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# Fund Balance Policy

## County of Bedford, Virginia

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### I. Purpose

The Board of Supervisors recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management; and therefore, formally establishes this policy for the County's Fund Balance. An adequate fund balance level is an essential element in both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of adequate levels of fund balance, the County can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings when issuing debt. The County has achieved a prudent level of fund balance to enable it to set aside the funds needed to meet the target established herein.

### II. Scope

This policy establishes the level of unassigned fund balance required for the County's General Fund. It sets forth the levels deemed appropriate for County operations, and the protocol for the use and maintenance of the established levels. This policy is established on the budgetary basis of accounting (cash).

### III. Components of Fund Balance

Fund Balance is the difference between assets and liabilities reported in governmental funds. The fund balance components are: Nonspendable, Restricted, Committed, Assigned, and Unassigned. The policy will focus on the Unrestricted Fund Balance, which is the amount remaining after accounting for nonspendable and restricted fund balance and is comprised of the committed, assigned, and unassigned fund balance.

- **Nonspendable Fund Balance** consists of funds that cannot be spent due to their form (e.g., inventories and prepaids) or funds that legally or contractually must be maintained intact.
- **Restricted Fund Balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation (i.e., federal grants, unspent bond proceeds, taxes raised for a specific purpose).
- **Committed Fund Balance** consists of financial resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Supervisors. Constraints may only be removed or changed by taking

the same type of action previously committing these amounts.

- **Assigned Fund Balance** consists of funds that are set aside with the intent to be used for a specific purpose by the Board of Supervisors, or official to which the Board of Supervisors has delegated the authority to assign amounts including, but not limited to, the County Administrator.
- **Unassigned Fund Balance** consists of the portion of unrestricted fund balance that has not been committed or assigned for other uses; therefore, it is available to spend in future periods.

#### IV. Policy

- A. The Government Finance Officers Association recommends that at a minimum, the total of committed, assigned and unassigned fund balance in the General Fund be available to cover at least two months of operating revenues or expenditures. The County sets the level of fund balance needed to mitigate risks and minimize cost associated with debt as follows:

The level of unassigned fund balance at each fiscal year end shall be set at twenty percent (20%) of the next fiscal year's General Fund recurring operating expenditures.

Twenty percent (20%) is identified as the minimum amount needed to safeguard the County's financial stability. This level, when combined with committed and assigned balances, provides the County with sufficient funds to operate more than two months without interrupting service levels.

- B. Appropriations from the fund balance below the minimum of twenty percent of recurring operating expenditures shall occur only in the event of emergency needs, as approved by the Board of Supervisors.
- C. Unassigned fund balance amounts that exceed twenty percent may be appropriated for Capital Improvement, Self Insurance Reserves, and other items, as deemed necessary by the Board of Supervisors.
- D. Fund balance shall be evaluated during the annual budget process. It shall be the goal of the Board of Supervisors to adopt a budget that maintains the target established herein.

- E. When both restricted resources and other resources are available to be used for the same purpose, it is the County's policy to use restricted resources first, and then committed, assigned and unassigned fund balance as they are needed.

**V. Policy Compliance**

The Finance Department shall submit an annual report to the Finance Committee upon completion of the audit. If the County does not meet its fund balance target, a compliance plan shall be submitted to the Board of Supervisors for approval. The approved plan must detail the steps necessary to achieve compliance with this policy within three fiscal years.