



County of Yolo

Administrative Policies and Procedures Manual

TITLE: FUND BALANCES AND RESERVES	DEPARTMENT: COUNTY ADMINISTRATOR
TYPE: POLICY	DATE: JUNE 7, 2011

A. PURPOSE

This policy relates to the classification and use of fund balances, and describes the plan for financial reserves to support the strategic goal of financial sustainability in county government.

B. APPLICABILITY

This policy applies to the County General Fund as well as all other governmental funds and is consistent with *Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions*, (GASB 54). Governmental funds are used to account for governmental activities that are principally supported by taxes and intergovernmental revenues. In Yolo County, they include the General Fund, the Public Safety Fund, the Roads and Transportation Fund, the Tobacco Securitization Fund, the Mental Health Managed Care Fund, and over a hundred other smaller funds. This policy does not apply to proprietary funds or fiduciary funds.

C. POLICY

1. GENERAL FUND

- a. The General Fund is normally used to account for and report all financial resources not accounted for and reported in another fund; these resources are generally not restricted to specific purposes.
- b. In addition, as the chief operating fund of the county government, the General Fund has a broader mandate than other funds; this includes accumulating sufficient resources for the administration of the government, for the provision of county services that have no dedicated funding, and for the mitigation of contingencies. Due to this important mandate, the General Fund is often viewed as a measure of the financial health of the county government; as such, it is regularly scrutinized by bond rating agencies, grantors, lenders and other potential County financial partners.
- c. For the above reasons, General Fund resources should be used sparingly and the General Fund should be the fund of last resort: all special purpose funds should be expended first before General Fund resources are drawn on.

2. FUND BALANCE CLASSIFICATION AND USE

- a. Fund balance in governmental funds essentially represents working capital that can either be used as a liquidity reserve or for spending in future years. In order to determine what portion of fund balance is available for spending in a future budget, the fund balance is broken down into five different categories denoting various levels of restrictions. The five classifications conform to GASB 54 and are, in order of decreasing constraint:
 - 1) **Nonspendable Fund Balance** - These are amounts that cannot be spent due to their nature (e.g. prepaid amounts) or are amounts that must be maintained intact legally or contractually (e.g. corpus of a permanent fund).

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- 2) **Restricted Fund Balance** - These are amounts that are constrained for a specific purpose by external parties, constitutional provision or enabling legislation. The constraints are imposed by either laws, or federal or state grantors or creditors. The constraints can only be removed by the imposing party. For example, most grant funds would be restricted to the purposes of the grant; Measure P - 2008 bond proceeds are restricted to the maintenance and expansion of the Davis library; Proposition 42 gas sales tax funds are restricted to certain expenditures for public streets and roads.
 - 3) **Committed Fund Balance** - These are amounts that are constrained for a specific purpose by the Board of Supervisors. A board resolution or a budget resolution is required to impose, remove or change the constraints placed on these resources. For example, the Habitat and Resource Management Program Fund was established by the Board of Supervisors to finance the implementation of the Cache Creek Area Plan; the Demeter Fund was established by the Board of Supervisors to create an endowment which would generate a perpetual income of \$1 million beginning in 2024.
 - 4) **Assigned Fund Balance** - In funds other than the General Fund, these amounts are any remaining positive amounts not classified in the above-listed categories. For example, in a capital project fund, any positive balance that is not nonspendable, restricted or committed, is automatically reported as assigned fund balance. In the General Fund, assigned amounts reflect intended uses of resources and may be constrained for a specific purpose by the County Administrator or the County Auditor-Controller. Such constraint can be changed or removed by the same county officers. Such assignment and subsequent changes should be reported at least annually to the Board as part of the Recommended Budget. Assigned amounts should not cause a deficit in unassigned fund balance in the General Fund. For example, a portion of the year-end balance of the General Fund may be set aside to eliminate a projected budget deficit in the next fiscal year; this amount , as well as year-end encumbrances in the General Fund would constitute assigned fund balance.
 - 5) **Unassigned Fund Balance** – These are amounts that have no restriction of any kind. By definition, a positive unassigned fund balance can exist only in the General Fund. In other governmental funds, there can only be negative unassigned fund balance, that is, residual deficit.
- b. **Unrestricted Fund Balance** – This term is used to refer to the aggregate of all funds that are not restricted. This would be the sum of committed, assigned and unassigned fund balances as described above.

