for general appropriation.

Contingency- Funds which are set aside to cover emergencies or unforeseen events that occur during the fiscal year, such as new federal mandates, shortfalls in revenue and unanticipated expenditures.

Operating Budget – The total General Fund budget less capital outlay, reserves and transfers.

Operating Revenues – The total of charges for services and other operating revenues as defined by Generally Accepted Accounting Principles.

PROCEDURES:

1. **Spending Order of Fund Balances** – Restricted amounts shall be spent first when both restricted and unrestricted fund balance are available, unless there are legal documents/contracts prohibiting it, such as grant agreements. Further, the order of priority shall be Committed Fund Balance, followed by Assigned Fund Balance, and then Unassigned Fund Balance when expenditures are incurred for purposes for which amounts in any of the Unrestricted Fund Balance classifications could be used.
2. **Minimum Level of Fund Balance** – The County will establish a minimum unassigned fund balance in the General Fund of eight percent (8%) and a maximum of seventeen percent (17%) of the General Fund operating budget. The County will establish minimum fund balance requirements for other governmental funds for each fund based on the cash flow requirements of the fund, as well as other factors unique to the fund. Annual contributions will be budgeted

from General Fund resources as available to maintain the target reserve level.

3. It will be the policy for the County to apply the above criteria for annual analysis during its budgeting process. A range of fund balance will be presented to the Board for approval as part of the annual budgeting process; any deviation from the policy shall be documented and presented at this time. If a fund balance is outside of the established range, the proposed budget must include a multi-year plan of action to achieve compliance with the established range.
4. Surplus fund balance – should unassigned fund balance of the General Fund ever exceed the maximum seventeen percent (17%) range, the excess may be used for any legal purpose. The Board will consider such fund balance surpluses for nonrecurring expenditures.
5. The County will include all projected fund balances in the annual budget. All reserves will be presented in the annual budget.
6. On an annual basis, after the year-end audit has been completed, but no later than May 1, the County Administrator shall produce a schedule of all fund balances, projected and actual, with projections of reserve requirements and a plan for the use of any excess surplus for the current year.
7. Contingency accounts will be established to provide the following:
 - a) Funding for the unexpected increases in the cost of providing existing levels of service.
 - b) Temporary and non-recurring funding for unexpected projects.
 - c) Funding of a local match for public or private grants.
 - d) Funding to accommodate unexpected program changes and mandates from other governmental bodies.
 - e) Funding to initiate programs or projects.
8. Requests for use of contingency accounts must be approved by the Board of County Commissioners. The Board will use the procedures and evaluation criteria as set forth in this policy. Evaluation criteria may consist of one or more of the following:
 - a) Ensure consistency with other Board policy.
 - b) Determine the urgency of the request.
 - c) Review the scope of services to be provided.
 - d) Consider the short- and long-term fiscal impact of the request.
 - e) Review alternative methods of funding or providing the services.
 - f) Determine duplication of services with other agencies.
 - g) Determine efforts to secure non-County funding.
 - h) Determine why funding was not sought during the normal budget cycle.
 - i) Review the impact of not funding or delaying funding to the next fiscal year.

9. It shall be the goal of the Board that the general governmental contingency account is budgeted at no less than one percent (1%) of projected general fund operating revenues for the ensuing fiscal year. The County's budget will be amended at such time the County Commission authorizes the withdrawal of funds from reserves or contingency accounts. All requests to the County Commission for withdrawal of funds from contingency or reserve accounts shall be accompanied by a "contingency addendum" prepared by the staff of Management & Budget showing year-to-date activity of the contingency account, as well as the current account balance and the net effect on the account of approving the use for reserves.
10. Beginning October 1, 2013, each month the Public Utility and the Solid Waste Management divisions shall transfer five percent (5.00%) of operating revenues to the General Fund. This rate is subject to modification during the annual budgetary approval process and separate rates may be established for each. Said modifications, if any, shall supersede the stated rate in this Administrative Regulation and shall remain in effect until further modification or until amendment or rescission of this Administrative Regulation.

FOOTNOTES & REFERENCES TO RELATED AR's: Supersedes: AR 6.04-3 dated April 23, 2013