

## Fund Balance Policy

*Adopted: May 24, 2011*

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain fund balance reserves sufficient to fund all cash flows of the County, to provide financial reserves for unanticipated or emergency expenditures and/or revenue shortfalls, and to provide funds for all existing encumbrances.

The purpose of this policy is to specify the composition of the County's financial reserves, set target levels for certain reserve balances, and to identify certain requirements for replenishing any fund balance reserves utilized.

### I. Fund Balance Categories:

For documentation of the County's fund balance position, communication with interested parties and general understanding, a clear and consistent system of classification of the components of the County's fund balances is necessary. The County's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the County is restricted in its use of resources.

- A. Non-spendable Fund Balance: These are fund balance amounts that are not in a readily spendable form, such as inventories or prepayments, or trust or endowment funds where the balance must remain intact.
- B. Restricted Fund Balance: These are amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.
- C. Committed Fund Balances: These amounts are designated for a specific purpose or constraints have been placed on the resources by the County Board of Supervisors. Amounts within this category require Board of Supervisors action to commit or to release the funds from their commitment.
- D. Assigned Fund Balances: These are amounts set aside with the intent that they be used for specific purposes. The expression of intent can be by the County Board of Supervisors or their designee and does not necessarily require Board action to remove the constraint on the resources.
- E. Unassigned Fund Balances: These are amounts not included in the previously defined categories. The County General Fund is the only fund that should report a positive unassigned fund balance. Amounts in this classification represent balances available for appropriation at the discretion of the Board. However, the Board will make every effort to use these undesignated funds for the following purposes (listed in order of priority):

1. Increase Restricted Fund Balances as necessary.
2. Increase Fiscal Stability Reserve as deemed necessary.
3. Use as beginning cash balance in support of annual budget.
4. Transfer to the Capital Improvement Fund.

The Board recognizes that any such funds should be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.

II. Prioritization of Fund Balances:

As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, it shall be the policy of Orange County that the most constrained or limited fund balance available will be used first. Unassigned fund balance will be used last.

III. Accounting for Encumbrances:

Amounts set aside for encumbered purchase orders may be either restricted, committed or assigned fund balance depending upon the resources to be used to fund the purchases. Amounts set aside for encumbrances may not be classified as unassigned since the creation of an encumbrance signifies a specific purpose for the use of the funds.

IV. Minimum Fund Balance:

Within its General Fund fund balance, Orange County will maintain a Fiscal Stability Reserve amount for cash liquidity purposes. The balance will be sufficient to meet the County's cyclical cash flow requirements and avoid the need for short term tax anticipation borrowing. The Fiscal Stability Reserve shall have a balance that is not less than 15% of the combined budgeted expenditures of the County General Fund and the Orange County Board of Education Operating Fund, net of the County's local share contribution to the School Board.

The Board of Supervisors, in an emergency or during periods of economic uncertainty or budget adversity, may retain an additional reserve balance above the Fiscal Stability Reserve. Such additional reserve shall not exceed 3% of the combined budgeted expenditures of the County General Fund and the Orange County Board of Education Operating Fund, net of the County's local share contribution to the School Board.

V. Monitoring and Reporting

The County Administrator and Finance Director shall annually prepare a report documenting the status of the fund balance with this policy and present it to the Board in conjunction with the development of the annual budget. Should the report disclose there are unassigned fund balances available; a recommendation for use of said funds shall be presented to the Board in the report.

VI. Replenishment of the Fiscal Stability Reserve

Should the Fiscal Stability Reserve balance fall below the 15% targeted level, the Board must approve and adopt a plan to restore this balance to the target level within 24 months. If restoration of the reserve can not be accomplished within such period without severe hardship to the County, then the Board will establish a different time period.

**COUNTY ADMINISTRATOR'S OFFICE  
P.O. BOX 111  
ORANGE, VIRGINIA 22960**

At a regular meeting of the Orange County Board of Supervisors held on May 24, 2011, the following action was taken:

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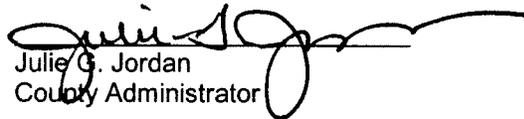
**110524 – 6A**

**RE: UPDATED FUND BALANCE POLICY/GOVERNMENT ACCOUNTING STANDARD BOARD STATEMENT NO. 54**

Mrs. Abbs moved, seconded by Mr. Burkett and carried, to approve the updated Fund Balance Policy as revised, reversing options 3 and 4 under item 1E.

Ayes: Abbs, Burkett, Wilson, Frame. Nays: None. Absent: Goodwin. **MOTION APPROVED**

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Julie G. Jordan  
County Administrator

cc: ~~John Sieg, Interim Finance Director~~  
Sharon Pandak, County Attorney  
File: County Administration: May 24, 2011 BOS Mtg.  
Fund Balance Policy 2011  
Board Actions 2011