3. ORDER OF SPENDING

- a. In order to preserve maximum flexibility, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is presumed that restricted funds are spent first.

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- b. Similarly, when an expenditure is incurred for purposes for which amounts in any unrestricted fund balances could be used, it is presumed that the committed amounts are spent first, then the assigned amounts, then the unassigned amounts.
- c. Upon recommendation of either the County Administrator or the County Auditor-Controller, the Board of Supervisors may authorize a different order of spending in specific cases.

4. STABILIZATION FUNDS

The County uses different types of mechanisms to maintain long-term financial stability. They are:

a. **Annual Appropriations for Contingencies**

These amounts provide the first line of defense against uncertainty and are budgeted in specific funds to cover minor unanticipated needs of a non-recurring nature that may arise throughout the year or provide for small increases in service delivery costs that were not anticipated during budget development. During the annual budget process the County Administrator recommends a specific level of appropriation for contingency (usually 1% - 3% of total budgeted expenditures) in specific funds.

b. **Specific Reserves**

In accordance with the County Strategic Plan and the Long Term Financial Plan, financial reserves are established to accumulate sufficient assets to pay known future liabilities or expenditures associated with known events which can be estimated with a reasonable degree of certainty. The Board of Supervisors may establish such reserves upon recommendation of the County Administrator or the County Auditor-Controller. The purposes of these reserves may include, but are not limited to:

1. Self insurance
2. Capital replacement
3. Infrastructure maintenance
4. Liability for Other Post Employment Benefits (OPEB)
5. Employee separation pay-offs
6. Litigation settlement
7. Environmental remediation

The rationale for establishing any reserve fund should be clearly stated and should include:

- i. A detailed description of its purpose
- ii. A target fund balance, with minimum and maximum levels if applicable, and the method for determining this target

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- iii. A funding plan with identified funding sources and funding schedule
- iv. A description of the triggering events that would justify a drawdown and the criteria for the drawdown
- v. The level of authorization required for the drawdown
- vi. A plan for replenishment after a drawdown, if not already part of the funding plan

c. General Reserve

The purpose of this reserve is to protect the County's essential services from the potentially devastating impact of unanticipated events and circumstances such as:

- i. Severe economic downturn
- ii. Severe funding reductions from funding agencies
- iii. Severe state budget impact
- iv. Catastrophic disasters

The balance in the reserve shall be maintained in the range 5% - 15% of the average total expenditures reported by the General Fund in the County annual financial report of the preceding three fiscal years. The County Auditor-Controller shall calculate the annual required contribution corresponding to this funding range and provide this information to the County Administrator during the annual budget development.

Drawdown on the General Reserve shall only be authorized by the Board of Supervisors in a four-fifth vote resolution or during the adoption of the annual budget.

In the first year of funding and after every drawdown, the General Reserve shall be replenished at the minimum level within five fiscal years.

The County Treasury shall maintain liquid county funds equal to at least the amount of the General Reserve.

d. Cash Reserve

In addition to the purposes specified for each of the reserves described above, their combined cash balance serves as a cash cushion to mitigate the effect of uneven cash flows during the year. The County traditionally issues tax revenue anticipation notes (TRAN) to cover cash shortfall during the cash-dry months. This need may be obviated by the increase in reserve funds if the aggregate balance of the reserves within the General Fund is maintained at above 15% of General Fund expenditures.

e. Annual review

The adequacy of all reserves, including their funding status, should be reviewed annually as part of the annual update of the long term financial plan or as part of the annual budget process.